

Grain Inspection, Packers and Stockyards Administration
Statement of David R. Shipman, Acting Administrator
Before the Subcommittee on Agriculture, Rural Development, Food and Drug
Administration, and Related Agencies

Introduction

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the agency's FY 2006 budget proposal.

GIPSA's activities are an integral part of USDA-wide efforts to support a competitive global marketplace for U.S. agricultural products. Our mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

We fulfill our service and regulatory roles through our Packers and Stockyard Program, which promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries and our Federal Grain Inspection Service, which provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards to promote equitable and efficient marketing.

Organization

We carry out our mission with a dedicated staff of 722 employees working in partnership with a variety of State and private entities. Our Packers and Stockyards Program relies on three regional offices specialized in one of the following: poultry, hogs, or cattle/lamb. Our grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel. The system includes 10 GIPSA field offices, 2 Federal/State offices, and 56 State and private agencies authorized by GIPSA to provide official services.

Packers and Stockyards Program

Our Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act (P&S Act) to ensure fair and competitive marketing in livestock, meat and poultry for the benefit of consumers and American agriculture. The P&S Act is intended to protect producers, growers, market competitors, and consumers against unfair, discriminatory, or deceptive practices that might be carried out by those subject to the Act. To meet this objective, GIPSA seeks to educate, regulate and investigate individuals and firms subject to the P&S Act; to respond to anti-competitive behavior, unfair, deceptive, or unjustly discriminatory trade practices; and to ensure livestock producers and poultry growers are paid for their products. GIPSA takes appropriate corrective action when there is evidence that firms or individuals have violated the P&S Act.

The livestock, meatpacking, and poultry industries are important segments of American agriculture and the nation's economy. With only 152 employees, we regulate these industries, estimated by the Department of Commerce in FY 2002 to have an annual wholesale value of \$120 billion. At the close of FY 2004, 5,678 market agencies and dealers and 2,015 packer buyers were registered. In addition, there were 1,443 facilities that provided stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 202 live poultry dealers operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Last fiscal year, we conducted over 1,900 investigations, of which 146 were handled by Rapid Response Teams. As a result of these investigations, the Packers and Stockyards Program helped restore over \$17 million to the livestock, meatpacking, and poultry industries. The amount of monetary returns varies by year; however, in the first five months of fiscal year 2005 we have helped restore over \$18 million to the livestock, meatpacking, and poultry industries.

We continue to work with violating firms to achieve voluntary compliance, and continue to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. During FY 2004, with assistance from the Office of the General Counsel, we filed 15 administrative or justice complaints alleging violations of the P&S Act. These formal disciplinary complaints resulted in five decisions ordering the payment of \$61,750 in civil penalties and suspending 12 registrants from operating for periods of 45 days to 5 years.

We regularly assist the FBI, State and local law enforcement agencies with their investigations. Some of our investigations involve overlapping jurisdiction, and sometimes these agencies call on GIPSA for its expertise. In addition, we communicate with our sister agencies within USDA, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

To ensure that producers and growers are aware of the protections the P&S Act provides, we have a hotline (1-800-998-3447) by which stakeholders and others may anonymously voice their concerns. In FY 2004, 65% of the hotline calls received resulted in investigations. To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions (28 in FY 2004) for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

Following the discovery of the bovine spongiform encephalopathy (BSE) positive cow in December, 2003, we established three special task forces to provide protection to livestock producers and members of the cattle industry commensurate with the P&S Act. These task forces were based in our Denver office which has lead responsibility for cattle, and included technical experts from our Atlanta and Des Moines regional offices and headquarters.

The BSE Task Forces monitored livestock markets and packers for financial failures; reviewed changes in procurement practices; analyzed changes in market prices; received complaints from the public; and conducted 96 investigations. These investigations identified 11 violations of the P&S Act. Two of these firms have corrected

the violations; one investigation file has been forwarded for a possible formal complaint; and the remaining firms have been given an opportunity to comply with the P&S Act.

Following the disclosure of avian influenza in February 2004 by the Animal and Plant Health Inspection Service (APHIS), we created a new Avian Influenza/Poultry Policy Task Force out of the Atlanta Regional Office. Like the BSE Task Force, the AI Task Force developed strategies to identify and respond to potentially unlawful practices unique to current market caused by the outbreak. In the current fiscal year, the AI Task Force will continue monitoring the industry and responding to the current AI situation.

