

News Release

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GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

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

Mr. Chairman and members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration, and to submit our fiscal year (FY) 2002 budget proposal.

GIPSA is part of USDA's Marketing and Regulatory Programs, which works to ensure a productive and 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.

GIPSA has both regulatory and service roles. Our Packers and Stockyards Programs (P&S) ensure open and competitive markets for livestock, meat, and poultry while providing financial protection to livestock producers. 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. It also provides impartial, accurate measurements of grain quality to promote an equitable and efficient U.S. grain marketing system.

GIPSA helps ensure fair and competitive marketing systems for all involved in the merchandising of livestock, meat, and poultry, and grain and related products.

Organization

We are headquartered in Washington, DC. Our P&S program area has 180 employees and three regional offices. The Atlanta Regional Office is responsible for national issues relating to poultry production and processing; the Denver office for livestock concerns; and the Des Moines office focuses on swine production and processing. Legal, financial, and economics experts from the various locations work together to address national issues and more effectively monitor emerging technology, evolving marketing strategies, and other issues affecting the industries and the constituencies served by the Agency.

Federal grain personnel work as part of a unique public-private partnership with over 2,000 State and private inspectors to provide high-quality inspection and weighing services on a user-fee basis across the Nation. Federal inspectors service 38 export elevators in Georgia, Illinois, Indiana, Louisiana, Maryland, New York, Ohio, Oregon, and Texas. Eight delegated States provide service at an additional 19 export elevators located in Alabama, California, Minnesota, Mississippi, South Carolina, Virginia, Washington, and Wisconsin. In Canada, official service on U.S. grain transported through Canadian ports is provided under a cooperative agreement by the Canadian Grain Commission with GIPSA oversight at 7 locations. Fifty-nine (59) designated agencies service the domestic market under GIPSA supervision. In FY 2000, this unique mix of Federal, State, and private inspection agencies provided nearly 2 million inspections on over 238 million metric tons of grains and oilseeds; weighed over 105 million metric tons of grain; and issued more than 89,000 official weight certificates.

Our Technical Center in Kansas City, Missouri, is GIPSA's central laboratory for technical leadership and support for the official inspection system and U.S. grain industry. The Center is home to the GIPSA Biotechnology Reference Laboratory, which accredits private testing labs conducting DNA-based testing for biotechnology derived grains and verifies the performance of rapid tests for biotechnology derived grains.

GIPSA's Packers and Stockyards Programs (P&S) The P&S Program fosters fair competition, and guards against deceptive and fraudulent practices affecting the movement and price of meat animals and their products. The production and marketing of livestock, meat and poultry are an important part of American agriculture and the Nation's economy.

With only 180 employees, P&S monitors the livestock, meat, and poultry industries, estimated by the Department of Commerce in FY 2000 to have an annual wholesale value of \$142 billion. At the close of 2000 there were 1,318 stockyards; 6,195 market agencies and dealers, 2,039 packer buyers registered with GIPSA. An estimated 6,000 slaughtering and processing packers are subject to the Act. In FY 2000, 266 slaughtering packers, each of whom purchased over \$500,000 of livestock in 1999, were required to be bonded and file reports with GIPSA. In addition, there were 205 poultry firms and a significant number of meat distributors, brokers, and dealers subject to the Act.

Last year, GIPSA conducted over 1,800 investigations, a 33 percent increase over the previous year. Most violations were corrected voluntarily, with several resulting in livestock and poultry producers receiving additional funds for the sale of their products.

During FY 2000, 17 administrative or justice complaints were issued (a net increase of 5 over the previous year) to bring subject firms into compliance with the Act. In addition, USDA issued 13 decisions and orders against 21 individuals or firms for violating the Act.

GIPSA continues to provide payment protection to livestock and poultry producers. Financial investigations during last year resulted in \$5.9 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. This is more than double FY 1999 restoration figures of \$2.7 million. Since the 1976 amendments to the P&S Act, livestock sellers have been paid \$59.7 million under the statutory trust provision. In 2000, one poultry trust complaint received by GIPSA that resulted in payment of \$250,000 to live poultry growers. By comparison, there were none in 1999. During FY 2000, 192 insolvent dealers and market agencies corrected or reduced their insolvencies by \$6.7 million, an increase of more than \$2 million from the previous year. Insolvent packers corrected or reduced the insolvencies by \$2.2 million.

