

DEPARTMENT OF COMMERCE

The President's Proposal:

Focuses resources on core Commerce services, including:

- Strengthening the nation's statistical and trade information to help meet the needs of a growing economy and international trade;
- Developing state-of-the-art technology standards and increasing issuance of patents and trademarks, to meet the needs of high-technology and basic industries;
- Improving weather and climate forecasting, to benefit public safety, the economy, and quality of life; and
- Improving marine fisheries management, to better meet commercial, recreational, and conservation objectives.

To enhance these core capabilities, resources are shifted from unwarranted corporate subsidies and lower priority programs.

Department of Commerce

Donald L. Evans, Secretary

www.doc.gov 202-482-2112

Number of Employees: 37,000

2002 Spending: \$5.5 billion

Field Offices: 10 bureaus with offices across the United States and 86 countries.

The Commerce Department provides information, technology services, and science that assist American business and society. It makes possible the weather reports heard every morning; it facilitates technology that Americans use daily in the workplace and at home; it supports the collection and development of statistical information essential for competitive business and our representative democracy; it helps American firms and consumers benefit from open and fair international markets; it seeks to manage our marine fisheries; and it supports

environmental and economic health in the communities where we live.

This array of activities is reflected in Commerce's three strategic goals:

- Provide the information and economic framework to enable the U.S. economy to operate efficiently and equitably, both nationally and globally;
- Provide the infrastructure for innovation with cutting-edge science and technology to enhance American competitiveness; and

- Observe and manage the Earth's environment to promote sustainable growth.

Homeland Security

The President's Budget provides an additional \$30 million for homeland security and critical infrastructure protection activities at the Bureau of Export Administration (BXA). BXA regulates exports of critical goods and technologies that could be used to damage national interests, while furthering the growth of legitimate U.S. exports to maintain our economic leadership. The funding increases in 2003 strengthen BXA activities that inhibit the global spread of dual-use goods and technologies that could be used in biological, chemical, and nuclear weapons of mass destruction. To reduce the risk of proliferation, beginning in 2003, BXA will post attaches in China, Egypt, India, Russia, Singapore, and the United Arab Emirates to reduce risks of trans-shipments through these countries to terrorist states. Also, BXA's Critical Infrastructure Assurance Office will work with the Office of Homeland Security to ensure that information technology systems and procedures are in place to provide broad access to relevant homeland security information for appropriate federal, state, and local government agencies.

Homeland security investments will also be made in the National Oceanic and Atmospheric Administration (NOAA) and central departmental management offices. Specifically, the 2003 Budget addresses vulnerabilities in weather and satellite systems to ensure NOAA is able to maintain critical operations in crisis situations. The 2003 Budget also will strengthen physical and information technology security at the Department.

Status Report on Select Programs

The Administration proposes a variety of measures to address Commerce Department performance issues, including increasing funding where needed for core activities, reducing funds for low-priority or unnecessary programs, and instituting management reforms where necessary. Below are summary ratings and explanations for major Commerce bureaus and programs. The summary ratings were developed by the Office of Management and Budget based upon Commerce performance data and evaluations conducted by the General Accounting Office (GAO), Commerce's Inspector General, and groups such as the National Academy of Sciences.

Program	Assessment	Explanation
Census Bureau	Effective	Census 2000 was the most accurate decennial census ever, with a net undercount of 0.06 percent. Controlling costs per household while maintaining accuracy is a major challenge for 2010 Census planning.
International Trade Administration (ITA)	Unknown	Although ITA trade-promotion services are generally positively regarded, assisted firms currently pay little of the program's cost. Commerce will study fee options in 2002 to develop an appropriate cost-recovery framework.



Program	Assessment	Explanation
National Institute of Standards and Technology (NIST)	Effective	NIST Laboratories are world leaders in high-tech and basic industrial standards.
Advanced Technology Program (ATP)	Unknown	ATP has been associated with some technical successes, but in some of those cases federal support was probably not necessary. Others clearly represented unwarranted corporate subsidies. Proposed reforms will enable the program to better address current conditions and needs.
National Weather Service (NWS)	Effective	NWS continues to improve forecasts for extreme weather by modernizing systems and has reduced the number of its offices nationwide from over 250 prior to 1990 to 122 in 2002.
National Marine Fisheries Service (NMFS)	Unknown	Less than 40 percent of major ocean fish stocks are known to be at sustainable levels, 20 percent of stocks are over fished, and the remaining 42 percent of stocks have unknown population levels. Legislative reforms and reduced congressional earmarking of funds will help NMFS maintain sound fisheries.

