

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 (GIPSA), and to submit our fiscal year (FY) 2003 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&SP) promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries. The Agency's Federal Grain Inspection Service (FGIS) provides the U.S. grain market with Federal quality standards, a uniform system for applying them, and impartial, accurate grain quality measurements that promote an equitable and efficient U.S. grain marketing system. Overall, GIPSA helps promote and ensure fair and competitive marketing systems for all involved in the merchandising of livestock, meat, poultry, and grain and related products.

Organization

GIPSA is headquartered in Washington, DC. Our P&SP, which administers the Packers and Stockyards Act of 1921, as amended (P&S Act), currently has 166 employees at headquarters and in three regional offices. The Atlanta Regional Office is primarily responsible for enforcement issues relating to the poultry industry; the Denver office for enforcement issues related to the cattle and sheep industries; and the Des Moines office for enforcement issues related to the hog industry. Legal specialists, economic, financial, marketing, and weighing experts from the various locations work together to address issues, and to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries the Agency regulates.

FGIS personnel work in 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 State departments of agriculture provide service at an additional 19 export elevators in Alabama, California, Minnesota, Mississippi, South Carolina, Virginia, Washington, and Wisconsin. In Canada, the Canadian Grain Commission provides official service on U.S. grain transported through Canadian ports under a cooperative agreement at seven locations, with GIPSA oversight. Fifty-nine (59) designated private agencies serve the domestic market under GIPSA supervision. In FY 2001, this unique mix of Federal, State, and private inspection agencies provided over 2 million inspections on nearly 235 million metric tons of grains and oilseeds; weighed over 100 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 grain inspection system and U.S. grain industry, and home of the Agency's Biotechnology Reference Laboratory.

GIPSA's Packers and Stockyards Programs

GIPSA's Packers and Stockyards Programs (P&SP) administers the P&S Act to promote fair and open competition, fair trade practices, and financial protection in the livestock, meat packing, meat marketing, and poultry industries. The objective of the P&S Act is to protect producers, growers, competitors, and consumers against unfair, unjustly discriminatory, or deceptive practices that might be carried out by those subject to the P&S Act. To meet this objective, GIPSA seeks to deter individuals and firms subject to the P&S Act from engaging in anti-competitive behavior, engaging in unfair, deceptive, or unjustly discriminatory trade practices, and failing to pay livestock producers and poultry growers; and to initiate appropriate corrective action when there is evidence of anti-competitive, trade, payment or financial practices that violate the P&S Act.

The livestock, meat, and poultry industries are important to American agriculture and the Nation's economy. With only 166 employees, GIPSA regulates these industries, estimated by the Department of Commerce in FY 2001 to have an annual wholesale value of \$125 billion. At the close of FY 2001 there were 6,241 market agencies and dealers, and 2,050 packer buyers registered with GIPSA. In addition, 1,525 facilities providing stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 205 poultry firms are subject to the P&S Act.

Last year, GIPSA conducted over 1,600 investigations. Most violations of the P&S Act were corrected voluntarily, with many resulting in livestock and poultry producers receiving additional funds for the sale of their products. During FY 2001, 15 administrative or justice complaints were issued to bring subject firms into compliance with the P&S Act.

GIPSA continues to provide payment protection to livestock producers. Financial investigations last year resulted in \$6.3 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. This is nearly triple the \$2.7 million restored in FY 1999, and \$400,000 more than the \$5.9 million restored in FY 2000. Livestock sellers recovered over \$844,000 under the P&S Act's packer trust provisions. During FY 2001, 47 insolvent dealers and market agencies corrected or reduced their insolvencies by \$2.9 million; insolvent packers corrected or reduced their insolvencies by \$1.9 million.