Many producers and growers are not adequately aware of the protections provided under the P&S Act. In the past 2 years, GIPSA stepped up outreach activities to better educate the industry about the Act and GIPSA's regulatory role in the market. GIPSA held a series of town hall meetings to discuss salient issues with many different segments of the poultry and swine industries. In FY 2000, GIPSA held 12 outreach programs in the major U.S. poultry producing areas. Participants agreed that the poultry industry has a greater awareness of GIPSA's authority under the Act and regulations because of these efforts. As a result of participation in the town hall meetings, grower-oriented organizations and integrators have invited GIPSA to attend industry meetings and conferences. GIPSA plans to participate in another series of meetings with beef and sheep industry representatives.

In addition to the town hall meetings, GIPSA sponsored a Millennium Conference to better understand the issues facing our constituencies and to honor millennium farmers.

We also sponsored a series of regional meetings with States Attorneys Generals, and Agricultural Commissioners and Secretaries to help us develop stronger strategic alliances in serving the agricultural community. We recognize the importance of staying in touch with growers, producers, and federal and state representatives to understand, stay abreast, and anticipate issues confronting the industry. GIPSA has actively cultivated a broader base of understanding with growers and producers through public outreach. We anticipate continuing this effort.

Our regulatory responsibilities are at the heart of our mission. To this end, GIPSA closely monitors practices that may impede the free trade of livestock, meat, and poultry. A high priority is placed on investigating all complaints and further developing information received concerning allegations of anticompetitive, unjustly discriminatory, or unfair behavior in the livestock, meat, and poultry industries. Appropriate corrective action is initiated when evidence of these practices is discovered.

Rapid Response teams continue to address urgent industry issues and are deployed when a situation warrants immediate attention or action. The ability of these teams to respond within 36-48 hours of being notified of a crisis provides the public with more immediate notification of fiduciary problems with a stockyard or market agency. Last fiscal year, 15 teams were deployed to investigate cases in 9 states. Teams helped recover more than \$3 million for growers and producers. The Agency also provides a hotline (1-800- 998-3447) on which constituents may anonymously voice their concerns. GIPSA responds to and investigates all issues addressed by the callers. Last year the Agency responded to 140 calls, compared to 126 in 1999.

GIPSA also is strengthening investigations and assessments of competitive implications of structural changes in the livestock, meatpacking, and poultry industries. To further this initiative, GIPSA entered into five cooperative research agreements in FY 1999. Two examine competitive conditions in the beef markets, two address competitive issues and compensation methods used in the broiler production, and the final project examines bidding behavior in a laboratory setting to gain insights into expected behavior in actual markets. These projects will be completed in FY 2001 and FY 2002.

GIPSA also has made arrangements to obtain special procurement information annually from the Nation's top 15 steer and heifer slaughter firms. This information is related to livestock purchased through contracts, packer feeding arrangements, or marketing and formula-priced transactions. Much more work is needed to determine the effects of these captive supplies in both the beef and pork industries.

Currently, GIPSA is litigating two major cases against two of the largest packers in the Nation. The first involves a firm alleged to have violated the Act by failing to notify sellers that it had changed its equation for estimating the lean percent of animals purchased on a carcass merit basis. It is alleged that the company underpaid more than 1,250 farmers by about \$1.8 million. The second case, and the complaint filed, alleges that a company retaliated against a producer by failing to bid or purchase his or her animals. GIPSA has incurred major expenses and resources preparing for each of these cases. As an example, in the first instance, we spent almost a \$1/2 million dollars in litigating this case.

In addition to normal regulatory duties, GIPSA has been tasked with four Congressional Mandates, which will impact the Agency next year, and in subsequent years. They are the Swine Contract Library, Captive Supply Study, annual Assessment the Cattle and Hog Industries, and the Agency's implementation of the GAO Report.