Congressional Earmarks

Earmarks and Unrequested Projects

NOAA’s oceans and fisheries programs in the 2002 appropriations include over \$13 million for environmental remediation activities in an inland state far from the ocean. Since 2000, NOAA has been required to provide over \$45 million for these activities. The program may have merit, but it harms NOAA’s performance in managing the nation’s marine fisheries and oceans by cutting resources available for those purposes.

NIST’s construction account has been repeatedly earmarked to support projects unrelated to NIST activities.

Congressional earmarks for non-competitively awarded projects divert resources that could more effectively meet the mission of the Department. For example, projects steering money to particular universities or localities sometimes draw funds from programs with far different purposes. Moreover, the dollar value of earmarks has been increasing in recent years. In 2000, there were about 100 unrequested projects costing about \$170 million in the Department of Commerce. The Department’s 2002 appropriations include over \$225 million for 96 unrequested projects. NOAA has over two-thirds of the Department’s congressionally directed earmarks—74 projects costing over \$160 million. The 2003

Budget cuts many of these unrequested projects and redirects funds to activities that can most effectively meet the Department’s three strategic goals.

Congressional Earmarks

	2000		2002	
	Projects	BA in millions of dollars	Projects	BA in millions of dollars
Commerce Total.....	100	170	96	228
NOAA	92	143	74	161
NIST	4	14	12	48

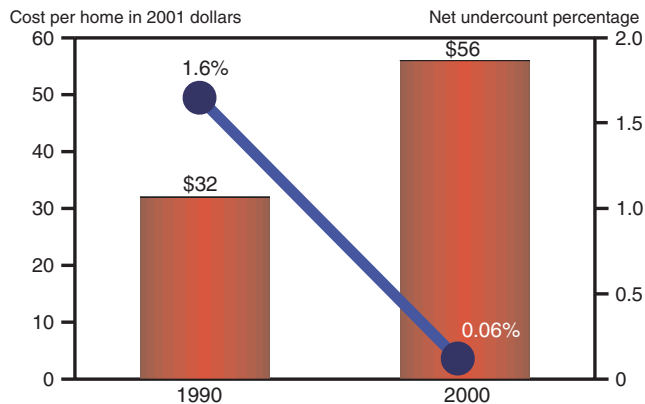
Besides reducing earmarks, the 2003 Budget proposes to rescind \$96 million provided for loan guarantees to bankrupt and other financially troubled steel firms. This funding was provided in 1999, and was intended to support federal guarantees of up to 85 percent on loans by private lenders. While several applications for loan guarantees have been approved, only one of these loans has actually closed since the program was established. Virtually all funding was rescinded last year from a related program intended to benefit the oil and gas industry.

Strengthening Economic Information and Framework

The President’s Budget proposes to strengthen core Commerce activities in areas such as statistical programs and international trade compliance.

The Bureau of Economic Analysis (BEA) supplies the nation’s key economic statistics, including gross domestic product (GDP), which are crucial ingredients for business and government decision making. An additional \$10 million in 2003 will enable BEA to improve the statistical processing systems for its economic data, accelerate the release of major economic estimates, and incorporate new international economic data classification systems. Although the U.S. GDP statistics are widely regarded as among the best in the world, they require continued improvements to keep pace with the nation’s rapidly changing economy.

Census Cost Per Home vs. Net Undercount



Source: Department of Commerce.

This budget proposes a \$223 million increase for the Bureau of the Census for a variety of activities, including the Department’s efforts to reengineer the 2010 Census. As a major part of this work, Census will launch the American Community Survey, which will provide detailed demographic data on an annual—rather than decennial—basis. During 2003, Census also will be collecting data for two other cyclical censuses, the Economic Census and the Census of Governments. The Economic Census paints a detailed portrait of the national and local economies every five years, with information on the nearly 23 million businesses and establishments in the nation. Funding in 2003

