



United States
Department of
Agriculture

Grain Inspection,
Packers and
Stockyards
Administration

2006 Annual Report

Grain Inspection, Packers and Stockyards Administration

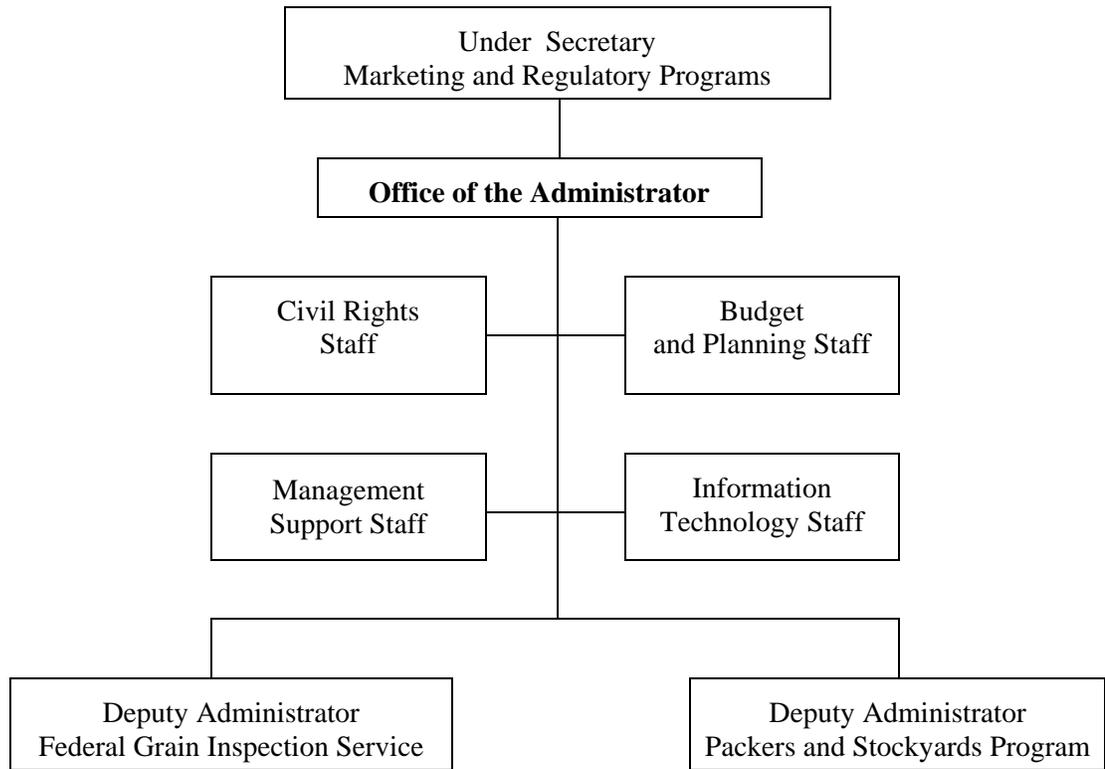
Contents

Organizational Structure and Functions	1
Outlook 2007	15
Federal Grain Inspection Service	21
Packers and Stockyards Program	49
Management Initiatives	65
Financial Overview	69

The mention of firm names or trade products does not imply that they are endorsed or recommended directly or indirectly by the United States Department of Agriculture over other firms or similar products.

Organizational Structure and Functions

GIPSA's Organizational Structure



Federal Grain Inspection Service

The Grain Inspection, Packers and Stockyards Administration's Federal Grain Inspection Service establishes quality standards for grains, oilseeds, pulses, and legumes; provides impartial inspection and weighing services through a network of Federal, State, and private laboratories; and monitors marketing practices to enforce compliance with the U.S. Grain Standards Act and Agricultural Marketing Act of 1946, as amended. Through these activities, GIPSA facilitates the marketing of grain, oilseeds, and related products.

Activities Under the U.S. Grain Standards Act

GIPSA administers uniform, national grain inspection and weighing programs established by the U.S. Grain Standards Act, as amended (hereinafter, the Act). Services under the Act are performed on a fee basis for both export and domestic grain shipments. The Act requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations.