Together with our stakeholders and other interested parties, this year we developed and published two voluntary industry standards, in addition to two standards established earlier, for technologies used to assess quality and determine payment for livestock, meat or poultry. These standards help both producers and packers. Producers are more likely to get full value for the quality of livestock they produce and packers are more likely to pay only for the product they want to purchase. We will continue to work with stakeholders to develop additional standards, as needed, to enhance transparency in the marketplace.

In FY 2004 we also reviewed the current bonding requirements under the P&S Act and the returns to unpaid sellers from the bonds of failed firms. The results of this work are under review to determine whether regulatory changes are necessary to meet the objectives of the P&S Act.

In FY 2004, GIPSA implemented a web-based Swine Contract Library in accordance with the requirements of the Livestock Mandatory Reporting Act of 1999. Packers are required to file with GIPSA swine purchase contracts and monthly reports

about the number of swine they expect to be delivered under contract in the next 12 months.

The Swine Contract Library (SCL) includes information from swine packing plants with a slaughter capacity of 100,000 swine or more per year. Thirty-two firms operating 51 plants accounting for approximately 95 percent of industry slaughter are subject to the SCL. GIPSA has received over 707 contracts to date. Information, by region, including price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs is now available to the public through the internet.

The Livestock and Meat Marketing Study, for which Congress appropriated \$4.5 million in FY 2003, will have a delayed completion. GIPSA awarded \$4,319,373 to the Research Triangle Institute (RTI) on June 14, 2004. RTI assembled a coalition of researchers from Colorado State University, Iowa State University, Montana State University, North Carolina State University, and the Wharton School of Business. RTI is continuing preparations for data collection and the overall study. RTI is scheduled to release study reports in mid-year 2005 and mid-year 2006. The first report will provide information about the types of livestock arrangements in the cattle, hog, and sheep industries based on a survey conducted by RTI. The second report will provide detailed economic analyses about the arrangements. The study will be completed within the amount appropriated.

Federal Grain Inspection Service

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of grain handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.

FGIS establishes terms and methods for quality assessments that the grain industry relies on to buy and sell over \$51 billion of commodities annually. These standards for quality assessments provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse quality needs of today's food and feed industry. GIPSA currently maintains more than 1,400 different quality assessment terms and methods to characterize the quality of grain and grain related products.

We are expanding our work with producers, technology providers, and food and feed manufacturers to consensually identify the essential quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture. For example, FGIS, working with seed companies and producers, has identified the need to measure the level of linolenic acid in soybeans, an attribute that improves the stability and lessens or precludes the need to hydrogenate soy oil. Hydrogenation produces trans fatty acids, which have been linked to health problems. We now need to work with the soybean industry and establish acceptable reference standards and rapid assay methods to measure the level of linolenic acid in soybeans, an

initiative included in our FY 2006 budget request. While commercial production of low linolenic soybeans will begin in 2005, some industry sources estimate that within several years, they will account for 20 percent of soybean acreage at a value of \$5 billion.

We are also working with the wheat industry in an effort to regain the U.S. wheat market share which has declined from 33% of the international market in 1995 to an estimated 26% in 2004. Our goal is to develop rapid measurement methods to differentiate wheat quality at the first point of sale and allow the U.S. wheat industry to better meet the needs of foreign buyers. To date, working with the wheat industry, we have identified several key quality attributes, such as gluten strength, that require rapid measures, as well as the need to validate international reference methods relating to the attributes. Gaining consensus on the salient wheat attributes and reference methods will allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale, another initiative included in the FY 2006 budget.

As we develop measures of new attributes entering the market, we are ensuring the current measurement methods are accurate and cost-effective. For example, we are working to transform the measurement of grain moisture. Maintaining current calibrations for moisture measurement is time consuming and resource intensive. Advances in the basic means to measure moisture, led by GIPSA, have the potential to greatly reduce maintenance costs and improve the accuracy of moisture measurements over a much wider range. These advances will benefit the entire grain industry, from producer to food manufacturer.

Similar improvements are being implemented for wheat and barley protein measurements this year. In collaboration with industry and government officials

throughout the world, GIPSA has advanced new Artificial Neural Network (ANN) technology for protein measurement, which reduces overall program costs and promotes greater harmonization with U.S. trading partners.

We are introducing digital technology to improve the subjective assessments made by inspectors and, in some instances, replace them with objective measures. The percentage of broken rice is a critical factor for producers and the rice industry. Using digital technology, we have improved the consistency of measurements and simultaneously reduced the analytical time by over 75 percent.