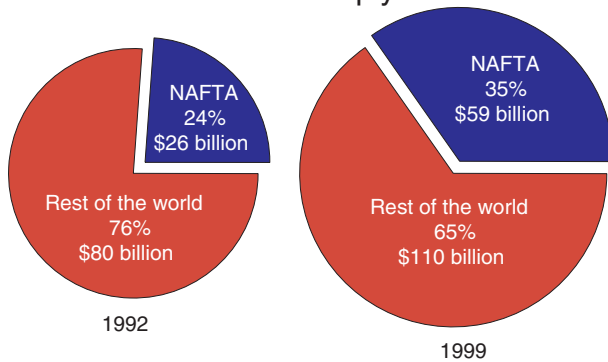
also supports dissemination of Census 2000 data, including detailed results from the census long form. The challenge for the Department will be to retain a highly accurate decennial census in 2010, while avoiding per capita real cost growth.

This budget also proposes \$177 million for the first of two new buildings for the Census Bureau in Suitland, Maryland. Census's current facilities are among the worst in the inventory of the General Services Administration and have decayed beyond the point where renovation would be cost-effective.

The International Trade Administration (ITA) is responsible for assisting the growth of export businesses, enforcing U.S. trade laws and agreements, and improving access to overseas markets by identifying and pressing for the removal of trade barriers. The 2003 Budget provides increased funding for ITA's trade compliance activities. In addition, ITA will be undertaking a study of fee options in 2002 to develop an appropriate model for cost recovery from firms that receive trade promotion services.

Census 2000 was the most accurate census in history. The net undercount, or how many people the Census Bureau missed minus the number of people erroneously included, dropped to the lowest level ever. However, Census 2000 was also the most expensive census in history, with average costs of \$56 per housing unit. In planning for the 2010 Census, the Administration hopes to continue to improve accuracy, while avoiding cost growth with early planning and implementation of the American Community Survey, which will replace the decennial long form.

Small Business Exports to Canada and Mexico Have Grown Sharply



Source: Department of Commerce. Small businesses defined as companies with less than 500 employees. All data are in constant 1999 dollars.

The budget proposes a small reduction in funding for the Economic Development Administration (EDA) to bring resources in line with congressionally authorized levels and program needs. EDA is supposed to help communities across the nation create economic opportunity by promoting a favorable business environment to attract private capital investments and high-wage jobs, principally through infrastructure investments and capacity building. While the 2003 Budget streamlines EDA programs, it increases Trade Adjustment Assistance to firms, which provides technical assistance to U.S. manufacturers injured by increased imports. EDA is reviewing its performance

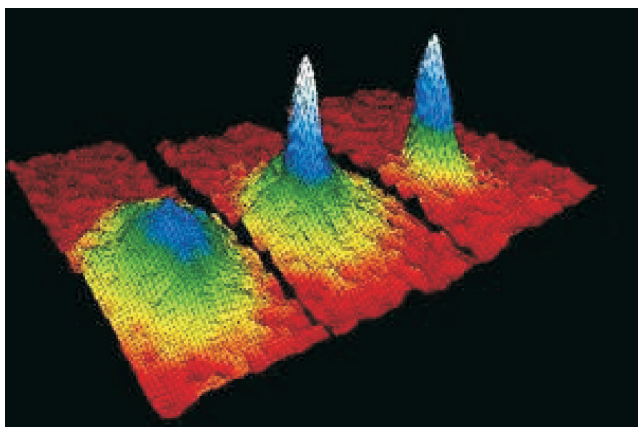
measures to ensure that it can evaluate its effectiveness in creating sustainable employment in distressed communities.

The Minority Business Development Agency (MBDA) works to facilitate access to resources for the minority business community in order to help grow minority businesses. MBDA is seeking to transform from an administrative agency to an entrepreneurial organization. The budget proposes that MBDA work more closely with the Small Business Administration (SBA), to take advantage of SBA's very large network of offices (including over 1,000 Small Business Development Centers) and extensive programs for minority and disadvantaged firms. This strengthened cooperation and other MBDA efforts are intended to help the agency meet its mission to deliver high-quality services nationwide. In 2000, MBDA exceeded its target for the dollar value of contracts received by assisted minority businesses, but fell short of its targets for the number and dollar value of loans received by assisted businesses.