In administering and enforcing the Act, GIPSA:

- establishes and maintains official U.S. grain standards for barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, and mixed grain;
- promotes the uniform application of official U.S. grain standards by official inspection personnel;
- establishes methods and procedures, and approves equipment for the official inspection and weighing¹ of grain;

¹ Official Inspection. The determination by original inspection, reinspection, and appeal inspection and the certification by official personnel of the kind, class, quality, or condition of grain under standards provided for in the Act; or, the condition of vessels and other carriers or receptacles for the transportation of grain insofar as it may affect the quality of such grain under other criteria approved by the Secretary. (The term "officially inspected" shall be construed accordingly.)

Official Weighing. (Class X Weighing). The determination and certification by official personnel of the quantity of a lot of grain under standards provided for in the Act, based on the actual performance of weighing or the physical supervision thereof, including the physical inspection and testing for accuracy of the weights and scales, the physical inspection of the premises at which weighing is performed, and the monitoring of the discharge of grain into the elevator or conveyance. (The terms "official weight" and "officially weighed" shall be construed accordingly.)

- provides official inspection and weighing services at certain U.S. export port locations,¹ and official inspection of U.S. grain at certain export port locations in eastern Canada along the St. Lawrence Seaway;
- delegates qualified State agencies to inspect and weigh grain at certain U.S. export port locations;
- designates qualified State and private agencies to inspect and weigh grain at interior locations;
- licenses qualified State and private agency personnel to perform inspection and weighing services;
- provides Federal oversight of the official inspection and weighing of grain by delegated States and designated agencies;
- provides review inspection services² of U.S. grain in the United States and at certain export port locations in eastern Canada;
- investigates, in cooperation with the USDA Office of Inspector General, alleged violations of the Act and initiates appropriate corrective action;
- monitors the quality and weight of U.S. grain as received at destination ports, and investigates complaints or discrepancies reported by importers; and
- helps U.S. trading partners develop and improve their grain inspection and weighing programs.

Mandatory Services

Under provisions of the Act, most grain exported from U.S. export port locations must be officially weighed. A similar requirement exists for inspection, except for grain which is not sold or described by grade. Intercompany-barge grain received at export port locations also must be officially weighed. And, the Act requires that all corn exported from the United States be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required.

¹ Export Port Locations. Commonly recognized ports of export in the United States or Canada, as determined by the Secretary, from which grain produced in the United States is shipped to any place outside the United States. Such locations include any coastal or border location, or any site in the United States that contains one or more export elevators and is identified by FGIS as an export port location.

² Review Inspection Service. A reinspection, appeal inspection, or Board appeal inspection service performed when discrepancies are alleged between the true quality of the grain and the inspection results.

Mandatory inspection and weighing services are provided by GIPSA on a fee basis at 38 export elevators (including 4 floating elevators). Six delegated States provide official services at an additional 16 export elevators under GIPSA oversight. Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at seven locations in Canada that transship U.S. grain for export.

Grain exporters shipping less than 15,000 metric tons of grain abroad annually are exempt from mandatory official inspection and weighing requirements. Grain exported by train or truck to Canada or Mexico also is exempt from official inspection and weighing requirements. Further, official inspection and weighing requirements do not apply to high-quality specialty grain exported in containers. High-quality specialty grain is defined as grain sold under contract terms that specify all factors exceed the grade limits for U.S. No. 1 grain, except for the factor test weight, or specify “organic” as defined by 7 CFR Part 205. This definition expires July 31, 2010.

Permissive Services

Official inspection and weighing of U.S. grain in domestic commerce are performed upon request and require payment of a fee by the applicant for services. Domestic inspection and weighing services are provided by 56 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions.

**Activities under
the Agricultural
Marketing Act**

Under the Agricultural Marketing Act of 1946 (hereinafter, the AMA), GIPSA administers and enforces certain inspection and standardization activities related to rice, pulses, lentils, and processed grain products such as flour and corn meal, as well as other agricultural commodities. Services under the AMA are performed upon request on a fee basis for both domestic and export shipments by either GIPSA employees or individual contractors, or through cooperative agreements with States.

Packers and Stockyards Program

Authorities

GIPSA's Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act of 1921 (P&S Act), as amended and supplemented. P&SP also carries out the Secretary's responsibilities under Section 1324 of the Food Security Act of 1985.