To ensure that producers and growers are aware of the protections the P&S Act provides, GIPSA has increased its outreach activities to better educate the industry about the P&S Act and GIPSA's regulatory role in the market. In FY 2001, GIPSA continued a series of poultry "town hall" meetings that it hosted for poultry growers, integrators, and affiliated industries. The "town hall" meetings prompted multiple requests for additional presentations from growers, integrators, and industry organizations about GIPSA's authority in the poultry industry, which were honored as GIPSA personnel had the time and resources to do so. GIPSA also conducted 23 orientation sessions for new auction market owners and managers to educate them about their fiduciary and other responsibilities under the P&S Act. These visits in the early stages of a market's operations also protect livestock producers who rely on the market to be a competitive, fair, and financially sound marketplace. Further, GIPSA personnel regularly met with industry associations at the local, State, and national levels. GIPSA participated in these meetings to remain abreast of problems and concerns in the livestock, meat, and poultry industries, and to better understand the marketing options and constraints these industries face. On the front lines, GIPSA's resident agents, situated at 28 locations across the Nation, maintain open communications with State officials to discuss areas of overlapping jurisdiction. GIPSA recognizes that it is essential to stay in touch

with growers, producers, and Federal and State representatives to understand, stay abreast of, and anticipate issues confronting the industries it regulates. GIPSA's outreach efforts have fostered a broader base of understanding with growers and producers. We will continue and expand this effort.

Our regulatory responsibilities are the heart of our mission to enforce the P&S Act. To this end, GIPSA closely monitors practices that may impede the free trade of livestock, meat, and poultry. Investigating complaints alleging anti-competitive, unjustly discriminatory, or unfair practices in the livestock, meat, and poultry industries remains a top priority. GIPSA continues to initiate appropriate corrective action if we discover evidence of these practices.

GIPSA's Rapid Response Teams remain a powerful tool to address urgent industry issues and to immediately notify the public about a firm's fiduciary or financial problems. Last year, 94 GIPSA investigators were deployed soon after being notified of a crisis to investigate 51 potentially serious situations across the Nation. During FY 2001, these rapid response investigations contributed to returning \$6.1 million to livestock producers and poultry growers.

The Agency also provides a hotline (1-800-998-3447) by which constituents may anonymously voice their concerns. Last year GIPSA responded to and investigated issues raised by 124 callers. These calls were in addition to calls received in our regional offices.

GIPSA is also strengthening investigations and assessments of competitive implications of structural change in the livestock, meatpacking, and poultry industries. Throughout FY 2001, GIPSA incorporated economic, statistical, and legal expertise into investigations to increase the efficiency and effectiveness of our investigations of anti-competitive and unfair practices, and our enforcement of the P&S Act. Increased cross-utilization of our economists, legal specialists, auditors, marketing specialists, and industrial specialists from headquarters and field locations has brought targeted investigative and analytical skills to specific investigations. GIPSA also pursued cooperative agreements with qualified researchers and research institutions that contribute valuable information to GIPSA's economic understanding of the livestock, meatpacking, and poultry industries.

In addition to our normal regulatory duties, GIPSA has fulfilled several Congressional mandates in FY 2001 and continues work on others: Captive Supply Study, annual Assessment the Cattle and Hog Industries, implementing the recommendations in the GAO Report and the Swine Contract Library.

House Report No. 106-948 directed GIPSA to complete a comprehensive study of the captive supply issue. USDA released "Captive Supply of Cattle and GIPSA's Reporting of Captive Supply" on January 18, 2002. The report clarifies GIPSA's definition of the term "captive supply," and compares GIPSA's captive supply statistics to those published by other organizations. GIPSA found that differences in captive supply statistics reported by various organizations result from conflicting definitions of captive supply and variations in the geographical bases of the data collection. The report also compares 1999 procurement transactions data of the top four beef packers to summary captive supply data the packers submitted to GIPSA. GIPSA found that captive supplies accounted for 32.3 percent of the firms' total slaughter rather than 25.2 percent, as reported in the packers' annual reports to GIPSA. The data discrepancies are attributed to misunderstandings about captive supply definitions and computational errors. GIPSA will take several actions in response to the study findings. GIPSA will (1) publish our definition of captive supply in the Federal Register (livestock that is owned or fed by a packer more than 14 days prior to slaughter; livestock that is procured by a packer through a contract or marketing agreement that has been in place for more than 14 days prior to slaughter; and livestock that is otherwise committed to a packer more than 14 days prior to slaughter); (2) clarify the reporting definitions on the

Packer Annual Report form; (3) audit future Packer Annual Reports; and (4) report captive supply information in more detail.