ITA's export-promotion and trade-negotiation activities help U.S. companies take advantage of markets around the world. For example, ITA's export counselors, in offices throughout the United States and in Canada and Mexico, provide U.S. businesses with market information and one-on-one counseling on selling in the Canadian and Mexican markets. The Trade Information Center—www.trade.gov/td/tic—has extensive information on the North American Free Trade Agreement (NAFTA), including how to take advantage of NAFTA tariff preferences and meet NAFTA rules of origin. NAFTA, and open trade in general, have had real benefits for the average U.S. family. NAFTA and the Uruguay Round trade agreements have resulted in higher incomes and lower prices for goods—benefits estimated to be \$1,300 to \$2,000 a year for a family of four.

Providing Infrastructure for Technological Innovation

The 2003 Budget strengthens key Commerce programs that provide infrastructure to enable U.S. businesses to maintain their technological edge in world markets, while reducing two programs that have provided subsidies in the past.



A new state of matter created by a university/NIST partnership.

A NIST researcher, Eric A. Cornell, shared the 2001 Nobel Prize in Physics for creating an entirely new state of matter called Bose-Einstein condensate (BEC). The accompanying picture depicts the range of speeds and directions of atoms being cooled. As the temperature drops, the peak grows representing all the atoms nearly standing still in space, at a temperature only billionths of a degree above absolute zero. BECs, the coldest substance known to man, will lead to a greater understanding of atomic behavior. The discovery of the BEC established a new branch of atomic physics. Dr. Cornell is the second NIST Nobel Prize recipient; William Phillips, a NIST Fellow, shared the 1997 Nobel Prize in Physics.

The budget provides increased funding for the laboratories of the National Institute of Standards and Technology (NIST), which works with industry to develop and promote measurement standards that support technological innovation. NIST laboratories specialize in electronics, manufacturing engineering, chemical science, physics, materials science, building and fire research, and information technology. The 2003 Budget provides \$50 million to make the Advanced Measurement Laboratory, a new facility designed to meet state-of-the-art research requirements, fully operational. The budget also provides \$17 million for NIST's Boulder, Colorado facilities.

Consistent with the Administration's emphasis on shifting resources to reflect changing needs, the 2003 Budget also proposes to significantly reduce federal funding for the Manufacturing Extension Partnership (MEP). MEP's original legislative design called for a phase-out of federal monies to each center after six years of funding, with the goal of making each center self-sufficient. The 2003 Budget restores the program's original design; most MEP centers are now far more than six years old.

MEP was designed to provide information and consulting services to help businesses adopt more advanced manufacturing technologies and business practices. To the extent that evaluations demonstrate that MEP-assisted firms are more productive and competitive, firms should be able to pay for the services that help increase their profits.

The budget also reduces funding for the Advanced Technology Program (ATP) from \$185 million in 2002 to \$108 million in 2003. In 2003, new ATP awards will be reduced to \$35 million. The rationale for ATP, which makes research and development grants to commercial firms, has declined since it was first enacted in part to respond to a belief that U.S. firms were being out-competed by foreign, and especially Japanese, firms. ATP also will be modified in 2003 to address criticism that the program constitutes an unwarranted corporate subsidy. Past GAO reports have criticized ATP, stating that the program was funding projects similar to those already underway in the private sector. In addition, ATP monies have gone to some of the nation's largest corporations. The proposed changes will expand university participation, limit large-firm involvement, and include a cost-recoupment mechanism to protect American taxpayers.

Private Capital and the Advanced Technology Program

The Advanced Technology Program (ATP) was created in 1988 to bolster high-technology research and development. Since the program's founding, the environment in which ATP operates has changed dramatically. Concerns about the competitiveness of the U.S. economy have diminished, while annual venture capital investments have skyrocketed from approximately \$6 billion in 1995 to \$104 billion in 2000, according to one estimate. Even with the decline in 2001 activity, the overall growth in venture capital suggests sufficient private funding is available for high-technology projects.