Responsibilities

P&SP is responsible for administering the P&S Act, which prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. The P&S Act makes it unlawful for a regulated entity to engage in unfair, unjustly discriminatory, or deceptive practices. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices.

Pursuant to the P&S Act, the Secretary has authority over market agencies, dealers, stockyards, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. The P&S Act and regulations impose requirements on certain participants in the regulated industries, such as registration of market agencies and dealers; bonding of market agencies, packers (except those whose average annual livestock purchases do not exceed \$500,000), and dealers; and prompt payment requirements. To protect unpaid cash sellers of livestock, packers are subject to trust provisions which require that livestock, and all inventories of, or receivables or proceeds from meat, meat food products, or livestock products to be held in trust for unpaid cash sellers until payment is made in full. There is a similar provision for live poultry dealers.

P&SP uses its statutory authority to investigate alleged violations of the P&S Act and regulations, and prosecutes violations detected through those investigations, either directly through administrative actions prosecuted by USDA's Office of the General Counsel or through referrals to the Department of Justice.

Under the Food Security Act of 1985, States may establish central filing systems to pre-notify buyers, commission merchants, and selling agents of security interests against farm products. GIPSA administers the section of the statute commonly referred to as the "Clear Title" provision, and certifies qualifying State systems.

Industry Structure

P&SP focuses on buying and selling activities of slaughtering packers, livestock dealers, and livestock market agencies that are subject to the Act. There were 315 bonded slaughter firms that were subject to the Act in 2005, and just over 5,500 entities registered as dealers or market agencies, or as both. Bonded slaughter firms include all bonded firms that operate federally inspected (FI) and non-federally inspected (NFI) plants. All packers operating in interstate commerce are subject to the P&S Act. The P&S Act requires firms with purchases of \$500,000 or more to be bonded and file annual reports. Some firms with smaller

volume purchases are voluntarily bonded but do not file annual reports. A market agency is defined as an entity engaged in the business of buying or selling livestock in commerce on a commission basis, or furnishing stockyard services. Posted stockyards include terminal and auction markets located at stockyards, but exclude video and electronic auctions that are not operated at stockyards. Dealers purchase livestock for resale on their own accounts and take title to the animals.

Table 1. Number of Slaughterers, Bonded Dealers and Market Agencies, and Posted Stockyards Subject to the P&S Act, 1996-2005

Year	Bonded slaughter firms	Non-bonded slaughter plants ¹	Bonded dealers and market agencies	Posted stockyards
1996	430	488	6,988	1,560
1997	427	468	6,903	1,574
1998	399	513	6,690	1,582
1999	386	491	6,577	1,548
2000	359	502	6,380	1,519
2001	335	526	6,250	1,525
2002	336	497	6,024	1,510
2003	338	481	6,250	1,429
2004	314	485	5,609	1,443
2005	315	NA	5,547	1,426

¹ Number of Federally Inspected (FI) plants minus the number operated by reporting packers. This is an estimate of the number of non-bonded slaughter firms (operating FI plants) that are not required to be bonded because they purchase less than \$500,000 of livestock per year (includes slaughtering plants that also do processing but excludes non-FI plants).

NA – data on number of reporting plants are not yet available.

Principal Activities

P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. Regulatory activities assess whether a subject entity is operating in compliance with the Act. These are activities conducted when P&SP has no reason to believe a violation has occurred. Examples of compliance activities include, but are not limited to, sending letters requesting business-specific information or informing a subject entity that it must increase or may decrease its bond coverage; sending letters reminding a subject entity that its annual report is due or past due; check-weighing activity; procurement and marketing business practice reviews; registering market agencies, dealers, and packer buyers who operate subject to the P&S Act; analyzing trust and bond claims and assisting producers with filing bond and trust claims; and presenting new market/packer orientations. Regulatory activity may occur entirely or in part at a subject entity’s place of business or at a P&SP regional office. Regulatory activities also include market level monitoring, which is generally conducted using data that are available in the public domain. Examples include, but are not limited to, fed cattle and hog price monitoring activities, and monitoring structural changes in the livestock, meat, and poultry industries. Monitoring activities have led to firm-level investigations.