The first mandate, the Swine Contract Library, was contained in the Agricultural Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (Public Law 106-78), signed into law on October 22, 1999. It amended the P&S Act to require GIPSA to establish and maintain

a library of contract provisions offered by packers to swine producers for the purchase of swine and to make these provisions available to the public. The swine contract library must include swine packing plants with a slaughter capacity of 100,000 swine or more per year; this includes approximately 50 plants owned by 29 packers which account for over 95 percent of the market. These 29 packers are required to provide monthly reports to GIPSA specifying the number of swine committed and the maximum number of swine to be delivered over the next six to twelve months by contract type.

GIPSA published a Notice of Proposed Rulemaking on September 5, 2000 and is drafting the final rule. In addition to the rulemaking process, GIPSA has devoted resources to implement the actual contract library, involving computer hardware and software development, and data collection forms. The library will use a Web-based system facilitating data input from swine packers and data access by the public.

The second mandate is a study directed by a Conference Report (House Report No. 106-948) for GIPSA to complete a comprehensive study on the issue of Captive Supply by September 30, 2001. As mandated, the report will examine and report on whether or not cattle that are procured pursuant to a captive supply arrangement by a packer's non-reporting subsidiary, affiliate and owners, officers and employees are being included in the percentages as captive supply. Additionally, the report will include the rationale for differences in captive supplies reported in the P&S Annual Statistical Report and those reported by other entities.

The third mandate requires the Agency to submit an annual report to Congress that assesses the cattle and hog industries. The Packers and Stockyards Act was amended in the Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) to require the Agency to submit an Annual Report Assessing the Cattle and Hog Industries. The report will include an assessment of the general economic state of the cattle and hog industries, changing business practices in these industries and areas of concern under the P&S Act. It is estimated that 2,000 staff hours and \$72,000 were spent in compiling this report for 2000.

The final mandate began with the General Accounting Office's (GAO) Report to Congress, issued in September 2000, "Actions Needed to Improve Investigations of Competitive Practices." The Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) required implementation of the recommendations in the GAO Report as well as a report describing the actions taken to improve investigations of competitive practices by November 9, 2001. The report and the actions needed to improve investigations are concomitantly moving forward.

The GAO report addressed actions to improve GIPSA's ability to investigate complex issues. The report suggests that the Secretary of Agriculture develop a teamwork approach with GIPSA economists and Office of General Counsel (OGC) attorneys for complex investigations. We began implementing this recommendation a month after the September report with combined competition training for legal specialists, economists and OGC attorneys. GIPSA now has two legal specialists in each regional office. We have formalized procedures within P&S Programs by instituting investigation reviews by senior management when cases involve issues of competition, are deemed to be complex, are considered to be a large investigation, involve more than one unit (financial, competition, trade practices) in the investigation, when more than one region is involved, or when unusual amounts of resources are required. The regional attorneys review each case before they are submitted for consideration to senior management. Once senior management has reviewed each case the investigation proceeds, and each case is monitored throughout the investigation. OGC has been asked to review the investigation plans prior to commencement of the investigation and thus has been integrated into the investigative process of complex cases at their initiation.

The GAO report recommended that the Secretary modify the grade structure for economists. The process of upgrading economists' and legal specialists' positions is underway and will hopefully allow GIPSA to hire and retain well-qualified individuals. We have reviewed and instituted procedures that will better use the legal expertise of our legal specialists in each regional office. The advice and critical legal review of the cases should improve the process and allow GIPSA to operate more effectively.

The GAO report also suggests that GIPSA provide industry participants and Congress with clarifications of the Agency's views on competitive activities by reporting changing business practices in the cattle and hog industries and identifying market operations or activities which raise concerns. We were mandated to provide an annual report assessing the cattle and hog industries, and to conduct a study on the issue of captive supplies. We have also taken action to hire an outreach coordinator to improve our communication with Congress and the public we serve. We also anticipate using the knowledge gained in broad-based investigations by communicating that intelligence to the industry or industries that it addresses.