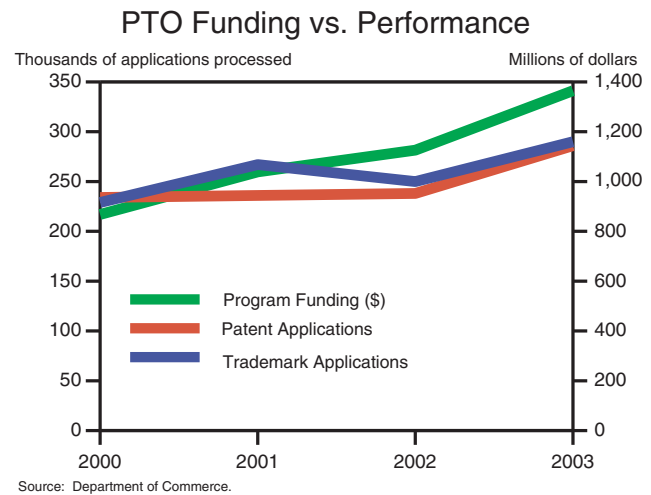
While ATP has focused on supporting activities of small firms that have more difficulty accessing capital, some of the nation's largest corporations have also benefited from the program. For example, ATP innovations reportedly helped large automotive firms realize savings on the order of a hundred million dollars annually. In an effort to minimize unwarranted subsidies, the 2003 Budget recommends reducing ATP funding and instituting several reforms, including requiring firms to reimburse the government for up to five times its investment in successful projects.

The budget strengthens the spectrum management capabilities of the National Telecommunications and Information Administration by providing \$3 million to begin the process of spectrum management reform and to upgrade its radio quiet zone test facility in Colorado. In addition, the Administration will propose legislation to streamline the current process for reimbursing federal agencies that must relocate from spectrum auctioned to commercial users. However, the budget proposes to terminate the Technology Opportunities Program, which provides grants for applications of telecommunications technologies. With the expansion of the Internet and related technologies into all sectors of society, federal subsidies are not justified to prove the usefulness of such technologies.

The 2003 Budget funds a 21-percent increase (+\$239 million) in resources available to the U.S. Patent and Trademark Office (USPTO) to address the agency's growing workload in the area of intellectual property. USPTO issues patents and registers trademarks. It also works to promote the protection of U.S. intellectual property rights around the world through international treaties. With the passage of the American Inventors Protection Act of 1999, USPTO was designated as a "performance-based-organization," which provides the agency additional management flexibilities while ensuring that senior managers' tenure and compensation are at risk based upon their achieving organizational performance targets.

After a few years of relatively flat patent and trademark production, USPTO expects to meet the following increased performance targets with its 2003 funding:

- Complete (i.e., issue or deny) 286,000 patents, a 20-percent increase over 2002;
- Register 138,600 trademarks, a 13-percent increase over 2002; and
- Reduce total trademark pendency to 13.5 months, a 13-percent improvement.



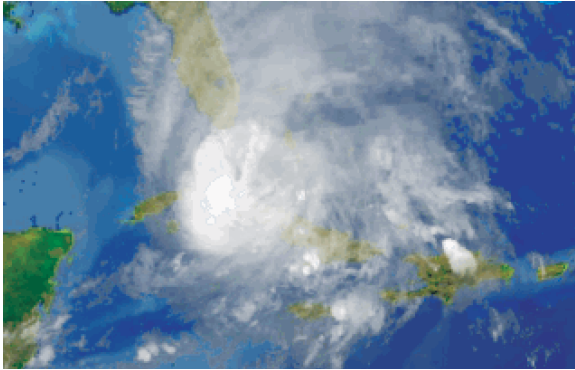
Observing and Managing the Nation's Oceanic and Atmospheric Environment

The budget provides an additional \$93 million for the National Oceanic and Atmospheric Administration (NOAA) to improve forecasts of severe storms and the satellite infrastructure needed to support weather and climate prediction and research. Funding is also provided to improve fisheries management. However, many earmarks and funds that do not support NOAA's core stewardship missions have been redirected. In addition, funding will support critical infrastructure and homeland security activities within NOAA.

The accuracy of NOAA's National Hurricane Center hurricane "track" forecasts has improved by about 50 percent over the past 30 years. Errors for three-day track forecasts decreased on average from over 400 nautical miles in 1970 to about 200 miles today. In 2003, resources will be directed to advanced observational systems and modeling to further improve hurricane intensity and track

forecasts. NOAA expects these advances to provide more timely evacuations and to increase the lead time for hurricane warnings from 24 hours in 2002 to 28 hours in 2005.

Similarly, following modernization investments, tornado warning lead times have almost doubled—from six minutes in 1993 to more than 10 minutes today. The National Weather Service aims to further increase lead times to 15 minutes by 2005.



Hurricane Michelle skirting the southern coast of Florida.