Investigations consist of activities at a firm level that may be a follow-up on previously identified violations of the Act, activities conducted in response to industry-driven complaints, and activities conducted in response to possible violations found pursuant to compliance or monitoring activities. Investigations may be conducted as Rapid Response Investigations to prevent irreparable harm to the regulated industries. Investigations may occur entirely or in part at a subject entity's place of business or at a P&SP regional office.

P&SP activities cover two general areas: Business Practices, and Financial Protection. Business Practices are further divided into Competition and Trade Practices. Financial investigations and regulatory activities represent the largest share of the agency's expenditures, due in part to the more prescriptive financial requirements that the Act specifies for covered entities (Table 2).

Table 2. Total Regulatory and Investigation Expenditures, 2000-2006

Fiscal Year	Regulatory Activities 1/	Investigations		
		Competition	Trade Practices	Financial
(Dollars in thousands)				
2000	N/A	\$2,986	\$3,583	\$4,628
2001	N/A	3,431	4,117	5,318
2002	N/A	3,575	4,290	5,541
2003	N/A	3,755	4,506	5,820
2004	N/A	3,905	4,686	6,053
2005	N/A	4,050	4,860	6,277
2006	\$6,705	1,775	2,640	3,869

1/ Data not available. Prior to FY 2006, regulatory activities and investigations were not differentiated.

P&SP frequently receives complaints from producers, feedlot operators, or, in some cases, anonymous callers. The agency follows up on all of these complaints, although in some cases a preliminary review of the situation reveals that an in-depth investigation is not warranted by the facts (Table 3). The agency also initiates investigations independently, for example, as a result of information obtained from monitoring industry behavior.

Table 3. Number of Regulatory Actions and Investigations, 1998-2006, and Number of Investigations Open and Completed in 2006

Fiscal year ¹	Total regulatory actions and investigations	Investigations			
		Livestock		Poultry	
		Open	Closed	Open	Closed
1998	1,684	NR	NR	82	NR
1999	1,372	NR	NR	113	NR
2000	1,898	NR	NR	97	NR
2001	1,619	NR	371	125	NR
2002	1,600	NR	380	53	NR
2003	1,744	NR	393	62	NR
2004	1,923	NR	161	52	NR
2005	2,315	NR	267	36	NR
2006 (est.)	1,988	553	358	64	53

¹ Prior to FY 2006 regulatory activities such as scale checks and audits were not differentiated from investigative activities. Beginning in FY 2006 this practice ended and initial regulatory activities that resulted in potential violations of the P&S Act were identified and counted as investigations.

NR = Data not previously reported.

Investigations encompass a broad range of potential violations under the Act. Investigations include contract arrangements, financial conditions, and procurement, marketing, and payment practices of firms that operate subject to the P&S Act; use of scales and weighing practices, including at any location where scales are used to weigh feed when feed is a factor affecting payment to livestock producers or poultry growers; and the competitive practices of firms subject to the P&S Act (Table 4).

Table 4. Number of Investigations by Type, FY 2006

Type of Investigation	Livestock	Poultry
Concentration and Industry Structure	3	0
Contract Poultry Arrangements	0	19
Failure to Pay or Pay When Due	124	0
Grower Contract Terminations	0	9
Packer Trust	8	0
Unfair and Deceptive Practices	59	14
Weighing Practices	57	11
Restriction of Competition	28	1
Preferential Treatment	8	2
Bond Claims	4	0
Registration/Jurisdiction	34	0
Other ¹	228	7
Total	553	64

¹ Other types of investigations include 22 alternate categories.

GIPSA may take a variety of actions if it finds a regulated entity in violation of the Packers and Stockyards Act, including issuing letters of notice, and formal legal action. Formal legal action may occur through administrative proceedings or by referral to the Department of Justice. The resolutions of formal action may result in consent decisions and orders issued by a USDA Administrative Law Judge or by the Federal courts.

GIPSA Structure

As of September 30, 2006, GIPSA is comprised of 617 full-time, permanent employees, and 65 part-time, intermittent, or other employees located at a headquarters unit in Washington, DC, and in field locations across the Nation.