We are also working with stakeholders on grading standards to further facilitate trade. As the production of peas for feed has surged, as evident by a 108% increase in production from 2003 to 2004, a need for national feed pea standards has evolved. We are working to meet this need. As the global competition in soybean markets intensifies, we are collaborating with the soybean industry to determine whether changes in analytical methods and grading standards would improve the U.S. competitive position. One grading factor under review is test weight per bushel, a factor used to market soybeans in the United States for over a half century, but not used by our major international competitors. We are also working closely with the wheat industry to ensure the wheat standards facilitate the expansion of the new and evolving market for Hard White Wheat. All of these activities improve the American agriculture's ability to deliver the specific quality of grain desired by food manufactures and consumers, and strengthen its competitive position in the global market.

In the biotechnology arena, we are improving the reliability and accuracy of testing for the presence of modern biotechnology-derived grains to help U.S. agriculture

avoid market disruption as trading partners around the world implement new import requirements. Our Test Kit Evaluation Program validates the performance of commercially available rapid tests for biotechnology-derived grains. Our Proficiency Program improves the performance and reliability of Government and private laboratories that test for biotechnology-derived grains in the United States and worldwide. More than 100 organizations participated in the program in FY 2004, compared to 22 in 2002.

In response to the results of the proficiency program, we are working to harmonize international reference materials and biotechnology measurement methods used in commerce to measure the level of biotechnology-derived events in raw agricultural products. The current focus of many laboratories is to assay for the presence or absence of a particular transgenic event, whereas the regulatory requirements evolving for agricultural products usually require reliable methods to measure the quantity of a biotechnology derived event.

Our international outreach goes beyond work in the area of biotechnology. We work cooperatively with other government agencies to support market development and remove obstacles to U.S. grain reaching world markets.

In recent years, we have focused on providing technical support to the Mexican and Asian markets. Last year, GIPSA worked with Mexico's private and public grain sectors to harmonize sampling and analytical methods with the goal of minimizing trade disruptions due to differences between GIPSA-certified quality and an importer's own quality assessment. We helped establish five grain inspection laboratories at major corn importing facilities in Mexico and trained personnel from Mexican commercial firms and

government agencies on U.S. grain inspection policies and procedures. We also spearheaded the establishment of a Government-to-Government Grain Industry Consultative Group as a technical-level forum to address cross-border grain quality issues.

Since FY 2002, GIPSA has placed a temporary duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in inspection results and to develop face-to-face relationships with customers, USDA Cooperators and Government officials. In October 2005, we placed an officer in Kuala Lumpur for two months, and this representative will return to Kuala Lumpur for two more months beginning March 2005. Following the completion of this assignment, GIPSA will place another representative in the region for a four-month assignment to continue our work in the region.

We also provide technical consultative services for international customers. During FY 2004, GIPSA's consultative work included conducting assessments of agricultural standards and transportation management systems in South Africa, Botswana, Namibia, and Mozambique; helping establish grain inspection laboratories in Kenya, Uganda, and Tanzania; helping Egypt set up a biotech testing laboratory; helping Iraq set wheat contract terms that resulted in their importation of U.S. wheat, and giving a grain marketing seminar to Iraqi officials (in Jordan); working with Canadian and Mexican officials to establish a trilateral agreement on implementation of the Biosafety Protocol; continuing work with Chinese officials on trade issues to ensure their continued importation of U.S. soybeans; helping the USDA/Foreign Agricultural Service and

Animal and Plant Health Inspection Service resolve various grain quality issues in other countries that would otherwise have restricted U.S. grain exports; and briefing visiting trade and governmental teams representing 55 countries around the world.

In addition to facilitating the marketing of U.S. grain by developing grain quality assessment methods and carrying out international outreach efforts, GIPSA administers a national inspection system comprising Federal, State, and private laboratories. These laboratories provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. The world recognizes the certificates issued by these laboratories as the gold standard for grain quality certification. Buyers and sellers around the world have confidence in and rely on the GIPSA certificate to trade grain.

This confidence was earned. The dedicated Federal, State, and private employees of the national grain inspection system work tirelessly to ensure the integrity and reliability of the national inspection system. They issue over 3 million certificates annually, representing over 250 million tons of grain.

