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Committee on Appropriations

## GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

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

Mr. Chairman and members of the Committee, I am pleased to submit the fiscal year (FY) 1999 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 major segments of American agriculture. GIPSA's Packers and Stockyards Programs (P&S) ensure open and competitive markets for livestock, meat, and poultry. The Agency's Federal Grain Inspection Service (FGIS) provides the U.S. grain market with Federal quality standards and a uniform system for applying them.

GIPSA has both service and regulatory roles. The Agency provides financial protection to livestock producers and ensures fair and competitive markets. It also provides impartial, accurate measurements of grain quality to create an environment that promotes fairness and efficiency in the U.S. grain marketing system.

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 livestock, meat, and poultry, and grain and related products.

### **Organization**

GIPSA is comprised of approximately 800 personnel, including full-time, temporary, and intermittent employees. GIPSA personnel are situated in field locations across the country to serve our customers.

Of GIPSA's Packers and Stockyards Program's 180 allotted staff years, approximately 28 percent are located at headquarters. Following the planned reorganization of this program, the total staff located at headquarters will be reduced to no more than 20 percent of total staff years. During FY 1997, GIPSA concentrated P&S program resources on providing financial protection and promoting fair business practices and a competitive marketing environment for livestock, meat, and poultry. The Agency conducted over 1,800 investigations, disclosing 515 violations of the Packers and Stockyards (P&S) Act. Most violations are corrected on a voluntary basis with

several resulting in livestock and poultry producers receiving additional funds for the sale of their product. During FY 1997, 46 formal cases were resolved and 29 new cases were filed to bring subject firms into compliance with the provisions of the P&S Act. These complaints alleged violations of the P&S Act, including failure to compete in the purchase of livestock, paying livestock sellers on the basis of false and inaccurate weights, failure to pay and failure to pay promptly for livestock, operating without bond coverage, and delayed weighing of live poultry. GIPSA is appealing an adverse decision in the IBP, inc., case which alleged that the packer had given undue or unreasonable preference to a select group of feedlots.

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 transhipped through Canadian ports. Eight delegated States provide service 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 1997, this unique mix of Federal, State, and private inspection agencies provided 2.1 million inspections on over 225 million metric tons of grains and oilseeds; weighed over 97 million metric tons of grain; and issued over 87,000 official weight certificates.

This, of course, is only a brief summary of our accomplishments. I'd like to now provide some

more in-depth information about our programs and their activities.

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

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**---GIPSA Strategic Goal #1:        *Ensure a fair, open and competitive marketing environment***  
***for livestock, meat, and poultry.***  
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GIPSA's P&S program provides financial protection and promotes 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 \$105 billion. At the close of FY 1997, there were 1,335 stockyards; 6,900 market agencies/dealers; and 2,125 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 210 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 1997 resulted in \$1.9 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. Packer and poultry trust activities also returned \$264,000 to livestock sellers and \$10,000 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 1997, 186 insolvent dealers and market agencies corrected or reduced their insolvencies by \$34.4 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.

During FY 1997, GIPSA issued an administrative complaint against two dealers alleging they failed to conduct their buying operations in competition with and independently of one another. The complaint alleged the dealers entered into arrangements for the purpose and with the effect of restricting competition and thereby controlling the prices for slaughter cows at auction markets. Another investigation is underway to determine if other livestock dealers and packers in the Northwest region of the United States have entered into similar types of arrangements to restrict competition.

GIPSA is currently conducting a broad investigation of fed steer and heifer procurement in the Texas Panhandle. The investigation was initiated in the summer of 1996 and includes 16 months of procurement data, over 37,000 transactions, and over 6 million head of cattle. Transaction data from packers has been collected, processed, and documented. Preliminary descriptive and graphical analyses have been completed and portions have been reported to the industry. Purchase and slaughter patterns over the period of investigation have been examined to identify potential occurrences of aberrant or unusual procurement practices. While the analyses conducted thus far have not disclosed obvious violations of the P&S Act, econometric and statistical analyses of the data are still being documented to identify relationships between spot market prices and non-spot purchases, and to reveal relationships that may not be apparent in the

descriptive and graphical analysis. Completion of the investigation will depend on the findings of the econometric analysis. Two university researchers are collaborating on the econometric and statistical analyses.