Amendments to the Packers and Stockyards Act in the Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) require GIPSA to submit an assessment of the cattle and hog industries to Congress each year. GIPSA's "Assessment of the Cattle and Hog Industries, Calendar Year 2000" (issued in June 2001) describes the general economic state of the cattle and hog industries during 2000, changing business practices in those industries, and activities that raise concerns under the P&S Act. The assessment found that technology, consumer demands, and competitive forces are driving substantial changes in the structure and behavior of firms in the livestock and meatpacking industries. Many of the changes may benefit the industries involved, consumers, and the Nation as a whole. Some may foster unlawful anti-competitive behavior or unfair trade practices. GIPSA will address the concerns discussed in the report by monitoring changes in industry structure and behavior, and examining practices that may be unlawful under the P&S Act. GIPSA also may formally investigate, undertake regulatory initiatives, or further research and analyze the economic, competitive, and trade practice implications of the structural and behavioral changes. GIPSA is currently finalizing its second annual assessment report.

Another 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 GIPSA to implement the GAO's recommendations and report on actions taken to improve investigations of competitive practices by November 9, 2001. In accordance with GAO's recommendations, and based on required input from the Department of Justice (DOJ) and the Federal Trade Commission (FTC), in FY 2001, the Agency implemented investigation planning, development, implementation, and review processes to ensure appropriate investigation planning and oversight within GIPSA and with the USDA Office of the General Counsel (OGC). Also during the fiscal year, OGC added more attorneys to address GIPSA matters; Agency economists and legal specialists received additional specialized training; and GIPSA issued its first annual assessment of the cattle and hog industries to report on changes in those industries. The report to Congress has been delayed, in large part, by GIPSA's increased workload resulting from implementation of GAO recommendations, and the Agency's report on captive supplies in the cattle industry, which was completed and submitted to Congress on January 18, 2002.

The Swine Contract Library was mandated in the Agricultural Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (Public Law 106-78). 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. Publication of the final rule is contingent on development and deployment of a Web-based system capable of receiving contracts, extracting unique contract provisions, and posting summary information in a manner that complies with the confidentiality requirements of the P&S Act and is useful to market participants. This is a sizeable and complex undertaking. GIPSA has been appropriated approximately \$200,000 annually to develop and operate the Swine Contract Library. Additional funding may be necessary in the future. GIPSA is exploring ways to expedite the development and implementation of the electronic process and final rule. Once complete, the Web-based library will offer summarized information on contract terms and monthly reports on the number of swine under contract.

GIPSA will continue to provide payment protection to livestock and poultry producers; increase the number of competition and trade practice investigations of potential violations of the P&S Act; pursue voluntary corrections of violations of the P&S Act which will likely result in livestock and poultry producers receiving additional funds; continue outreach efforts to educate our constituencies about the benefits and protections offered to livestock and poultry producers under the P&S Act; monitor and

respond rapidly to complaints of anti-competitive, unjustly discriminatory, or unfair behavior in the livestock, meat and poultry industries that violates the P&S Act; pursue cooperative agreements that contribute valuable information to GIPSA's economic understanding of the regulated industries; address violations of the P&S Act through formal corrective actions; respond thoroughly and responsibly to all governmental inquiries and Congressional mandates; and pursue rulemaking that enhances GIPSA's ability to investigate and litigate violations of the P&S 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 26 cents per metric ton of grain in FY 2001, exporters received USDA export certificates from GIPSA that 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 more than 128 million metric tons of cereals and oilseeds.

Traditionally, 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 buyers relying on the grades and standards to describe the general quality of a product.

