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Mr. Chairman and Members of the Subcommittee:

Thank you for holding this hearing and inviting me to testify. I appreciate the opportunity to report on the initiatives of the Bureau of Engraving and Printing (BEP), particularly our anti-counterfeiting program.

MISSION OVERVIEW OF THE BEP

The Bureau is the security printer for the United States, producing a number of products that require special printing processes and techniques to protect against counterfeiting and fraudulent alteration. The Bureau uses capital systems, state-of-the-art high-speed presses, electronic inspection systems and other types of sophisticated equipment, in combination with exceptional technical competence to efficiently produce billions of Federal Reserve Notes, postage stamps and other U.S. security printing products each year.

The Bureau operates from two locations: the Washington, D.C. Facility at 14th and "C" Streets, S.W. and the Western Currency Facility, situated in Fort Worth, Texas. Each facility prints approximately fifty percent of the Bureau's annual currency output. In addition, the D.C. facility produces postage stamps and other security products.

The Bureau's operations are financed through an industrial revolving fund, so we do not receive annual appropriations from the Congress. Instead, we are reimbursed directly by our customers for the products that we produce. Our two largest clients are the Federal Reserve System and the United States Postal Service. During fiscal year 2001 the Bureau will deliver approximately 7.5 billion Federal Reserve Notes and 15 billion postage stamps to our customers.

U.S. CURRENCY ANTI-COUNTERFEITING PROGRAM

The Bureau works cooperatively with the Federal Reserve System, Department of the Treasury and United States Secret Service to improve the security of Federal Reserve notes. Our goal is to incorporate cost-effective security features to deter counterfeiting as well as help the public easily authenticate their money as genuine U.S. currency. It is vital that we keep pace with evolving methods of counterfeiting in order to maintain the integrity of, and the public's confidence in, our monetary system.

In the mid-1990s the Bureau introduced the first major redesign of U.S. currency in 65 years. The design changes were needed to combat the emergence of a new breed of counterfeiters who were increasingly using computers, scanners, color copiers and other emerging technologies to replicate notes.

All notes ($100, $50, $20, $10 and $5), with the exception of the $1 and $2 bills, were redesigned and introduced into circulation by 2000. The new design incorporated a number of security features including a large off-center portrait on the face (front) of the notes, a security thread in an unique location on each denomination that glows a different color under ultraviolet light, color shifting ink on the lower right front numeral (except on the $5 note), expanded use of micro-printing and moiré patterns that appear disjointed when copied.

The redesigned currency has been effective in combating counterfeiting by making it more difficult to produce a high quality counterfeit note. Today, most of the counterfeit bills produced in the United States are made using computer and ink-jet technology and are below average quality, which means they can be detected with proper visual scrutiny.

The percentage of counterfeit currency appearing worldwide remains extremely small – approximately 5/100 of 1% of the approximately $550 billion of genuine currency in circulation. In FY 2000, the U.S. Secret Service reported that approximately $40 million in counterfeit U.S. currency was passed on the American public. The odds that an American citizen will ever encounter a counterfeit note in the course of his or her lifetime are exceptionally low.

While the redesigned currency has been successful in staying one step ahead of the counterfeiters, rapid computer and other technological advances will not afford us the luxury of waiting another 65 years before augmenting the design of our Nation's currency. In fact, we anticipate the need to change the design of our money every 7 to 10 years.

To prepare for the production of the next generation of currency, the Bureau is testing an array of anti-counterfeiting features that involve various types of papers, inks, embedded security features, as well as offset and other printing techniques. Additionally, we have initiated a Bureau-wide training program to enhance the skills of our employees utilizing newly acquired production technologies. Recently, we began an expansion of the Bureau's Western Currency Facility and modernization of the D.C. facility to accommodate the additional production steps represented by the new technology.

ANTI-COUNTERFEITING LEGISLATION

Treasury has submitted a legislative proposal to the Congress that would authorize the Bureau to produce security products on behalf of foreign governments and the States of the United States on a reimbursable basis. Presently, the Bureau's authority to print security documents applies to Federal government agencies.

Periodically foreign governments request assistance from the Bureau to design and/or produce currency, stamps, and other types of security printing products. The bill's limited authority could allow the Bureau to develop new and innovative security features, outside the current traditions of U.S. currency design, for possible application to future generations of U.S. currency.

The authority in the legislation is limited to times when demand for U.S. currency, postage stamps, and other products is below the Bureau's production capacity. The measure precludes the Bureau from producing products on behalf of a foreign government unless the Secretary of State determines that such production is consistent

with U.S. foreign policy. Our use of this authority will be consistent with the Administration's competitive sourcing initiative and its commitment to public-private competition.

This concludes my opening remarks, Mr. Chairman, and I will be happy to respond to questions you or other members of the Subcommittee may wish to ask.