

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Statement of James R. Baker, Administrator of the Grain Inspection, Packers and Stockyards Administration, before the House Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

Mr. Chairman and members of the Committee, I am pleased to submit the fiscal year (FY) 1998 budget proposal for the Grain Inspection, Packers and Stockyards Administration (GIPSA).

GIPSA is part of USDA's Marketing and Regulatory Programs, which are working to ensure a productive and competitive global marketplace for U.S. agricultural products. GIPSA's 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.

Our mission is carried out in two different segments of American agriculture. GIPSA's Federal Grain Inspection Service (FGIS) provides the U.S. grain market with Federal quality standards and a uniform system for applying them. Our Packers and Stockyards Programs (P&S) ensure open and competitive markets for livestock, meat, and poultry.

GIPSA has both service and regulatory roles. It provides impartial, accurate quality and quantity measurements to create an environment that promotes fairness and efficiency. And, the Agency's programs provide financial protection to livestock producers and ensure fair and competitive markets.

The existence of GIPSA as an unbiased, third-party entity helps ensure a fair and competitive marketing system for all involved in the merchandising of grain and related products, livestock, meat, and poultry.

Organization

GIPSA is comprised of approximately 840 personnel, including full-time, temporary, and intermittent employees. GIPSA personnel are situated in field locations across the country to serve our customers.

Federal grain personnel work with over 2,000 State and private inspectors to provide high-quality inspection and weighing services on a user-fee basis. Federal inspectors service 42 export elevators located in Georgia, Illinois, Indiana, Louisiana, Maryland, New York, Ohio, Oregon, and Texas. A small Federal staff also provides service at 6 export elevators in Eastern Canada for U.S. grain transshipped through Canadian ports. Eight delegated States provide services at an additional 20 export elevators located in Alabama, California, Minnesota, Mississippi, South Carolina, Virginia, Washington, and Wisconsin. Sixty-five (65) designated agencies service the

domestic market under GIPSA supervision. In 1996, this unique mix of Federal, State, and private inspection agencies provided 2.3 million inspections on an estimated 250 million metric tons of grains and oilseeds; issued over 118,000 official weight certificates; weighed over 114 million metric tons of grain; and met trade teams representing 38 countries around the world to teach them about GIPSA and the U.S. grain marketing system.

GIPSA's Packers and Stockyards Programs' is comprised of 180 full-time employees; 135 of whom are employed in 11 offices strategically located throughout the United States to monitor compliance with the P&S Act. During FY 1996, GIPSA concentrated resources on providing financial protection and promoting fair business practices and a competitive marketing environment for livestock, meat, and poultry. The Agency conducted over 2,000 investigations, disclosing over 800 violations of the P&S Act. Formal actions were requested in 84 cases and 62 administrative or justice complaints were issued in order to bring firms into compliance with the P&S Act. Administrative decisions and orders were issued in 49 cases during FY 1996; however, most violations were corrected on a voluntary basis with several resulting in livestock and poultry producers receiving additional funds for the sale of their product.

This, of course, is only a brief summary of our accomplishments. I'd like to provide some more in-depth information about our programs and their activities.

GIPSA's Federal Grain Inspection Service

GIPSA's grain program plays a critically important role in facilitating the marketing of U.S. grain and related commodities. We provide the U.S. grain market with Federal quality standards and a uniform system to apply these standards. Through this program, GIPSA provides descriptions (grades) and testing methodologies for measuring the quality and quantity of grain, rice, edible beans, and related commodities, and, provides an array of inspection and weighing services, on a fee basis, through a unique partnership of Federal, State, and private laboratories.

By serving as an impartial third party, GIPSA ensures that the standards are applied and the weights recorded in a fair and accurate manner. Our presence in the market advances the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and foreign buyers.

Our guidance in carrying out these important tasks is provided by the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA) as it relates to the inspection of rice, pulses, lentils, and processed grain products. Under these two Acts, GIPSA:

- Establishes official U.S. grading standards and testing procedures for eight grains (barley, corn, oats, rye, sorghum, triticale, wheat, and mixed grain), and four oilseeds (canola, flaxseed, soybeans, and sunflower seed) under the USGSA; and for rice, lentils, dry peas, and a variety of edible beans under the AMA.
- Provides American agriculture and customers of U.S. grain around the world with a

national inspection and weighing system that applies the official grading and testing standards and procedures in a uniform, accurate, and impartial manner.

- Inspects and weighs exported grain and oilseeds. Domestic grain and oilseed shipments, grain and oilseed imported into the United States, and crops with standards under the AMA are inspected and weighed upon request.
- Monitors grain handling practices to prevent the deceptive use of the grading standards and official inspection and weighing results, and the degradation of grain quality through the introduction of foreign material, dockage, or other nongrain material to grain.