An investigation of slaughter hog procurement in the central United States also is underway. The investigation includes analysis of contractual arrangements between packers and hog producers, and will analyze price relationships between various procurement arrangements. The data also are being analyzed to ensure that firms are actively competing and to gain a better understanding of each firm's procurement operations. The investigation involves procurement data from a dozen major hog slaughter plants in the western Corn Belt. These plants slaughtered approximately one-third of the Nation's slaughter hogs in 1996. Descriptive and graphical analyses should be completed and available by late spring 1998. Econometric and statistical analyses are underway with the cooperation of personnel from USDA's Economic Research Service and National Agricultural Statistics Service. While these analyses will take several months, they should be completed by late this year.

Other major investigations underway include an investigation of slaughter lamb procurement in the Western United States and two poultry investigations. The slaughter lamb procurement investigation is focussing on evaluating competition and the use of supply contracts. One of the poultry investigations currently being conducted focuses on alleged discriminatory treatment of contract growers by a major poultry firm. The investigation involves analyzing settlements of nearly 1,000 growers over a 2-year period. The other poultry investigation is being conducted to

determine whether contract settlements that base payment on grower cost comparisons contain unfair elements. Data collection for both of the poultry investigations has been completed and analysis of the data is currently underway.

Also in FY 1997, GIPSA published an Advanced Notice of Proposed Rulemaking in the *Federal Register* seeking comments on the need for additional rules to protect contract poultry growers regarding (1) grower payment based on performance compared with other growers for a specified time period (usually all growers whose birds are killed within a 1- or 2-week period); (2) the accuracy of feed weights and feed delivery and pickup procedures; and (3) procedures for weighing live birds picked up for slaughter and the accuracy of the weights. We are concerned that contract poultry growers are in an unequal bargaining position with the integrated poultry companies and is considering the need to issue substantive regulations to provide growers with assurance that their settlements will be equitable. A review committee analyzed over 3,400 comments received in response to the notice. Recommendations of the committee and an analysis of grower comparison settlements by major poultry companies currently are being reviewed to determine the need for further regulation to ensure fair grower settlements.

In order to create a forum for public discussion, the Department of Agriculture published a petition requesting rulemaking to restrict certain procurement practices regarding forward contracting and packer feeding. The petition was submitted by the Western Organization of Resource Councils. USDA received over 1,700 comments on the *Federal Register* notice by the April 14, 1997, closing date. A USDA team with economic, legal, and industry expertise was

established to review and analyze the comments received. USDA is continuing to move forward on this matter and a decision regarding the petition is anticipated in the near future.

Finally, in FY 1997, GIPSA took preliminary steps to restructure its P&S program. The headquarters and field office structures of the P&S program were put in place in 1963. Since that time, there have been minor adjustments to both the field and headquarters structures, but the basic framework has remained unchanged. The field structure, which currently includes 11 regional offices, was designed to provide area coverage. The headquarters structure divides the enforcement activities into two program divisions with six branches based on the major titles in the P&S Act -- a Packer and Poultry Division, which covers the responsibilities under Title II of the Act, and a livestock Marketing Division, which covers the activities under Title III.

Major structural changes and most of the concentration in the livestock and meat packing industries have taken place since the current P&S structure was established. As the industry structure has changed, the lines between Titles II and III enforcement activities have become increasingly blurred. In addition, livestock and poultry production and slaughter has become concentrated in relatively narrow geographic areas.

In an Evaluation Report released in February 1997, the USDA Office of the Inspector General (OIG) concluded that the P&S program needed to reorganize its national and regional offices, because its 11 regional offices do not provide enough staff to perform the full range of investigations, including complex anticompetitive practice investigations, and that P&S needed to

incorporate economic, statistical, and legal expertise in its field offices.

GIPSA recognizes the need to restructure its P&S program to enhance its ability to address competitive issues. The Agency's restructuring plan is consistent with OIG's recommendations.

At headquarters, two operating divisions and six branches will be consolidated into a single policy/litigation support office with three branches that focus on the core responsibilities under the P&S Act -- competition, fair trade practices, and payment protection. The 11 field offices will be consolidated into 3 regional offices with approximately 35 resident agents operating either out of their homes or 1 of 3 suboffices. Resident agents will handle the most basic services and routine investigations in outlying areas.

One-time costs associated with consolidating the field offices and relocating displaced employees are projected at \$3 million. The appropriation needed to fund the reorganization is included in the Department's FY 1999 budget request as a one-time increase. While the Administration continues to seek additional resources to address competitive issues in the livestock, meat, and poultry industries, the restructuring itself will be budget neutral except for the one-time cost.