In addition to the Congressional mandates, GIPSA will be participating in a GAO review initiated by Senator Daschle to examine our economic models. He has asked the GAO to "assess the extent to which these models may be understating the effects of imports, market concentration, and the use of marketing agreements and forward contracts on domestic cattle prices." Senator Daschle has also requested that GAO provide recommendations on how our models could be "improved or revised, to provide the most comprehensive analysis possible of the impact of certain factors on prices at the producer level, including: import volumes and competition; increasing use of marketing agreements and forward contracts; and increasing consolidation in the processing, wholesaling and retail distribution sectors." We fully expect GAO to review the 1996 packer concentration study, the follow-up cooperative agreements with universities that examined concentration and captive supplies, and other activities relating to concentration and captive supplies. GAO expects to complete its investigation within one year.

While working to be wholly responsive to Congressional mandates and to provide timely and insightful information to GAO, GIPSA has initiated the development of rules to help us better serve our various constituencies. The rules will support our enforcement of the Act by defining requirements needed for our investigations of violations of the Act. We are currently working on six rulemaking initiatives. They are, in priority order based on program needs and the least number of steps for completion and implementation: swine contract library, packer record keeping, contract disclosure, non-reporting of price, premiums and discounts, and string sales.

Swine Contract Library. GIPSA is drafting a final rule for the Swine Contract Library. The proposed rule would require certain packers to file swine marketing or purchase contracts with GIPSA and would require GIPSA to publish monthly reports about available swine marketing contracts. We hope to move all of the proposed regulations forward in the next year.

During FY 2000, GIPSA amended existing scales and weighing regulations under the Act. The feed weighing regulation now includes a requirement of weighing feed whenever the weight of feed is a factor in determining payment or settlement under a livestock or poultry growing arrangement.

Mr. Chairman and members of the Committee, GIPSA teams of legal, financial, economic specialists will be addressing 8 cases scheduled for hearing, including reparations; 14 cases pending review in the Agency, and 50 cases pending review in the OGC (this number includes referrals, docketed complaints and reparations).

GIPSA will actively seek to serve the industry by: providing payment protection to livestock and poultry producers; increasing the number of competitive investigations of potential violations of the Act; pursuing voluntary corrections of violations of the Act which will likely result in livestock and poultry producers receiving additional funds; continuing to reach out to both educate and inform constituencies served by the agency of the benefits and protections offered to livestock and poultry producers; monitoring and responding rapidly to complaints of anticompetitive, unjustly discriminatory or unfair behavior in the livestock, meat and poultry industries; pursuing cooperative agreements which contribute valuable information to GIPSA's economic understanding of the industries; facing off with industry giants and expending resources to address violations of the Act; responding thoroughly and responsibly to all governmental inquiries and Congressional mandates; pursuing rulemaking which enhances GIPSA's ability investigate and litigate violations of the Act.

GIPSA's Federal Grain Inspection Service

GIPSA's grain inspection program facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA). GIPSA provides the market with descriptions (grades) and testing methodologies to measure the quality and quantity of grain, rice, edible beans, and related commodities; provides an array of inspection and weighing services, on a fee basis, through a unique partnership of Federal, State, and private laboratories; and ensures that the standards are applied and the weights recorded fairly and accurately. As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers.

For an average cost of 23 cents per metric ton of grain in FY 2000, exporters received USDA export certificates from GIPSA which they used to market over \$20 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.9 million domestic inspections that facilitated the trading of 128 million metric tons of cereals and oilseeds.

To date, the official grain inspection system has operated in a supply driven food chain. Grain was produced, delivered to the elevator and marketed as a commodity with limited concern about specific consumer quality preferences. Buyers relied on the grades and standards to describe the general quality needed to produce a quality product and provide the ultimate consumer with abundant and wholesome food.