Through these permissive and mandatory programs, GIPSA promotes the efficient and effective marketing of U.S. grain and other commodities from farmers to end users.

To better illustrate the impact and efficiency of GIPSA's grain inspection program, consider the following: USDA's "Outlook for U.S. Agricultural Exports" (December 4, 1996) reports that in FY 1996, U.S. exports of wheat, corn, coarse grains, rice and soybeans were valued at approximately \$27 billion. GIPSA's grain program, which operates on a user fee basis, collected fee revenue of \$30 million for over 2.3 million official inspections, 600,000 protein and oil tests, 115,000 mycotoxin tests, and a variety of other official inspection and weighing services on these exports. Our revenues totaled a little over one-tenth of 1 percent of the total value of the exports.

In FY 1996, GIPSA's grain program pursued a number of initiatives to improve service delivery and organizational effectiveness. We recognize that reengineering and automating our business and administrative functions are essential if we are to contain costs, lessen the risks, and increase the productivity associated with grain handling.

In FY 1996, GIPSA continued to work closely with the U.S. grain handling industry on Electronic Data Interchange (EDI), an electronic commerce project designed to automate business transactions involving U.S. grain. As part of this important initiative, GIPSA is developing a standardized data file for its inspection and weighing results that will directly support the EDI functions.

Also in FY 1996, GIPSA began implementing a reengineered quality assurance and quality control program for the official grain inspection system to ensure the quality and accuracy of inspection results nationwide. The new, proactive program integrates automation technology, empowerment of front-line employees, and statistical quality control processes to further improve the performance of the official inspection system.

GIPSA continued cooperative efforts with the National Institute of Standards and Technology and the National Conference on Weights and Measures to standardize commercial grain inspection equipment as part of the National Type Evaluation Program (NTEP). GIPSA serves as the sole NTEP laboratory for grain inspection equipment. In FY 1996, GIPSA continued to collect calibration data that were used as the basis for numerous grain moisture meter calibration

changes to improve the accuracy and consistency of commercial grain moisture measurements.

Our efforts to facilitate the marketing of U.S. grain are not concentrated solely within our borders. GIPSA also is working to help educate our worldwide customers about the quality and value of U.S. grain exports. In fiscal year 1996, GIPSA representatives met with 77 teams from 41 countries to provide information, technical guidance, and educational seminars.

The grain program will continue to work to ensure our relevance and value to American agriculture. We are reaffirming our commitment to facilitating the marketing of U.S. grain by responding to our customers' needs and providing the highest quality grain inspection and weighing services to all whom we serve -- from farmer to domestic and international end users, and all those in between. Our efforts in FY 1997 will focus on networking the Federal, State, and private partners comprising the system, and working with our customers to identify how we can apply automation to reengineer our administrative and inspection processes to achieve greater efficiency and productivity.

In FY 1997, our commitment to improved efficiency and effectiveness will continue to serve American agriculture well, as U.S. agricultural exports are expected to total \$55.5 billion. Exports of wheat, corn, coarse grains, rice and soybeans are expected to account for \$18.5 billion of that total ("Outlook for U.S. Agricultural Exports," December 1996).

GIPSA's Packers and Stockyards Programs (P&S)

The principal purpose of GIPSA's Packers and Stockyards (P&S) Programs is to provide financial protection and promote fair business practices and a competitive marketing environment for livestock, meat, and poultry. Our programs foster fair and open competition, and guard against deceptive and fraudulent practices affecting the movement and price of meat animals and their products. We also work to protect consumers and members of the livestock, meat, and poultry industries from unfair business practices. To carry out these important roles, GIPSA:

- Administers the Packers and Stockyards Act of 1921.
- Carries out the Secretary's responsibilities under Section 1324 of the Food Security Act of 1985, which permits States to establish "central filing systems" to prenotify buyers, commission merchants, and selling agencies of security interests against farm products, and issue regulations and certify the systems that meet the criteria in the statute.
- Enforces the Truth-in-Lending Act, the Fair Credit Reporting Act, and the Freedom of Information Act as each relates to persons and firms subject to the P&S Act.

The production and marketing of livestock, meat, and poultry are important to American agriculture and significantly impact the Nation's economy. The Commerce Department estimates the annual wholesale value of livestock, meat, and poultry products to be approximately \$95 billion. At the close of FY 1996, there were 1,348 stockyards; 6,988 market agencies/dealers; and 2,169 packer buyers registered with GIPSA to engage in the livestock marketing business. There also were approximately 6,000 slaughtering and processing packers; an estimated 6,500 meat distributors, brokers, and dealers; and an estimated 225 poultry firms subject to the P&S

Act.