The restructuring of the P&S program is vital to meeting the Department's responsibility, and industry's concerns, relating to competitive behavior in the livestock, meat, and poultry industries. While the restructuring plan is budget neutral in the out years, it represents a unique opportunity to strengthen P&S' ability to investigate anticompetitive practices and provide greater flexibility



(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.

For an average cost of 27 cents per metric ton of grain in FY 1997, exporters received USDA export certificates from GIPSA on which they relied to facilitate the marketing of over \$20 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.9 million inspections that facilitated the trading of 124 million metric tons of cereals and oilseeds destined for domestic use.

While current services are effective and efficient, GIPSA recognizes that to remain relevant in today's marketplace, continuous service improvement is essential and ongoing.

In FY 1997, GIPSA continued to work closely with the U.S. grain handling industry on Electronic Data Interchange (EDI), an industry-driven electronic commerce initiative that is designed to automate the exchange of financial transaction documents among businesses. GIPSA established the standardized electronic file format that will be used for the EDI system and by official inspection providers.

GIPSA also continues to assist major export elevators in their ongoing efforts to integrate automation into official weighing and grain handling operations. Five fully automated weighing systems have been approved; five systems are being installed or debugged; and one system is in the proposal preparation stage. GIPSA continues to respond to inquiries from other elevators regarding automation initiatives. In addition, GIPSA has established a team of experts to develop, in partnership with the grain industry, an automated grain inspection system that will improve the efficiency and productivity of U.S. grain handling facilities, thereby making them more

competitive in today's global marketplace.

Also in FY 1997, GIPSA began implementing an enhanced quality assurance and quality control program to ensure the quality and accuracy of official inspection results nationwide. The program balances national and localized monitoring, and emphasizes proactive actions to prevent problems from occurring. The new program will greatly improve GIPSA's efforts to provide our customers with the accurate and timely information they need to market America's grain.

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 1997, another grain moisture meter model was certified as conforming to NTEP requirements, bringing to seven the number of NTEP-certified models. The calibration data collected by GIPSA during fiscal years 1995, 1996, and part of 1997 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 limited to technological applications to service delivery. In FY 1997, to further GIPSA's commitment to providing market-oriented inspection and weighing services, the Agency initiated a nationwide program to encourage and facilitate GIPSA field-level outreach to the U.S. agricultural community. Agency representatives conducted group and private meetings with field managers, producers, handlers, and processors

throughout the United States to educate our customers about the official system, demonstrate the Department's commitment to U.S. agriculture, and explore better ways to serve the industry. This effort has resulted in GIPSA's undertaking creative and innovative initiatives to meet our customers' needs.

For example, a farmers' cooperative in Iowa recently approached GIPSA for an innovative inspection and weighing approach to help them take advantage of railroad incentives, avoid demurrage, and improve their overall efficiency. The cooperative needed to improve their ability to manage grain inventories and increase railcar loading efficiency; to get onsite grade results to maximize their blending capabilities and stay within contract limits; and a training process to improve the quality assurance/control skills of the cooperative's employees. To meet the cooperative needs, GIPSA had to take a new approach to providing official services. The solution was an innovative cooperative agreement among three official agencies to provide inspection service to the cooperative. Using three mobile inspection labs, official inbound truck and bin inspections are provided at ten rail loading sites. This arrangement has allowed the cooperative to handle greater volumes of grain more quickly and efficiently. Further, the sampling and grading seminars that are routinely conducted for cooperative employees by official inspectors has increased the use of uniform sampling and grading techniques, thereby providing the cooperative's managers with an accurate assessment of the quality of their grain inventory.

As an integral part of America's grain handling infrastructure -- a superior infrastructure of storage facilities, rail lines, and waterways that makes American agriculture preeminently

successful in the global marketplace -- GIPSA will continue to provide all members of the U.S. grain handling system with the innovative, high-quality official inspection services they need to efficiently and effectively meet the challenges of a changing marketing environment.