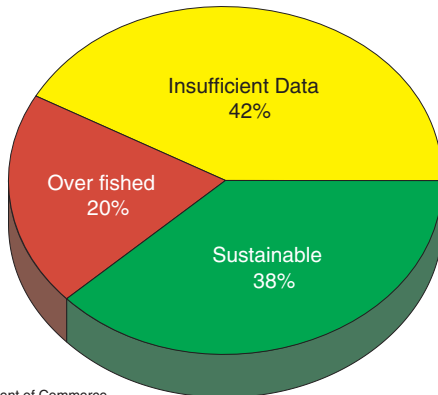
The National Hurricane Center achieved its most recent critical success when it correctly forecast the brunt of dangerous Hurricane Michelle would just miss the Florida peninsula. Accurate forecasts of hurricane tracks translate to smaller areas required to prepare for evacuation, saving approximately \$1 million per mile for coastal residents, businesses, and local governments.

As part of the Administration's energy policy initiative for 2003, NOAA will implement a \$6 million pilot program in the southeastern United States. NOAA will provide more accurate temperature and precipitation forecasts and additional river forecast products to help the energy industry improve electrical load forecasting and hydropower facility management. Based on industry estimates, this investment will result in savings of \$10 million to \$30 million annually in the pilot region after the second year of the demonstration. Expanding the pilot nationwide could generate savings of over \$1 billion per year.

NOAA has a lead role in climate measurement and prediction, and has conducted substantial work in climate change and atmospheric modeling. In 2003, the Administration will institute a new Climate Change Research Initiative, a multi-agency effort with a strong focus on outcomes addressing major gaps in our scientific understanding identified in the June 2001 National Academy of Sciences report, "Climate Change Science: An Analysis of Some Key Questions." NOAA will receive an \$18 million increase to advance climate-modeling capabilities, to develop a climate observing system, and to improve understanding of aerosols, land and oceanic carbon sinks, and regional impacts of climate change.

The Administration also proposes to transfer NOAA's Sea Grant program to the National Science Foundation (NSF) in 2003. The Sea Grant program would be administered as a NOAA/NSF partnership. The transfer is part of a wider Administration effort to promote competitive funding of scientific research, and to capitalize on the demonstrated excellence of the NSF and its program management. NOAA's participation as a partner in this program will ensure that research objectives continue to reflect the agency's marine resource management priorities.

Status of 287 Major Fisheries
Stocks in 2000



Source: Department of Commerce.

The Department's Inspector General and GAO have identified NOAA's National Marine Fisheries Service (NMFS) as an area of management concern. While NMFS has had significant budget increases over the past few years—increasing by almost 40 percent since 2000, and over 100 percent since 1995—fisheries' management and stock levels have not seen corresponding improvements. Currently, about 20 percent of major fisheries stocks are over fished, and stock levels are unknown for another 42 percent. While over 80 percent of the over-fished stocks are currently under rebuilding plans, the challenges are significant as rebuilding long-lived stocks can take decades. Over the last few years,

fisheries collapses have occurred in the western Alaska salmon fishery, the West Coast groundfish fishery, and the Gulf of Maine groundfish fishery. Such problems have led to increases in payments for fisheries disasters, fishing moratoria, and lawsuits by both environmentalists and industry.

The 2003 Budget addresses two causes of this problem. First, the budget redirects over \$160 million in congressional earmarks and unrequested funding, much of which undercuts NOAA's mission. Funds are also provided for a new fishery research vessel that will be used to upgrade fishery assessments—an area identified by GAO, the National Academy of Sciences, and others as needing enhancement. Second, the budget proposes that the reauthorization of Magnuson-Stevens Fisheries Conservation and Management Act include authority to establish transferable fishing quota systems, under appropriate conditions, within the regional fisheries. Money alone will not solve the management problems in U.S. fisheries. Providing market-based incentives to fishers, redirecting funds to meet the highest priority fishery management needs, and enhancing science and stock assessments tied to management decisions will.

With the management changes and funding proposed in the President's Budget, NOAA expects to be able to reduce the number of over-fished major fisheries by one in 2003 and by 10 in 2007. A greater impact will occur in the number of sustainable fisheries, as stock levels improve and unknown stocks are evaluated. Known sustainable stocks should increase by seven percentage points (19 additional fishery stocks) in 2003.