GIPSA's P&S Programs continues to provide payment protection to livestock and poultry producers by focusing on the financial area. Financial investigations during FY 1996 resulted in \$3.5 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. Packer and poultry trust activities also returned over \$400,000 to livestock sellers and over \$100,000 to poultry growers during the fiscal year. Dealers and market agencies are required to meet solvency requirements, a critical component of payment protection of the P&S Act. During FY 1996, 205 insolvent dealers and market agencies corrected or reduced their insolvencies by \$11.2 million.

GIPSA closely monitors anticompetitive practices which may be impeding the free trade of livestock. Any practice, agreement, or understanding that excludes potential buyers from bidding in open competition is considered a restraint on competition. Examples of such practices include apportioning territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. A high priority is placed on investigating all complaints and further developing information received concerning the failure of livestock dealers, market agencies, or packers to compete for the purchase of livestock.

In 1996, a major investigation of fed cattle procurement practices in Kansas was completed. The investigation examined over 15,000 purchase transactions involving 2 million head of cattle. The results, which were released in March 1996, indicated that supply and demand factors were the

primary causes of price declines in the spring of 1995. In FY 1996, GIPSA began several actions to increase enforcement activities in the area of anticompetitive-type practices involving the Nation's major meat packers. The Agency initiated a major cattle procurement investigation in Texas that will examine over 37,000 purchase transactions involving over 6 million head of cattle sold during 1995 and 1996. A major slaughter hog procurement investigation was also initiated during 1996. This investigation will examine approximately 50,000 purchase transactions involving over 2.5 million head of slaughter hogs. Using data from the Kansas and Texas fed cattle investigations, GIPSA will conduct economic analyses during FY 1997 on the effect of forward contracting, packer feeding, and marketing agreement/formula pricing arrangements.

In FY 1997, GIPSA will continue to improve the efficiency of its P&S Programs, and ensure that the programs play an effective role in the U.S. livestock, poultry, and meat marketing system. A key activity in our improvement process involves a review by USDA's Office of the Inspector General (OIG) of current enforcement practices under the P&S Act. The OIG review is expected to provide data on how GIPSA can maximize its effectiveness and make full use of its authority to investigate and correct anticompetitive practices and arrangements. The review also will examine whether GIPSA's structure and operating practices and procedures should be modified to enhance its responsiveness to the needs of a changing industry.

Also in FY 1997, GIPSA will solicit public comment on the need for regulations addressing contract poultry grower financial arrangements. Currently, the predominant method used to pay growers for flocks under a poultry growing arrangement is based on a system that compares a

grower's results to that of other growers during a specified time period. Many poultry growers have repeatedly expressed concern that comparing their production costs against those of other growers to determine payment is unfair. Growers also have expressed concerns about the accuracy of feed weights and feed delivery, pickup procedures, and the procedures for weighing live birds picked up for slaughter.

As you can see, a great deal was accomplished in FY 1996 and much is planned for FY 1997 in both of GIPSA's program areas. Our efforts to continuously improve our programs and services were greatly enhanced last fiscal year by the further refinement of the Agency's strategic plan.

Strategic Planning

The GIPSA Strategic Plan was developed to guide the agency into the next century and to help ensure that our programs and services remain relevant to our customers and American agriculture.

The American public and international customers of U.S. agricultural products want an ample supply of quality food at a reasonable price. This means American markets must be efficient, competitive, and quality-conscious. GIPSA's strategic goals and objectives, as well as the agency's products and services, are oriented toward fulfilling this need for a fair, competitive, and efficient market system.

The strategic plan, developed in a cooperative effort by all GIPSA employees and our customers, outlines four major goals that will guide our planning processes and initiatives for the upcoming

years:

- We will ensure that programs are cost-effective and responsive to markets served.
- We will ensure that the credibility of programs is unquestionable.
- We will ensure that GIPSA employees are highly skilled professionals providing quality customer service.
- We will work to harmonize customers' expectations with GIPSA's authority and capabilities.

As part of the strategic planning process, GIPSA identified several measures that will allow us to quantitatively evaluate our performance. In the grain program, in FY 1998, GIPSA will begin measuring the performance of the new quality assurance and control system for accuracy and consistency; the average cost of oversight per metric ton of grain inspected; the number of new tests developed and improved methods/calibrations implemented; and the average cost of export grain inspection per metric ton.

For the P&S programs, GIPSA will implement a new electronic tracking system for complaints and investigations. This will enable us to establish performance goals based on the new tracking and monitoring system, and to provide for more effective allocation of resources.