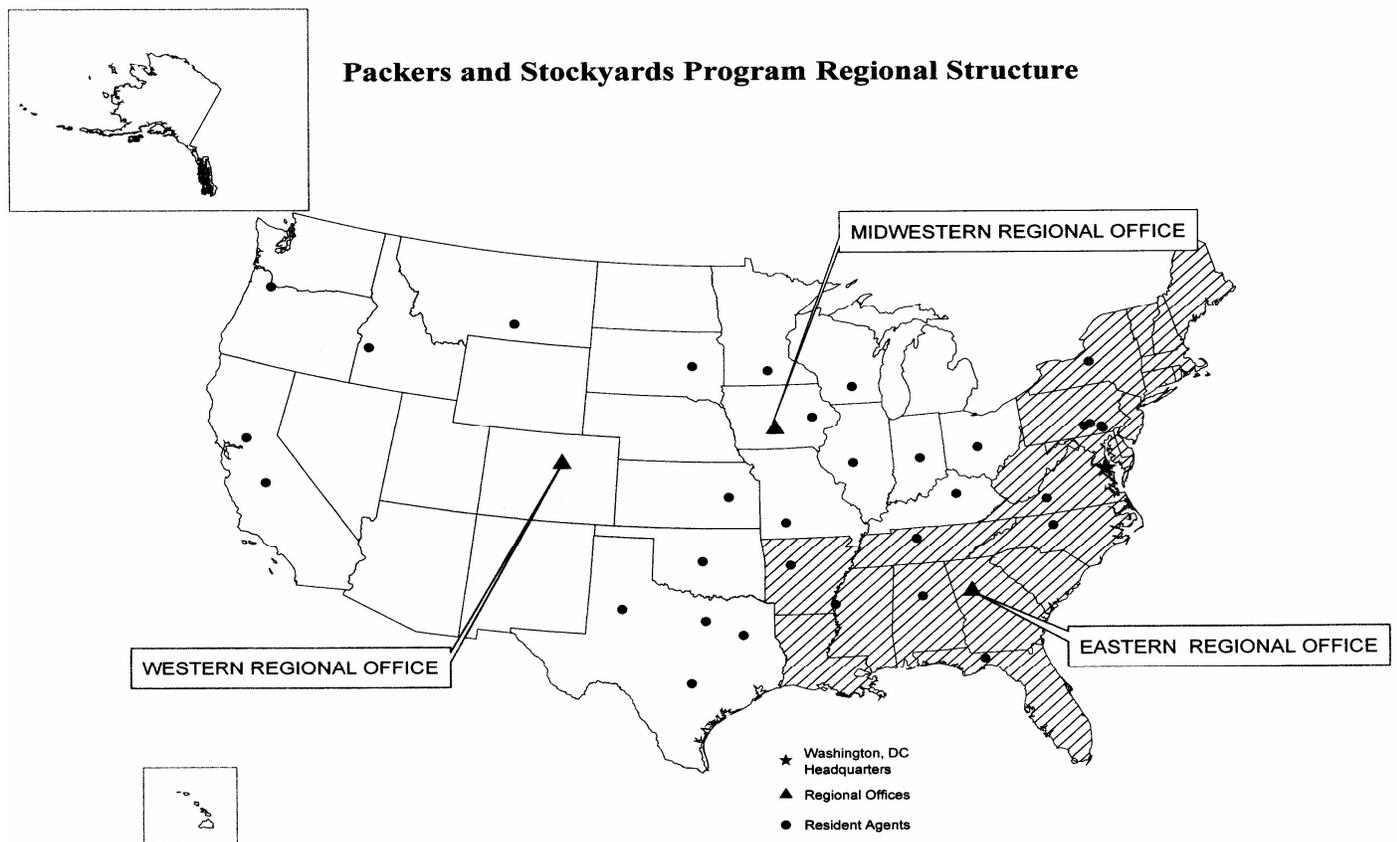
FGIS accounts for 458 full-time, permanent employees and 65 part-time, intermittent, or other employees. Grain program personnel are located in headquarters, and at a technical center in Kansas City, Missouri, 10 field offices, 1 Federal/State office, and 7 suboffices. Field offices are located in Stuttgart, AR; Sacramento, CA; Montreal, Canada; Cedar Rapids, IA; Wichita, KS; New Orleans, LA; Minneapolis, MN; Kansas City, MO; Grand Forks, ND; Portland, OR; League City, TX; Toledo, OH; and Olympia, WA; thus ensuring the availability of official inspection and weighing services anywhere in the United States and eastern Canada.

