

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Statement of James E. Link, Administrator
Before the Subcommittee on Agriculture, Rural Development, Food and Drug
Administration, and Related Agencies

Introduction

Madam Chairwoman 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 2008 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 Stockyards 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 approximately 674 staff years working in partnership with a variety of State and private entities. Our Packers and Stockyards Program has three front-line regional offices, each of which specializes in poultry, hogs, or cattle/lambs. Our grain inspection services are delivered by the national

inspection system, a unique public-private partnership comprised of Federal, State, and private inspection personnel. The system includes 9 GIPSA field offices, 1 Federal/State office, and 57 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 promote 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, other market participants, and consumers from unfair, discriminatory, fraudulent, or deceptive practices that might be carried out by those subject to the Act.

To meet this objective, GIPSA seeks to increase the level of compliance with the P&S Act through preventive regulatory actions; attain compliance through investigation and enforcement; implement guidance and perform industry analysis that keeps pace with the changing regulated industries; and improve organizational efficiency and effectiveness.

USDA's Office of the Inspector General (OIG) audited the management and oversight of GIPSA's P&SP and issued Report No. 30601-01-HY on January 10, 2006. The audit contained 4 findings; identified 3 material weaknesses under the Federal Managers Financial Integrity Act; and provided 10 recommendations to improve management and oversight of P&SP. GIPSA agreed with the audit's findings and proposed an action plan to address each recommendation that was incorporated into the audit report.

In response to OIG's findings, GIPSA has improved investigation tracking by implementing new policy to differentiate investigations from regulatory activities; implementing a new tracking system for investigations; and revising the program's employee manual to provide codified guidance to front-line personnel. To address OIG's recommendation to better manage investigations, GIPSA has implemented a new policy on conducting investigations; revised and clarified the employee manual to provide clear guidance to investigators; vested regional directors with greater authority; and established monthly cross-regional meetings at each organizational unit level (e.g., financial unit) to improve communication and performance. GIPSA has also strengthened its policy decisionmaking by creating 16 new policies within 60 days of the OIG Audit's issuance; implementing a new policy development process; creating a policy tracking system; and establishing a task force to review all existing regulations and submit proposed changes. Finally, GIPSA is strengthening the overall program by making organizational and operational changes to meet this goal. GIPSA is allowing legal specialists to work directly with USDA's Office of the General Counsel (OGC); filled the deputy administrator vacancy; conducted an Organizational Assessment/Climate Survey via the Office Personnel Management; contracted with a third-party (the Animal and Plant Health Inspection Service) to review GIPSA's organizational structure; and developed a comprehensive internal review program to improve monitoring and reporting on agency activities.

These improvements have helped GIPSA deliver valuable services to the livestock, meatpacking, and poultry industries. With 145 program employees, we continued to regulate these industries, estimated by the Department of Commerce in its

most recent 5-year Census of Manufactures survey in FY 2002 to have an annual wholesale value of \$120 billion. At the close of FY 2006, there were 5,407 market agencies and dealers registered. There were 320 bonded slaughtering packers reporting to GIPSA and an estimated 540 non-bonded slaughtering packers not reporting to GIPSA because their volume was below the reporting threshold. There were also 72 live poultry dealers operating subject to the P&S Act.

P&SP conducts two broad types of activities – regulatory and investigative – to administer and enforce the P&S Act. Regulatory activities assess whether a subject entity is operating in compliance with the Act. Investigations are activities at a firm level that may be a follow-up on previously identified violations of the Act, activities conducted in response to industry driven complaints, and activities conducted in response to possible violations found pursuant to compliance or monitoring activities.

Last fiscal year, we conducted nearly 2,000 regulatory actions and investigations. These activities included 1,371 regulatory activities such as financial audits and scale check weighs and 617 investigations of alleged P&S Act violations. As a result of these investigations, P&SP helped recover over \$1.5 million for producers and enforced the restoration of nearly \$3.9 million to custodial accounts and business balance sheets to protect producers from financial harm.

We continue to work with violating firms to achieve voluntary compliance, and to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. In FY 2006, with assistance from USDA's OGC, we filed 25 complaints alleging violations of the P&S Act. These formal disciplinary complaints resulted in 24 decisions ordering the payment of \$196,350 in civil penalties.

We regularly assist the Federal Bureau of Investigation, and 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 U.S. Department of Agriculture, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

GIPSA maintains a toll-free hotline (800-998-3447) to receive complaints and other communications from livestock producers, poultry growers, and other members of the industry or general public. Use of the hotline allows callers to voice their concerns or file a complaint anonymously without fear of retaliation. In FY 2006, GIPSA responded to 67 hotline complaints. Those calls that related to livestock or poultry issues resulted in investigations.