Our commitment to reaching our customers does not end at our borders. Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA cooperator organizations, and other governments, frequently ask GIPSA personnel to travel overseas to represent USDA at grain marketing and grading seminars, meet with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, help other countries develop domestic grain and commodity standards and marketing infrastructures, assist importers with quality specifications, and train local inspectors in U.S. inspection methods and procedures. At home, GIPSA regularly holds seminars and meetings to educate our worldwide customers about the quality and value of U.S. grain exports. In FY 1997, GIPSA representatives met in the United States with 81 teams from 38 countries to provide information, technical guidance, and educational seminars. These international outreach efforts help promote greater harmony between U.S. and international standards. This, in turn, facilitates the export of U.S. agricultural products by reducing the risk of new barriers in today's open and freer global marketplace.

GIPSA believes that America's producers are entitled to a market that treats them fairly and honestly. In FY 1997, GIPSA's commitment to this tenet was exemplified as a long-term GIPSA investigation came to fruition in a legal action against ConAgra, Inc., one of the nation's largest

food companies. In March 1997, ConAgra agreed to pay \$8.3 million in penalties after pleading guilty to federal charges of adulteration, misgrading, and misweighing of grain by the company's grain division, Peavey Grain. The settlement culminated a 4-year investigation conducted by GIPSA, USDA's Office of the Inspector General, and the Farm Service Agency. Central to the case was the work of GIPSA investigators, who documented ConAgra's widespread practice of adding water to grain to increase its weight. GIPSA determined that the addition of water to grain could degrade American agriculture's reputation for quality and excellence, and defraud buyers of U.S. grain. The conclusion of the ConAgra case complimented GIPSA's 1995 enactment of a prohibition on adding water to grain, which remains an enduring legacy of GIPSA's commitment to ensuring the integrity of the American grain marketing system and to safeguarding the rights and well-being of America's producers.

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 1998 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 1998, our commitment to improved efficiency and effectiveness will

continue to serve American agriculture well, as U.S. agricultural exports are expected to total over \$56 billion (“Outlook for U.S. Agricultural Exports,” February 1998).

GIPSA accomplished a great deal in FY 1997 and much is planned for FY 1998. Our efforts to continuously improve our programs and services were further guided by the Agency’s Strategic Plan, developed under the provisions of the Government Performance and Results Act.

### **Year 2000**

A great deal of planning and action also is underway to ensure that all GIPSA systems are Year 2000 (Y2K) compliant. GIPSA’s Y2K efforts are of the highest priority and are focussed on addressing three basic areas of compliance: information technology, vulnerable systems, and telecommunications.

GIPSA recognizes that disruption of our automated systems -- including database reporting systems -- would be extremely disruptive to the U.S. agricultural markets we serve. For example, GIPSA maintains an Export Grain Information System (EGIS), a comprehensive database of inspection and weighing information for all export grain that receives official services. It contains data on the number of carriers, volume of grain, number of lots and volume of lots at various grade levels. The database represents 90 percent or more of the grain exported from the United States (the remaining portion is exported under official inspection waiver provisions and is not, therefore, included in the system). Overall, EGIS provides the critically important information on

the amount of specific grains available for export from the United States at a given time.

This data on grain availability influences trading prices. Each week, EGIS reports are released to the public at precisely 11:00 AM Eastern Standard Time on Monday mornings. This time was established in cooperation with the Chicago Board of Trade to allow traders on the floor of the exchange to make bids prior to the close of the Market on Monday afternoons. Weekly updated EGIS data also is provided to USDA's Economic Research Service, Foreign Agricultural Service, and Agricultural Marketing Service, as well as to external customers such as Bluewater Shipping, Cargill, Columbia Grain, Continental, Koch Agriculture, and Sparks Commodities who rely on the data to support their critical grain trading functions.

GIPSA is committed to ensuring that all needed resources are available for this effort -- our success is of utmost importance to agency operations and to ensuring that there is no service disruption to our customers in America's cereal, oilseed, livestock, poultry, and meat markets.

### **Civil Rights**

In addition to improving our services and programs in FY 1997, GIPSA also accomplished a great deal in the area of civil rights. The Secretary of Agriculture's goal is that each employee and customer of the Department of Agriculture be treated fairly and equitably, and with dignity and respect. The Secretary appointed a Civil Rights Action Team (CRAT) to develop recommendations to address institutional and underlying problems and ways to implement actions

to ensure accountability and follow up on civil rights issues. The team's report laid the groundwork for many initiatives undertaken to address civil rights in USDA.