Official Inspection and Weighing Service Providers



P&SP accounts for 159 employees located in Washington, D.C. and three regional field offices in Atlanta, Georgia; Denver, Colorado; and Des Moines, Iowa. The regional field offices conduct most day-to-day industry monitoring and surveillance, and investigations. Each regional office maintains a high level of expertise in one or more species of livestock. The Atlanta Regional Office has expertise in poultry and takes the lead on all national poultry investigations. The Des Moines office has expertise in hogs and takes the lead on all national hog investigations. The Denver office has expertise in cattle and lambs and takes the lead on all national cattle or lamb investigations. Twenty-nine resident agents, who report to regional field offices, are located throughout the country to provide core services across the Nation.

Packers and Stockyards Program Regional Structure



Outlook 2007

Outlook 2007

U.S. Standards for Sorghum

In the March 29, 2006, *Federal Register* (71 FR 15633), GIPSA invited comments on a proposed rule identifying changes to the U.S. Standards for Sorghum. Specifically, GIPSA proposed amending the sorghum standards: 1) deleting references to tannin from the definitions of the sorghum classes and adding language referencing the presence or absence of a pigmented testa; 2) revising the definition of nongrain sorghum by deleting sorghum-sudangrass hybrids, sorgrass, and sweet sorghum (sorgo), and adding language referencing seeds of Sorghum bicolor (L.) Moench that appear atypical of grain sorghum; 3) amending the grade and grade requirements for sorghum by reducing the grading limits for broken kernels and foreign material (BNFM) and the subfactor foreign material (FM) and 4) inserting a total count limit of 10 for other material used to determine sample grade factors; and 5) amending the grain standards to report the certification of sorghum test weight in tenths of a pound per bushel. GIPSA received 10 comments from sorghum market participants including producers, sorghum market development groups, and exporters in response to the proposed rule. Based on comments received and other available information, in FY 2007, the Agency will publish a final rule in the *Federal Register*.

Post Harvest Grain Quality Surveys

GIPSA initiated surveys of farm gate/first-point-of-sale quality for grain sorghum in 2006. The survey will be expanded to include soybeans in 2007, and additional grains and oilseeds in future years. These surveys will provide extensive baseline data about the quality of grain as it enters the marketing chain. The survey data, combined with the agency's inspection data, will enhance GIPSA's ability to measure changes in quality as grain moves through marketing channels and to assess the impact of potential standards changes on market participants.

Corn Fermentable Starch Reference Method

The level of fermentable starch in corn serves as a predictor of ethanol production efficiency. In FY 2006, GIPSA participated on a joint industry/government technical committee tasked with identifying an appropriate reference method as a basis for a rapid commercial test to differentiate corn hybrids based on the level of fermentable starch. The committee recommended that a new reference method be developed that incorporates the best ideas of both current reference methods. In FY 2007, GIPSA will continue to help facilitate the standardization of a reference method for fermentable starch in corn.

Method for Ochratoxin A

The European Union implemented new legislation outlining import requirements for different mycotoxins. During 2006, GIPSA worked with the grain industry and identified the need for a standardized test for Ochratoxin A. All other mycotoxins covered by the new legislation are already addressed by GIPSA official testing policies. In FY 2007, GIPSA will develop a reference method and evaluate rapid test kits for ochratoxin A.

**Amino Acid
Reference Methods**

Technology providers are developing soybeans and corn with modified amino acid profiles to address specific nutritional needs in animal feed. Accurate methods to differentiate grain based on amino acid levels would facilitate market participants' extracting the increased value of specialty grains. In FY 2006, GIPSA developed a reference method for amino acids that is faster and more efficient than existing methods. The new method is based on an existing internationally recognized method (AOAC International), but it replaces a slow detection step with newer technology. In FY 2007, GIPSA will use this new method to support collaborative research with the United Soybean Board on soybean quality traits, and analytical measurements and marketing standards in support of USB's development of a near infrared spectroscopy (NIR) calibration for amino acids in soybeans.