To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

GIPSA continues to operate the Swine Contract Library (SCL) which includes information pertaining to price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs. The data is available on GIPSA's website on a real time basis. In October 2005, the reporting requirements under the Livestock Mandatory Reporting Act of 1999 became voluntary due to the sunset of the law. Legislative authority for Livestock Mandatory Reporting (LMR) was renewed on October 5, 2006. Even with

reauthorization of the Act, until regulations are issued implementing the SCL, reporting will be voluntary. GIPSA is currently developing changes to the SCL regulations that will reflect legislative changes as well as changes to enhance the SCL performance.

GIPSA is in the final phase of administering a livestock and meat marketing study that examines the broad issues surrounding packer ownership of livestock. Research Triangle Institute (RTI), the firm with whom GIPSA has contracted to complete the study, released an interim report in August 2005. The final report was delivered to GIPSA January 31, 2007 and public release is pending appropriate Congressional briefings.

Federal Grain Inspection Service

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products by providing the market with terms and methods for quality assessments; maintaining the integrity of the marketing system by enforcing the provisions of the U.S. Grain Standards Act (USGSA); and providing for a third-party national inspection system comprised of Federal, State, and private providers that provide impartial, user-fee funded official inspection and weighing services under the authority of the USGSA and the Agricultural Marketing Act of 1946.

The grain industry uses the terms and methods for quality assessments established by FGIS to buy and sell about \$65 billion of commodities annually. These terms and methods provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse end-use needs of today's food and feed industry.

In FY 2006, to meet market needs, GIPSA established standards for the emerging feed pea market; amended the soybean standards to ensure market-relevant standards and

grades, and clarify reporting requirements; and amended the wheat standards to help American wheat producers market Hard White wheat to those making high-quality wheat products for consumers around the world.

Working with our stakeholders – including producers, technology providers, and food and feed manufacturers – we consensually determine the quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture.

In FY 2006, GIPSA continued to work with the market to identify and deliver accurate test methods to differentiate the intrinsic functional qualities of grains that impact the end products made from them. During the fiscal year, GIPSA developed and implemented a rapid wet gluten test for wheat, one of the most important indicators of wheat functionality. This new service is providing the market with information on the functional characteristics of wheat, and specifically the ability of milled wheat to produce bread, pasta, and noodle products. The availability of this service enhances the value and marketability of U.S. wheat by optimizing the use of U.S. wheat for specific end uses, and provides value transparency from producer to processor. GIPSA will continue to work with the wheat and other grain industries to gain consensus on the salient attributes and reference methods needed to allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale.

Terms and methods must meet market needs and facilitate the marketing of U.S. grain, as must our regulation. In recent years, the high-quality specialty grain market has grown as specialty grain shippers increasingly cater to the specific needs of buyers around the world. Traditionally, shippers of high-quality specialty grain exported in

containers handled less than 15,000 metric tons of grain annually and were, therefore, exempt from mandatory inspection and weighing requirements of the USGSA. However, the market has grown, and specialty grain shipment volumes have begun to exceed the 15,000 metric ton waiver threshold, requiring shippers to obtain official inspection and weighing services in accordance with the USGSA. To facilitate the marketing of specialty grains, and in accordance with the recommendations of the USDA Grain Inspection Advisory Committee, GIPSA waived the mandatory inspection and weighing requirements for high-quality specialty grains exported in containers, effective January 12, 2006, through July 31, 2010.

Some market situations erupt rather than evolve, requiring unique, rapid, and exceptional responses from GIPSA to preclude market disruption. Such was the case following the August 18, 2006, announcement that trace amounts of genetically engineered LibertyLink rice (LLRICE 601) had been detected in the commercial market. GIPSA immediately undertook multifaceted efforts to ensure open markets for U.S. rice. We verified analytical methods and commercially available test kits to detect the event, carried out intensive international outreach efforts, and expanded our laboratory Proficiency Program to include LibertyLink (LL) rice. GIPSA was and remains integral to the U.S. government's extensive international negotiation and outreach activities to ensure open markets for U.S. rice. Working with the Foreign Agricultural Service, GIPSA has successfully maintained open markets for U.S. rice in Japan, Korea, Iraq, Canada, and several Central American countries, among others. We have provided technical assistance to other agencies as they address regulatory and trade issues around the globe; worked with the European Commission to gain acceptance of LLRICE

analytical testing methods by Europe's Joint Research Center; and continue to work with Europe to facilitate a testing approach that meets their regulatory objectives and allows trade to continue. We also are taking part in current rice industry discussions about preventing reintroduction of LLRICE into the U.S. rice supply through 2007 plantings.

The LLRICE situation is one example of GIPSA's active outreach and development program for international trade and government teams. In addition to addressing unique challenges such as the LLRICE situation, we maintain a vigorous and ongoing international outreach program. We continue to address international customers' needs for technical assistance overseas. During FY 2006, GIPSA helped install and checktest laboratory equipment to inspect and grade wheat at three locations in Egypt; conducted grain grading and inspection seminars in Mexico, Peru, Taiwan, and China; and worked with USDA agencies to facilitate U.S. grain and legume exports to Kenya, Uganda, and Tanzania.