Strengthening Management

Commerce's leadership is making progress on management challenges. In particular, the status of competitive sourcing and financial management is expected to improve over the next two years as the Department's plans in these areas are implemented.

Initiative	2001 Status
<p>Human Capital—Excess organizational layers remain in several bureaus, and existing personnel flexibilities are not being fully utilized. Also, bureaus need to redirect staff from supervisory and overhead positions to line functions. NOAA will establish a task force to review its central-office administrative activities so that there is no unwarranted duplication of activities, such as budgeting at line-office, bureau, and departmental levels. EDA also plans to engage in workforce restructuring. The International Trade Administration has taken useful steps to streamline its organization and office structure, and reduce excessive supervisory positions in 2001.</p>	●
<p>Competitive Sourcing—Commerce has not yet completed significant public-private or direct conversion competitions for positions listed as performing commercial activities, such as data entry clerks, personnel office workers, information technology specialists, and publications clerks. The Department has developed a strong, approved competition plan to complete public-private or direct conversion competitions for five percent of its commercial inventory in 2002 and an additional 10 percent in 2003, which when implemented will meet the Administration's two-year 15-percent goal.</p>	●
<p>Improved Financial Management—Commerce currently fails to fully meet federal financial management systems requirements. However, the Department's integrated system is expected to be completely deployed by October 2003. Commerce has had unqualified audit opinions for two years straight, a major improvement over the past.</p>	●
<p>E-Government—Commerce submitted sound justifications and plans for nearly all major systems. Commerce bureaus are using the Internet to serve businesses interested in international trade and minority contracting opportunities. Census uses E-Government for its economic surveys of firms, and will use it more for the 2010 Census.</p>	●
<p>Budget/Performance Integration—Commerce performance measures in several areas are under review to ensure they reflect plans and resource allocations. Budget justifications are being strengthened to focus on programmatic outcomes. The Department's Chief Financial Officer is working to ensure maximum integration of strategic planning and budget formulation work at both the departmental and bureau levels.</p>	●

Department of Commerce

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
Spending:			
Discretionary Budget Authority:			
Departmental Management:			
Salaries and Expenses.....	41	40	50
Emergency guaranteed loan program accounts.....	-115	-5	-97
Office of the Inspector General.....	21	21	24
Subtotal, Departmental Management.....	-53	56	-23
Economic Development Administration.....	451	368	350
Bureau of the Census.....	458	514	737
Economic and Statistics Administration.....	57	66	76
International Trade Administration.....	352	355	377
Bureau of Export Administration.....	68	72	103
Minority Business Development Agency.....	28	29	30
National Oceanic and Atmospheric Administration (NOAA):			
Operations, Research and Facilities (<i>non-add</i>).....	2,240	2,388	2,359
Procurement, Acquisition and Construction (<i>non-add</i>).....	751	846	812
Subtotal, NOAA.....	3,188	3,321	3,200
Patent and Trademark Office (PTO):			
Program Level.....	1,039	1,126	1,365
Offsetting Collections.....	-1,085	-1,346	-1,527
Subtotal, PTO.....	-46	-220	-162
Office of Technology Policy.....	8	8	8
National Institute of Standards and Technology (NIST):			
Scientific and Technical Research and Services.....	323	332	402
Industrial Technology Services.....	252	293	121
Construction of Research Facilities.....	35	62	54
Subtotal, NIST.....	610	687	577
National Telecommunications and Information Administration (NTIA):			
Salaries and Expenses.....	13	15	18
Grant programs.....	90	59	44
Subtotal, NTIA.....	103	74	62
Subtotal, Discretionary budget authority adjusted ¹	5,224	5,330	5,335
Remove contingent adjustments.....	-122	-124	-143
Total, Discretionary budget authority.....	5,102	5,206	5,192
Emergency Response Fund, Budgetary resources.....	—	29	—
Total, Mandatory outlays.....	-69	115	50

Department of Commerce—Continued

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
Credit activity:			
Direct Loan Disbursements:			
Fisheries finance direct loan financing account.....	24	24	74
Total, Direct loan disbursements	24	24	74
Guaranteed Loans:			
Emergency oil and gas guaranteed loan financing account.....	3	2	—
Emergency steel guaranteed loan financing account.....	110	236	—
Total, Guaranteed loans.....	113	238	—

¹ Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.