In developing our strategic plan, GIPSA reaffirmed its commitment to strengthening the cost-effectiveness, responsiveness, and credibility of our programs and services. In FY 1998, GIPSA

will be pursuing a number of initiatives that will reflect the goals and commitments outlined in our strategic plan. As mentioned above, these initiatives include establishing guidelines and developing the technology for joint industry/GIPSA ventures to automate the grain inspection process at export grain elevators; designing and implementing an investigation tracking and monitoring system; networking all of the Federal, State, and private partners comprising the official grain inspection and weighing system; implementing a new quality assurance and control program for grain inspection activities; and conducting regional and industry-wide reviews and investigations of the livestock, meat, and poultry industries.

Fiscal Year 1998 Budget Request

To fund these important initiatives and to enable GIPSA to remain a valuable part of American agriculture, under current law, GIPSA's total budget request for FY 1998 is \$68.8 million, of which \$25.7 million represents appropriations. The remaining \$43.1 million represents user fee authority for inspection and weighing services.

For fiscal year 1998, the President's budget proposes a total program level for grain inspection of \$54.0 million, with \$10.9 million appropriated for compliance, standardization, and methods development activities. The FY 1998 budget also proposes legislation to authorize the collection of \$3.6 million in additional user fees to cover the costs of grain standardization activities.

For P&S Programs, the budget proposes \$14.8 million, which includes increases of \$225,000 to

allow GIPSA to establish electronic filing procedures for annual reports, which is consistent with the requirements of the Paperwork Reduction Act of 1995; \$1,595,000 for activities in the packer competition and industry structure areas; and \$750,000 for poultry compliance activities.

Increasing concentration, structural change, market performance, and the use of complex formula and value-based marketing systems by packers continue to raise questions of regulatory and policy significance. Additional resources will allow GIPSA to expand our capability to monitor and investigate the competitive implications of structural changes and behavioral practices in the meat packing industry, and will increase our capability to support legal actions that require complex economic and statistical analyses. Continuous, systematic collection and analysis of data along with aggressive investigative activities are required to address these issues effectively.

To promote competition and improve market performance and confidence in the livestock and poultry sectors, the Secretary's Advisory Committee on Agricultural Concentration recommended increased monitoring and enforcement of antitrust and regulatory policy and, specifically, increased antitrust enforcement under current regulations of the P&S Act. Since anticompetitive practices are complex and often encompass broad geographic areas, investigations involving building cases for unacceptable behavior has become more difficult and resource-intensive.

The requested increase in funds for P&S Programs will allow GIPSA to conduct additional detailed investigations and analyses in selected geographic markets on a timely basis. It also will help us meet our responsibility of fostering fair and open competition, and guarding against

deceptive and fraudulent practices that affect the movement and price of meat animals and meat food products.

As the industry continues to rapidly move to value-based methods of pricing, the complexity and sophistication of the packing industry's procurement and pricing methods will continue to increase. With this change also comes greater opportunity for packers to engage in unfair, unjustly discriminatory, or deceptive practices to the detriment of livestock producers. The Agency must be able to commit the necessary resources to conduct the type of complex investigations that are required to ensure the integrity of the accounting and payment to producers.

The Secretary's Advisory Committee on Agricultural Concentration also offered recommendations to address anticompetitive practices in the poultry industry. In recent years, contract poultry growers have looked to USDA for help in assuring they are treated fairly when dealing with large, integrated poultry companies. The Committee recommended that the Secretary be provided the same administrative enforcement authority for poultry as currently exists for red meat to protect contract poultry growers from unfair and discriminatory practices.

The increase of \$750,000 for poultry compliance will allow GIPSA to operate on other than a complaint-driven basis and permit increased compliance investigations into the poultry industry. More in-depth investigations will increase the Agency's ability to identify or address practices in the industry that may be unfair, unjustly discriminatory, or deceptive before practices escalate.

Finally, as in previous years, the FY 1998 budget proposes legislation to authorize the collection of license fees to administer all activities under the P&S Act. In FY 1998, funds would be available only to the extent provided in advance in appropriations acts. All meat packers, live poultry dealers, stockyard owners, market agencies, and dealers, as defined in the P&S Act, would be subject to the license fees. Also included is a request to provide for a legislative proposal regarding a statutory dealer trust to require livestock inventories and accounts receivable due from the sale of livestock to be held in trust for unpaid cash sellers when a dealer fails to pay for livestock. If the user fee legislation is enacted, the cost of administering this provision would be recovered through license fees.

Conclusion

Mr. Chairman, this concludes my statement. I appreciate the opportunity to testify on behalf of one of USDA's newest agencies. I will be happy to answer any questions the Committee may have.