The emergence of value-enhanced grains and oilseeds, development of niche markets for non-biotech commodities, and establishment of new regulatory requirements by U.S. trading partners has created a need for greater product differentiation in the marketplace. To meet this need, market participants are relying, in part, on various quality assurance mechanisms, such as process verification, and testing for accurate information about products in the marketing chain and to comply with the new market demands. The efficiency of the marketing system will, therefore, depend on the availability of accurate and reliable quality assurance and testing processes.

To ascertain USDA's place in today's evolving marketplace, during FY 2001, GIPSA published an advance notice of proposed rulemaking seeking public comment on the Department's role in facilitating the marketing of grains, oilseeds, fruits, vegetables, and nuts. GIPSA coordinated the Department's effort to explore how it can continue to foster the marketing of agricultural products in an evolving marketplace characterized by biotech and non-biotech crops, as well as by an increasing number of crops with specific end-use quality attributes. Two themes emerged in comments pertaining to USDA's role in market facilitation: (1) USDA should continue and expand existing programs to standardize testing methodology, and (2) USDA may have a role to play in developing process verification programs for grains, oilseeds, and related agricultural products.

To address the public's comments, and to meet the greater need of providing all players in the market with the information they need to effectively market all U.S. grain, whether derived conventionally or through biotechnology, in FY 2001, GIPSA opened a biotechnology reference laboratory.

In FY 2002, building on its previous efforts, GIPSA began expanding its Rapid Test Performance Evaluation Program to assess the performance of rapid tests developed to detect commercially produced biotechnology events in grains and oilseeds, and confirm that the tests operate in accordance with manufacturers' claims. Initially, this program was used to evaluate rapid tests developed to detect the presence of the Cry9C protein produced in StarLink™ corn.

Based on findings of a FY 2001 study which found that U.S. and European private and government laboratories' capabilities to analyze for biotechnology events varied significantly, on February 7, 2002, GIPSA began offering a Proficiency Program for organizations that test for biotechnology-derived grains and oilseeds. The program will enable organizations to enhance testing reliability and help the grain industry determine the proficiency of commercial labs that provide testing services.

GIPSA also is exploring the feasibility of providing a voluntary Process Verification Program to facilitate the marketing of grains, oilseeds, and related agricultural commodities. The market is adopting a variety of new marketing mechanisms, such as process verification, to augment traditional marketing approaches, in response to changing consumer demands. GIPSA plans to assess how the Agency can add value through process verification for these commodities by augmenting existing market mechanisms.

GIPSA also is continuing to collaborate with the National Institute of Standards and Technology (NIST), and standards organizations in the United States and other countries to establish internationally recognized standard reference materials and standard methodologies for agricultural biotechnology events.

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 continuously evaluates and implements new technology in the official inspection system to respond 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 was piloted in FY 2000 to certify the percentage of broken kernels in long-grain milled, long-grain parboiled, and short-grain milled rice. GIPSA is refining a quality control system for this new technology and plans to expand its use for official rice inspection. We also are using digital imaging to measure the vitreousness of Hard Red Spring and Durum wheats. GIPSA, in a joint program with the Canadian Grain Commission (CGC), also plans to investigate the use of flatbed scanner technology for imaging and differentiating white and red wheat kernels. This new technology could greatly improve the accuracy, consistency, and objectivity of inspection and grading.

GIPSA's work on mycotoxin analysis continues to expand. We have established a zearalenone reference method and began evaluating zearalenone test kits for use in the official inspection system.

Working with the North American Export Grain Association (NAEGA), GIPSA developed a prototype automated grain inspection system that will speed inspections, reduce costs to the industry, and enhance GIPSA's efficiency. We are operating the prototype system throughout FY 2002 to gather performance data and identify required enhancements.