In keeping with the CRAT report and in support of the Secretary's goal, GIPSA took a number of actions in FY 1997. We established the agency's first Office of Civil Rights; adopted, by policy, the Secretary's policy of zero tolerance for reprisal; established a civil rights performance standard for managers and supervisors; implemented mandatory civil rights training for all employees; resolved many Title VII employment discrimination complaint cases at the lowest level; broadened Title VI reviews to ensure that GIPSA maintains its record of zero complaints of discrimination in service delivery; provided continuous support, resources, and funding for programs at 1890 land grant and other minority institutions; and established an outreach liaison to insure that all employees and customers are treated with dignity and respect.

These are only some of the steps taken by GIPSA to support civil rights improvement in USDA. Like the Secretary, GIPSA has and will continue to make Civil Rights a part of our everyday work and an abiding priority.

### **Fiscal Year 1999 Budget Request**

To fund these important initiatives and to enable GIPSA to remain a valuable part of American agriculture, GIPSA's budget request for FY 1999 is \$11.8 million for appropriations and a limitation of \$42.6 million in our revolving fund. GIPSA also proposes to collect \$21.5 million in

new user and license fees in FY 1999.

For fiscal year 1999, the President's budget proposes an appropriation request for grain inspection of \$4.6 million for compliance activities. The FY 1999 budget also assumes legislation to authorize the collection of \$3.6 million in new user fees to cover the costs of grain standardization activities and \$2.8 million for methods development activities.

The budget also assumes legislation to authorize the collection of \$15.1 million in new user fees to cover the cost of the P&S Program. There are proposed 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; \$795,000 for activities in the packer competition and industry structure areas; and \$750,000 for poultry compliance activities; and \$3,000,000 for the one-time costs of reorganizing P&S' headquarters and field structures.

GIPSA's FY 1999 budget request includes an increase of \$4,200,000 in one-time start-up costs to convert to new user fees and license fee status, and to maintain an adequate reserve. It is anticipated that \$3,000,000 would be used for P&S activities and \$1,200,000 would be used for standardization and methods development activities. Therefore, to summarize, the FY 1999 request of \$11.8 million consists of ongoing expenses of \$4.6 million for grain compliance activities, a one-time increase of \$3.0 million for relocation expenses, and a one-time request of \$4.2 million for up-front costs for the transition to user-fee financing.

The increase of \$225,000 will allow GIPSA's P&S Programs to implement the requirements of the Paperwork Reduction Act that call for developing simpler reporting requirements for businesses and to provide for electronic submission of reports. Sustained low prices for beef and pork at the farm level have resulted in increased concern about concentration in the meat packing industry. Packer use of captive supplies, formula pricing, and other procurement initiatives require P&S to collect extensive data from packers for extended periods of time. Providing for the electronic submission of this data would reduce the cost to packers, improve the timeliness and increase the volume of data collection, and create a better understanding of the data on a real-time basis.

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 ability 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. Additional resources are critical to expanding the Agency's capability to monitor and investigate the competitive implications of structural changes and behavioral practices in the meat packing industry, and will enhance our capability to support legal actions that require complex economic and statistical analyses.

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 of \$795,000 for packer competition and industry structure 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 \$750,000 increase for poultry compliance activities will allow GIPSA to better ensure that

contract poultry growers are treated fairly when dealing with large, integrated poultry companies, and protect them from unfair and discriminatory practices, as recommended by the Advisory Committee on Agricultural Concentration. Specifically, 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. Additional funding 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.

A one-time appropriation of \$3,000,000 will allow GIPSA to take the steps needed to strengthen its overall ability to investigate anticompetitive practices, and to provide greater flexibility and efficiency in enforcing all of the trade practice and payment protection provisions of the Packers and Stockyards Act. Without restructuring the field operations to provide for fewer offices with larger staffs, it will not be possible to incorporate the level of expertise needed to address the increasingly complex competitive issues facing the livestock, meat, and poultry industries.

A request is included to provide for 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 request is enacted, the cost of administering this provision would be recovered through license fees.

Finally, concerning our proposal for new user fees, we realize that in the past, the Congress has not approved these requests. However, please consider this in terms of a service being provided that primarily benefits an industry or individual. Should taxpayers as a whole pay or should those who benefit? As with the current fees for inspection and weighing services, we believe that those who primarily benefit should pay.

### **Conclusion**

Mr. Chairman, this concludes my statement. I appreciate the opportunity to testify on behalf of the Grain Inspection, Packers and Stockyards Administration (GIPSA). I will be happy to answer any questions the Committee may have.