GIPSA continuously works to improve service delivery by this network of laboratories and meet the needs of a changing market. In FY 2004, we revised the regulations on appeal inspections under the U.S. Grain Standards Act to streamline the process and better reflect market needs. These changes improved service delivery time and reduced operational costs to both GIPSA and the grain industry. We also revised sampling and inspection procedures to better meet the needs of exporters shipping grain in small containers rather than large bulk vessels. As a result of high freight rates for bulk ocean vessels and an abundant supply of containers, the U.S. grain market experienced a significant increase in the use of containers to ship export grain overseas,

especially to Asian markets. This shipping mode, once reserved for specialty, high-value grain, was being used for basic commodity grain and shifted the need for inspection services at interior locations.

eGovernment Solutions

Our most ambitious undertaking to improve program operations and service to the public is a sweeping, multi-year project to upgrade information management systems and modernize our business functions. Our current information management system consists of several independent systems that have served specific purposes over the years well, but are not integrated. This has limited our ability to meet the growing demand for electronic, or web-based, delivery of our services. It also impedes our efforts to improve the cost effectiveness and efficiency of our internal business practices. The enterprise-wide system currently under development will modernize nearly every aspect of GIPSA operations and provide a great opportunity to improve current business practices and service delivery.

New funding provided in FY 2005 along with the redirection of existing funds has enabled GIPSA to begin the modernization process. Currently funded components of the new system will be deployed incrementally between 2005 and 2007. We have requested additional funding in FY 2006 to support this important long term initiative.

When completed, customers will have online access to the information and applications they need to file complaints with GIPSA via the Internet; receive status reports on a complaint; place claims against bonds required under the P&S Act; register as a grain exporter or livestock dealer; submit required annual reports; request grain

inspection services; receive reports on service status; see the status of their user-fee account; and receive final certified results online which will, in turn, allow customers to integrate official inspection data into their own information and document management systems. Private and State inspection agencies interested in being authorized to provide official inspection services will also be able to apply for GIPSA designation and re-designation on-line. Once officially designated, these agencies will have direct access through the web to GIPSA's extensive quality assurance program to ensure their inspection results align with the official standards maintained by GIPSA.

This modernization effort will create synergy across GIPSA programs and data sources, allowing GIPSA to improve internal program efficiencies and effectiveness. This large multi-year initiative will deliver improved performance and reduce costs years into the future.

Protecting the Homeland

In addition, GIPSA has dedicated resources to homeland security efforts. We continue to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In FY 2004, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions.

We provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the USDA Homeland Security Working Group; worked with the National Food Laboratory Steering Committee to coordinate and

integrate resources to support key components of the Food Emergency Response Network (FERN); and, in conjunction with USDA and the Animal and Plant Health Inspection Service, developed information for the USDA Sector Specific Plan that will be included in the National Infrastructure Protection Plan.

2006 Budget Request

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for FY 2006 is \$40.4 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. These budgets include additional requests of \$442,000 for employee compensation; \$2,025,000 to continue the modernization of our information management systems and business functions; and \$950,000 for new grain testing measures. In addition our request includes a proposal to recover \$25 million through user fees to cover the costs of grain standardization activities and Packers and Stockyards program activities.

An increase of \$442,000 for employee compensation will enable GIPSA to meet its objectives consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand.

We are requesting an additional \$2,025,000 for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes \$1,000,000 to continue the development of eGov solutions; \$775,000 for the formation of an Information Disaster Recovery Program, essential as we deploy the eGov solutions and our employees and customers become increasingly dependent on web-based applications for daily operations; and

\$225,000 for recurring costs associated with the operations of eGov solutions funded in FY 2005 and deployed for operation.

We are also requesting an additional \$950,000 to develop new grain testing measures for ethanol co-products, wheat quality, and low linolenic soybeans. It is our responsibility to provide the U.S. market with the tools necessary to accurately and consistently measure a commodity's quality attributes, both chemical and physical, that our customers desire. New tests will facilitate the marketing of ethanol co-products, wheat, and low linolenic soybeans.

Part of our appropriation request will be derived from proposed new user fees. The budget proposes a collection of 4.3 million from grain standardization user fees and \$20.4 million from Packers and Stockyards program licensing fees. Both fees are proposed to assess those who benefit from the activities- the grain and livestock industries- rather than the general public.

Conclusion

Mr. Chairman, Members of the Committee, thank you for the opportunity to share some of the accomplishments made by our dedicated staff and highlight our future plans to facilitate the marketing of U.S. agricultural products and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.