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 Canadian, Australian, and several European entities to develop and test a "global" near-infrared transmission (NIRT) calibration to measure the quantity of protein in wheat and barley. 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 has received ISO 9002:1994 registration of its moisture reference, protein reference, oil extraction reference, mycotoxin reference, mycotoxin test kit evaluation, and pesticide data program laboratories. In addition, the pesticide analysis service has recently received its recommendation for registration. We are currently updating our program to the ISO 9001:2000 standard. Two additional programs, the Pesticide Data Program and the Biotechnology Branch, are currently working toward ISO 17025:1999 accreditation.

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. 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; developing a system to send inspection information generated at multiple locations directly to a customer; preparing to submit electronic inspection information into a vendor's document handling system at the request of applicants; and pilot testing a computer generated inspection certificate for export cargoes. By harnessing the latest hardware, software, and available technology, we will be prepared to enter and participate in the electronic commerce arena.

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 \$0.26 per metric ton in fiscal year 2001.

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. In FY 2001, GIPSA began producing multimedia tools to educate the domestic and international grain industries. GIPSA now offers CDs on wheat, corn, and soybean grading; a grain grading overview; rough rice milling yield, and testing corn for StarLink™ to the public. In FY 2001, GIPSA distributed over 2,000 new CDs and 5,000 revised brochures to official inspection offices, grain handling and processing firms, producers, foreign grain buyers, government agencies, and educational institutions, and posted the brochures in electronic format on the Internet. We are now producing CDs on grain sampling methods and sample variability, container stowage exams, and rail sampling safety.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with GIPSA regarding the quality or quantity of U.S. grain exports. In FY 2001,

GIPSA received 15 quality and 0 quantity complaints from importers on grains inspected under the U.S. Grain Standards Act, involving 494,267 metric tons, or about 0.5 percent by weight, of the total amount of grain exported during the year.

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 overseas. In FY 2001, we responded to 10 requests for technical assistance overseas. We helped Zambia, Kenya, Tanzania, and Uganda develop grain standards and inspection methods; conducted a weight review on a U.S. wheat shipment to the Philippines; met several times with Japanese officials to address their concerns over StarLink™ corn; participated in several international biotech conferences; and assisted USDA cooperators with rice grading seminars in Nicaragua, Costa Rica, and Guatemala, and grain quality seminars in several other countries.

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 2001, GIPSA representatives met in the United States with 75 teams from 32 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 2003 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 2003 is \$42.9 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. There is also an additional increase of \$733,000 for pay costs contained in the budget. GIPSA also is submitting legislation to collect \$28.8 million in new user fees in FY 2003, \$5.6 for the grain program and \$23.3 million for PSP.

The President's FY 2003 budget proposes a current law request for grain inspection of \$19.6 million. There are proposed increases of \$850,000 to build unified data warehouse; and \$450,000 for detection of new added value crops and biotechnology traits.

The \$850,000 increase for a data warehouse would allow GIPSA to harness advances in information technology to integrate existing disparate database information systems to enhance the efficiency of our oversight and management of the official grain inspection system.

The \$450,000 increase will help ensure that the accelerated introduction of new added value crops, whether derived through modern biotechnology or conventional breeding, does not outpace GIPSA's ability to evaluate testing methods and accredit laboratories. The ability to distinguish specific crops will be driven by added market value, customer demands, and the regulatory requirements of our trading partners. The proliferation of regulatory requirements around the world concerning biotechnology-derived crops, including the eventual implementation of the international Biosafety Protocol (estimated for late 2002), will place further demands on the grain industry to distinguish certain crops. The market demand

to segregate higher valued crops will also place a greater need on being able to identify specific varieties or qualities of grain. The increased funds will enable GIPSA to expand its newly established biotechnology program to keep pace with the rapid introduction of new products. This will involve expanding the ability to validate rapid protein-based tests, keep pace with the rapid development of DNA-based methods, and develop reference methods for traditional end-use traits such as fatty acid profiles, amino acid profiles, phytate content, and other nutritional qualities.

The President's FY 2003 budget proposes a current law request for Packers and Stockyards Program of \$23.3 million. There are proposed increases of \$1,000,000 to improve enforcement of the anti-competitive and other provision of the Packers and Stockyards Act; \$1,200,000 for the development of Web applications for PSP; \$1,000,000 to monitor the livestock and meatpacking industries' use of electronic carcass evaluation technologies.