Today, the need for more efficient processing and the demands of consumers are rewriting the rules. Growth in specialty grain markets and the controversy over biotechnology-derived crops are forcing the U.S. grain production and marketing system to examine how it will handle volumes of large specialty (non-commodity) products. This transition will likely result on greater reliance on contracting, alliances, vertical integration, and other coordinated mechanisms. It also will drive the industry, from producer to processor, to establish quality assurance systems to meet tougher and more demanding quality specifications while retaining, as much as possible, the inherent benefits of the current grain production, handling, and processing system.

GIPSA's role in this new and evolving marketplace involves providing reliable and practical methods to measure the end-use quality attributes of commodities and specialty products (including non-biotech-derived crops) at the earliest stage of the marketing system. The fair and orderly marketing of grain depends on all in the marketing chain having access to information on the true value of grain. GIPSA must also work with the industry from producer to processor to facilitate the development of quality

assurance systems that compliment or, in some incidences reduce the frequency of, product testing while ensuring quality and capturing the benefits of the current marketing system.

The need for increased segregation in production and marketing will increase costs by hampering certain inherent economies of scales and efficiencies provided in the current commodity market. Consequently, industry members will strive to realize greater internal efficiencies through such processes as e-commerce. The official inspection system must understand and respond to these market needs.

To address the greater need of providing all players in the market with the information they need to effectively market biotech and non-biotech grains, in FY 2001, GIPSA opened a biotechnology reference laboratory. The lab provides standardization for the sampling, reference methodologies, and rapid tests for biotech grains. GIPSA's laboratory certifies the performance of rapid tests for the analysis of biotech events, and will accredit independent laboratories using DNA-based testing to determine the presence of modified DNA in grain. Through this laboratory, GIPSA is responding to the market's need for independent sources to verify the reliability and credibility of biotech analyses that differentiate non-biotech from biotech grains and oilseeds. This facilitates information exchange, which, in turn, decreases transaction costs and increases overall market efficiency.

During FY 2001, GIPSA has been instrumental in the Department's efforts to ensure StarLink[®] corn is used for only approved feed and non-food industrial uses. StarLink[®], developed by Aventis CropScience, is the trade-name for corn genetically modified to be pest resistant by producing a protein called Cry9C. The Environmental Protection Agency registered StarLink[®] corn for domestic feed and non-food industrial uses only. In October 2000, Aventis requested voluntary cancellation of its StarLink[®] registration, after the variety was found in the human food chain.

GIPSA's biotech reference lab has validated seven rapid test kits for the analysis of Cry9C in corn. These kits are used by all segments of the grain industry to detect Cry9C in corn and to market such corn to only approved uses. We are also using this technology to provide official USDA testing and certification services for the presence of StarLink[®] corn under the authority of the United States Grain Standards Act.

In the international arena, GIPSA, working with the Foreign Agricultural Service, was instrumental in developing and then updating a protocol addressing Japan's concerns with food corn imports that may contain low levels of StarLink[®] corn. StarLink[®] is not approved for food or feed use in Japan. The protocol provides for a practical quality assurance process to meet the Government of Japan's regulatory requirements for StarLink[®] corn. The protocol provided a framework from which the industry has developed processes to meet the requirements of other importers of U.S. corn.

Finally, GIPSA is in the midst of a rulemaking undertaken to improve consumer access to information on biotechnology. GIPSA, in conjunction with the Agricultural Marketing Service, published an advance notice of proposed rulemaking (ANPR) seeking public comment on USDA's role in facilitating the marketing of grains, oilseeds, fruits, vegetables, and nuts in today's marketplace with biotech and non-biotech crops. The ANPR was published in the Federal Register on November 30, 2000, with a comment period closing February 28, 2001. In response to public requests, GIPSA reopened and extended the comment period until April 16, 2001. To date, GIPSA has received almost 2,900 comments, the majority of which call for the labeling of biotech foods.

Our efforts to respond to the market's needs for services to facilitate the marketing of biotech and non-biotech grains have been substantial. But a great deal of activity has been underway in other areas as well.