Through our technical assistance program, GIPSA also was instrumental in America regaining the nearly \$1 billion annual grain market that the United States lost after the 1991 war with Iraq. Building on our work in FY 2005, in FY 2006, a GIPSA technical specialist was on the ground in the Middle East to monitor and provide on-site technical inspection expertise for U.S. wheat shipments from the point of departure in the United States to arrival in Syria and final destination in Baghdad.

GIPSA also maintains a program that was begun in 2002 that places agency representatives in Asia on long-term temporary duty assignments to develop a more proactive approach in working with overseas Asian customers and their Governments. In FY 2006, a GIPSA officer was on duty in Asia for 8 months of the year. This on-site

presence allowed GIPSA to address immediate and long-term issues in the region, promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in results, and develop face-to-face relationships with customers, USDA Cooperators, and Government officials.

Our quality assessment methods and international outreach efforts are only part of the story. At the heart of the Agency is our service provision role. GIPSA administers a national inspection system comprised of Federal, State, and private laboratories that provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. In FY 2006, the national inspection system provided nearly 3 million inspections on 286 million metric tons of grain. The world recognizes our “official” certificates 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.

We are proud of our successes, but never cease to explore how we can achieve our mission most efficiently. Currently, GIPSA is exploring alternative means of delivering inspection and weighing services. Under the USGSA, GIPSA may contract with private persons or entities to perform inspection and weighing services at export port locations. In FY 2006, GIPSA instituted a 2-year pilot test to assess the cost-effectiveness and impact on the official system of contracting with private entities to provide mandatory inspection and weighing services at export port locations (California; Milwaukee, Wisconsin; GIPSA Toledo field office circuit—Chicago, IL, Portage, IN, Toledo, OH, and Albany, NY). The pilot test will help GIPSA better determine how best to use existing contracting authority as one component in delivering official inspection services. Contracts will be implemented only if their use improves the cost effectiveness

of service delivery and maintains the official inspection system's high level of integrity. This strategy lays the framework for using GIPSA contracting authority to further enhance its goal of providing high-quality, cost-effective export inspection and weighing services that are recognized worldwide as being accurate and reliable.

eGovernment Solutions

GIPSA continues with a multi-year project to improve program operations and service to the public by modernizing our information management systems and business functions. The initiative will improve the efficiency and effectiveness of service delivery by streamlining business practices and improving customer service, as well as meeting Federal eGov requirements and USDA initiatives. During FY 2006, GIPSA deployed seven web-based applications that will be accessible by the public. One deployment was the Delegation, Designation, and Export Registration application, which allows State agencies and private companies to apply or register to inspect grain under the authority of GIPSA. In FY 2007, GIPSA plans to modernize additional business functions, including inspection, testing and weighing operations.

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 program efficiency.

Protecting the Homeland

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 2006, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions, including a major government-wide exercise.

2008 Budget Request

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for FY 2008 is \$44.4 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. The budget includes additional funding for pay costs; enforcement of the Packers and Stockyards Act; modernization of our information management systems and business functions; and international services. In addition, we will submit a legislative proposal for new user fees to recover the costs of grain standardization and Packers and Stockyards program activities.

The increase for pay costs 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 projected increased demand.

We are requesting additional funding to bolster direct enforcement of the Packers and Stockyards Act and promote voluntary compliance through an expanded presence within the industry. This increase will allow the Agency to hire 16 new field employees to enhance direct compliance, investigative and enforcement activities and restore the Packers and Stockyard Program's field structure to fiscal year 2000 levels.

We are requesting additional funding for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes funding to continue the development of eGov solutions and for recurring costs associated with the maintenance of these applications.

We are also requesting additional funds to establish an ongoing presence in Asia allowing GIPSA to continue and expand upon our successful international services and trade activities currently provided on a temporary basis. GIPSA's hands-on approach of assigning a temporary duty officer in Asia to facilitate trade of U.S. grain has provided a positive impact on existing and potential buyers. These buyers say their concerns related to grain quality are addressed effectively. Continuing and expanding this program is crucial not only to increasing U.S. grain exports and reducing market disruptions due to technical differences in analytical methods and standards, but to increase satisfaction and loyalty among our current customers in an extremely competitive marketplace. The U.S. trade dollars saved upon the resolution of just one grain shipment complaint can far outweigh the costs associated with maintaining a GIPSA presence in Asia.

GIPSA will submit a legislative proposal to collect fees for the development of grain standards and to amend the Packers and Stockyards Act to provide authority to collect license fees to cover the cost of the program. Converting to license fees is consistent with the overall effort to shift funding for the program, which benefits identifiable groups, to user fees.

Conclusion

Madam Chairwoman, 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.