The \$1,000,000 increase for anti-competitive enforcement stems from a General Accounting Office recommendation that attorneys be more actively involved in the investigative process for anti-competitive practice investigations. Congress later mandated that GIPSA fully implement the GAO's recommendations. This staffing increase will allow GIPSA to fully integrate attorneys to the extent recommended by the GAO into the more complex anti-competitive, financial, and trade practice investigations.

The increase of \$1,200,000 will allow GIPSA to implement eGovernment initiatives within the Packers and Stockyards Program. Currently, GIPSA has no web programmers or web designers that would allow it to rapidly and accurately deploy Web-based applications to meet eGov applications. These funds would be used to contract-out the design, development, implementation, and maintenance of important eGovernment Web initiatives.

The final increase of \$1,000,000 for the PSP would enable GIPSA to increase its monitoring and regulatory presence as the livestock and meatpacking industries increase their use of electronic carcass evaluation technologies. Increasingly, to meet consumer demand and provide greater "value," packers began purchasing livestock through contract and marketing agreement or formula-priced transactions, and began using new means of automating the evaluation of cattle and hog carcasses based on new technologies, including among other methods, ultrasound and photographic imaging. Although carcass merit purchasing has been used for decades in the livestock and meatpacking industries, the technologies and their applications for evaluating carcass merit are changing at an accelerating pace. Previously, carcass merit purchases were generally based on a carcass weight and often one or two grades assigned by USDA graders. Today, packers increasingly rely on internally assigned measures of carcass quality using modern and complex technologies. The technologies now being implemented by packers have a direct effect in determining the prices paid to producers for livestock. These changes introduce new risks for producers, since these new technologies are not standardized and their accuracy is inconsistent. This lack of standardization and inconsistent accuracy leaves producers vulnerable to unfair and unjustly discriminatory practices by unscrupulous members of the meat packing industry.

There are additional increases in the budget that will benefit both the grain inspection and Packers and Stockyards programs: \$83,000 for employee pension and annuitant health benefits; \$790,000 for a web server farm; \$565,000 to meet information technology security requirements; and \$41,000 for the Federal Employees' Compensation Act (FECA) program.

The increase of \$83,000 for employee pension and annuitant health will allow GIPSA to pay the full share of accruing employee pensions and annuitant health benefits beginning in FY 2003.

The \$790,000 for a web server farm will support GIPSA's internet and intranet. The Agency must establish standard Web hardware, software, and facilities to implement the developing eGovernment electronic interface. This will provide a common information technology environment required for GIPSA to deliver data to and collect information from our customers. The Web server farm, comprised of multiple, high performance servers, will be able to implement a wide range of Web based interactive applications, and accommodate large data transfers from customers and field locations to existing Agency computer systems.

The \$565,000 increase will ensure that GIPSA's information technology security measures are effective and meet USDA standards. This will require the addition of software, hardware, and additional servers to provide for data security, backups, and recovery capabilities. This funding will ensure that GIPSA is a full participant in USDA's IT security programs.

Finally, GIPSA has requested a \$41,000 increase to cover the cost of the Department of Labor's administrative surcharge for the Agency's FECA benefits.

The Department request reflects legislation that would fund the grain standardization and packers programs through fees. Fees are appropriate when a Federally financed activity clearly provides a direct benefit for a specific group of people. In such instances, the costs of those programs should be borne by the benefiting group rather than by all taxpayers. Both of these programs do provide a direct benefit to a specific group - by setting up standards to improve the marketing of grain and by improving the financial integrity and fair and open marketing of the livestock industry. In addition, there is precedent for charging fees for these types of activities in the Agricultural Marketing Services' standardization program, and the Perishable Agricultural Commodities Act program, which also charges a licensing fee for participation.

Authorizing legislation has already been submitted for the standardization fee, and we anticipate submitting legislation for the packers licensing fee in the near future.

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.