GIPSA evaluates and implements new technology in the official inspection system in response to market needs. Further, the performance of existing official inspection methods is routinely evaluated and improvements are developed as needed. Official inspection methods (including calibration equations) are made available to commercial inspection users to enhance consistency between official and commercial grain inspection results. We are in the process of implementing several types of new technology for grain inspection:

Digital imaging is being piloted to certify the percentage of broken kernels in milled rice. This new technology could greatly improve the accuracy, consistency, and objectivity of inspection and grading. GIPSA also is using digital imaging to measure the vitreousness of Hard Red Spring and Durum wheats. Finally, we are exploring using digital imaging to help inspectors better interpret and grade difficult or unusual grain characteristics, facilitate training for inspectors, and convey to customers visual information on grain condition.

GIPSA's work on mycotoxin analysis continues to expand. In addition to establishing aflatoxin testing and reference methods, GIPSA developed and validated a fumonisin reference method, which allowed us to initiate evaluation of fumonisin test kits for use in the official inspection system.

We are working with the North American Export Grain Association to develop an automated grain inspection system for use at export elevators. An automated system will provide export elevators with constantly updated grain inspection information five times faster than present manual methods, and may reduce costs to the industry and enhance GIPSA's efficiency.

GIPSA is working with researchers from academia and the USDA Agricultural Research Service to define wheat protein quality and to develop practical, rapid methods for assessing wheat protein quality in marketing channels.

We continue to cooperate with entities from Canada, Australia, and several European countries to develop and test a "global" near-infrared transmission (NIRT) calibration to measure the quantity of protein in wheat and barley protein testing. The calibration, based on tests of nearly 40,000 samples of wheat and barley, uses artificial neural network technology to achieve excellent accuracy for very diverse grain types.

GIPSA is working to develop an NIRT calibration for extractable corn starch. This initiative responds to the needs of suppliers of corn to the corn wet milling industry, who require a quick method to determine the extractable starch present in corn.

GIPSA also is keeping pace with the grain industry's move from paper to e-commerce to streamline, automate, and improve business transactions. Recent advances in information technology have provided the U.S. grain marketing system with tools to provide instantaneous exchange of electronic documents and data among all parties in the trade chain. Electronic commerce companies and business-to-business ventures focused on local, regional, national, and international grain sales are emerging at a record pace, and are resulting in new alliances within the grain industry. Electronic commerce is improving market efficiency, facilitating transparent pricing, offering new price risk management tools to producers, and providing more seamless transactions.

GIPSA is keeping pace with our customers' migration toward this marketing process. We are taking part in pilot tests and demonstrations with electronic commerce vendors, and adopting the latest hardware, software, and available technology so that we are prepared to enter and participate in the electronic commerce arena. GIPSA is actively involved in developing a system to send inspection information

generated at multiple locations directly to a customer. We also are prepared to submit electronic inspection information into a vendor's document handling system at the request of applicants. Finally, GIPSA also is pilot testing a computer generated inspection certificate for export cargoes. The pilot will assess global bank and importer acceptance of the new documents.

All of our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. GIPSA's service delivery costs (adjusted for inflation), decreased from \$0.27 per metric ton in fiscal year 1994 to \$0.23 per metric ton in fiscal year 2000, saving American agriculture over \$5 million in fiscal year 2000 alone. These savings in inspection service costs pale in comparison to the savings achieved by the industry through improved productivity.

We are 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. We recognize our role and 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 outreach and educational efforts to our international customers are maintaining strong open markets for America's grains and oilseeds. One indicator is the number of foreign complaints lodged with GIPSA regarding the quality or quantity of U.S. grain exports. In FY 2000, the number of complaints from importers decreased by 35 percent from FY 1999 levels. GIPSA received 13 quality and 0 quantity complaints from importers on grains inspected under the U.S. Grain Standards Act, involving 355,853 metric tons, or about 0.3 percent by weight, of the total amount of grain exported during the year. This compares to 20 quality and 2 quantity complaints received in FY 1999, representing about 1.4 percent of grain exports by weight.

In FY 2000, GIPSA also responded to customers' needs for technical assistance overseas. 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 for GIPSA expertise, thus requiring personnel to travel overseas. Overseas activities include representing the Agency at grain marketing and grain grading seminars, meeting with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, helping other countries develop domestic grain and commodity standards and marketing infrastructures, assisting importers with quality specifications, and training local inspectors in U.S. inspection methods and procedures. Last year, GIPSA received 19 requests for technical assistance overseas.

Our efforts to facilitate the trade of U.S. grains include direct efforts to remove trade barriers. In FY 2000, GIPSA played an integral role in ensuring open markets for America's products by working with APPAMEX, a Mexican grain importers association, to address Mexican importers' grain quality concerns. GIPSA inspectors conducted two sets of seminars in Mexico to explain U.S. sampling and inspection method. In FY 2001, GIPSA will hold additional seminars, conduct two monitoring experiments, and work with officials of Mexico's Ministry of Trade and Ministry of Agriculture to help develop a national inspection system in Mexico patterned after GIPSA's.

Also in FY 2000, GIPSA resolved prior weight complaints from the Philippine Association of Flour Millers (PAFMIL). Thanks to a collaborative cargo monitoring program initiated by GIPSA, and the efforts of a U.S. team of government and industry representatives who reviewed the grain handling, scales, and weighing systems at each of PAFMIL's four flour mills, PAFMIL implemented various improvements to their weighing and handling systems which resolved their concerns.

Finally, GIPSA developed and implemented TCK smut certification procedures to facilitate the marketing of U.S. wheat to China and India in light of their concerns about TCK smut in imported U.S. wheat shipments. GIPSA's procedures helped enable the United States to reach a trade agreement with China.

At home, GIPSA regularly holds seminars and meetings to educate foreign visitors and customers about the quality and value of U.S. grain exports. In FY 2000, GIPSA representatives met in the United States with 89 teams from 50 countries to provide information, technical guidance, and educational seminars. These international outreach efforts help promote greater harmony between U.S. and international standards, and foster a better understanding of the U.S. grain marketing system, the official U.S. grain standards, the national inspection system. This, in turn, reduces the risk of new barriers in today's open and freer global marketplace, enhances purchasers' confidence in U.S. grain, and facilitates the export of U.S. agricultural products.

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.

Fiscal Year 2002 Budget Request

GIPSA's budget request for FY 2002 is \$32.9 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. GIPSA also is submitting legislation to collect \$3.8 million in new user fees in FY 2002.

The President's FY 2002 budget proposes a current law request for grain inspection of \$15.1 million. There are proposed increases of \$200,000 to support GIPSA's increased role in international trade services and trade activities, \$500,000 to develop an ISO-9000 certification program, \$100,000 to process comments on a biotechnology rule, and \$400,000 to develop and refine technology to detect the presence of biotechnology derived grain and genetic traits expressed in grain. Proposed legislation of \$3.8 million in new user fees to cover the costs of grain standardization activities also is being submitted. The budget also proposes a request of \$17.8 million for the Agency's P&S Programs. The budget includes an increase of \$756,000 for pay costs.

The \$200,000 increase would allow GIPSA to strengthen its role international trade services and activities. In the post-GATT environment of the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), the liberalizing trade requirements have prompted some grain and oilseed importing countries to create other barriers to limit or restrict market access. GIPSA has become increasingly involved in addressing international grain trade issues such as emerging sanitary and phytosanitary (SPS) issues and other technical barriers to trade.

Other significant international activities underway include working with our Mexican counterparts to develop a centralized grain grading system and internal quality control program similar to that used in the United States; and a bilateral exchange with China to share information and expertise on our respective grain grading systems.

Our trading partners also are beginning to formulate domestic policies on agricultural biotechnology which will have far reaching implications. In June 2000, at the request of the Foreign Agricultural Service, GIPSA took part in a four-country fact finding mission in Asia to share information on the practical implications of implementing laws or regulations requiring testing and labeling of grains developed through modern biotechnology. These types of exchanges will become increasingly important

as countries consider new policies to address consumers' "right to know" or perceived food safety concerns.

The requested additional funding for fiscal year 2002 will be used for salary and benefits for one additional staff person, plus travel and related expenses while on long-term temporary overseas assignments.

The \$500,000 increase is to develop an ISO-9000 certification. ISO 9000 is a quality assurance system standard established by the International Organization for Standardization (ISO). The standard establishes a quality management system that assures the quality of a service or a product through internal process controls. ISO 9000 is globally recognized and accepted as a standard designed to produce consistent and reliable quality outputs. Through documentation, training, quality control measurements, audits, and customer feedback, ISO 9000 has become an international industry standard for producing quality services and products.

The U.S. grain industry is experiencing extraordinary and rapid changes in the grain marketing structure. Bioengineering and advances in information technology serve as a catalyst for this change. New value-added products, such as high oil corn, nutritionally dense corn, etc., are emerging onto the market at exceptional rates. These new value-added products provide producers an opportunity to produce grain products at lower costs. Further, information technology advances, such as web-based marketing companies, allow the producer to deal directly with buyers. GIPSA recognizes the changing market will place severe demands on the official grain inspection program to properly label and identify these various value-added products. In response to these demands, GIPSA believes the implementation of an ISO-9000-based program will facilitate the marketing of grains and provide producers the opportunity to enjoy financial benefits while maintaining minimal Federal involvement in the process. Therefore, GIPSA seeks funding to develop an ISO-9000 certification program where GIPSA is recognized as an ISO certifier. GIPSA shall initiate the multi-year process to obtain full national accreditation as an ISO-9000 certifier of segmented grain industry accreditation entities. Once this goal is achieved, the American public and grain industry, in particular, will benefit from increased sales due to greater world recognition and confidence in buying U.S. grain products that are produced and marketed under the same international standards as used in the rest of the world.

On May 3, 2000, a series of initiatives was announced to strengthen the science-based regulations for biotechnology and to improve consumer access to information on biotechnology. One specific initiative calls for USDA to publish an advance notice of proposed rulemaking (ANPR) in the Federal Register to seek input from producers, consumers, industry, scientists, and other interested persons on how USDA can best facilitate the marketing of grains, oilseeds, fruits, vegetables, and nuts in a market that includes both crops derived from biotechnology and other crops. At the request of the Department, GIPSA took the lead on this initiative, and the ANPR was published on November 30, 2000.

This rulemaking is being carried out via a web-based system for public submission and review of comments. This system provides the public with the flexibility to submit comments via the Internet, e-mail, mail, and fax. All comments received are posted to the website and are searchable. Maintaining the web structure, and processing and analyzing numerous comments will require substantial staff commitment. The requested additional funding for fiscal year 2002 will be used for salary and benefits, maintaining the web structure, analysis of the proposed rule comments, and preparation of a final rule.

The comments may also identify a need for further studies or research prior to publishing a proposed rule. The current commodity market is evolving due to biotechnology and ready solutions may not be apparent without further study.

The budget proposes a \$400,000 increase for developing and refining technology to detect the presence of biotechnology derived grain and genetic traits expressed in grain. Although GIPSA does not regulate biotechnology, the Agency must respond to the accelerated rate at which new crops are entering the market due to advances in biotechnology. GIPSA's role is to facilitate the marketing of grain and provide grain markets with standardized analytical procedures to better assess the value of grain for end use and pricing purposes. GIPSA will continue to provide method standards and improve the biotechnology reference center designed to assist in standardizing the analytical procedures for assessing biotechnology derived grains. The fair and orderly marketing of grain is dependent upon all in the marketing chain having access to information on the true value of grain. It is essential that GIPSA be funded with the additional resources for the program to continue. Funds will be allocated for proper staffing and purchase of advanced technology for the measurement of transgenic material in grain.

Additionally, there is a proposed decrease of \$599,000 for the development of a biotechnology reference facility. The FY 2001 Appropriation included a one-time only increase of \$600,000 (less 0.22% rescission) for the development of a biotechnology reference facility to provide standardized methodologies and rapid assessments used to test bioengineered grains. Development and construction of the facility has been completed. The Agency started offering services during the first half of FY 2001.

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.