Specialty Trait Methods

During FY 2007, GIPSA will participate in a research project to assess the capability of NIR to measure linolenic acid concentration in soybeans. The agency also will use the reference method it developed for amino acids in FY 2006 to support the United Soybean Board's development of an NIR method for determining amino acid profiles in soybeans. In the future, this method will also be used to measure amino acid profiles in specialty corn varieties.

Multi-Functional Equipment

GIPSA is evaluating the impact of standardizing all instrument-based quality measurements on cleaned grain samples. Standardizing on a cleaned or "dockage-free" basis for all instrument-derived measurements would provide opportunities to improve testing efficiency through the introduction of multifunctional instruments, and might reduce the variability of test results. In FY 2007, GIPSA will ascertain how sample results would change due to the use of dockage-free samples, how grain handlers and end-users measure various grain attributes, and why and how any potential change could impact these various market segments.

**Surface Lipid Content
of Milled Rice**

GIPSA is collaborating with the University of Arkansas' Rice Quality Laboratory (RQL) to develop procedures to measure the surface lipid content of milled rice. The RQL has investigated and refined a laboratory reference method, and developed a preliminary NIR calibration to predict surface lipids. Milled rice samples are being collected from several different rice mills that use different milling equipment and procedures, and will be used to validate the NIR calibration model. In FY 2007, GIPSA will obtain representative portions of these samples for reference laboratory comparisons, to collect spectra on GIPSA NIR equipment, and to compare surface lipid content to subjective (inspector) degree-of-milling determinations (DOM) currently used to grade rice. Surface lipid measurements have the potential to supplement and perhaps replace DOM determinations.

Promoting Fair and Competitive Marketing

GIPSA's 2005-2007 Strategic Plan identifies P&SP's primary goal as promoting fair and competitive marketing of livestock, meat, and poultry. To accomplish this goal, GIPSA will continue to vigorously investigate potentially willful, fraudulent, and/or repeat violations of the P&S Act. In addition, GIPSA will place a major emphasis on encouraging market participants to engage in lawful behavior, and on collaborating with industry participants and others to deter violations of the P&S Act.

The agency will extend its outreach efforts to those market participants who are not subject to the P&S Act to ensure that they are aware of the benefits available to them under the P&S Act and how to obtain them. GIPSA will provide information to Congress, the States, and the public on industry structure and the changing business practices in the regulated industries, and whether these practices comply with the P&S Act and regulations.

GIPSA also will emphasize compliance with regulatory requirements. These requirements include registering to operate in the regulated industries, filing annual reports, obtaining and maintaining bond coverage, maintaining solvency, and properly using and maintaining custodial accounts. The agency will increase the regulated industries' rate of compliance with the Packers and Stockyards Act's regulatory compliance requirements on technical issues that, when initially violated, do not immediately cause harm to other industry members but have the potential for future harm (e.g., failing to file an annual report, failing to obtain a bond or an adequate bond, and operating while insolvent).

Compliance with these regulatory requirements will provide P&SP with the means to review and respond to indications of potential violations before they occur. Compliance also will ensure that other market players are protected in the event that a regulated entity fails financially.

GIPSA will focus its investigative resources on potential willful, fraudulent, and repeat violations; investigations of violations most likely to have the greatest impact on the regulated industries; and on investigating those entities that the agency has previously "put on notice" for violating the P&S Act.

GIPSA will conduct more targeted investigations of violations of the Packers and Stockyards Act to use more effectively its limited resources. Targeted investigations will ensure that the agency is having the biggest impact on the regulated industries.

Federal Grain Inspection Service

- *Providing the Market with Terms and Methods for Quality Assessments*
- *Protecting the Integrity of U.S. Grain and Related Markets*
- *Providing Official Grain Inspection and Weighing Services*

Providing the Market with Terms and Methods for Quality Assessments

Official U.S. Standards

Feed Peas. Effective July 7, 2006, GIPSA established official U.S. Standards for Feed Peas under authority of the U.S. Agricultural Marketing Act of 1946, as amended. The previous U.S. Standards for Whole Dry Peas and Split Peas reflected the needs of the edible dry pea market, but not those of the growing market for peas used in animal feed. Establishing this new standard provides uniform standards and facilitates the marketing of feed peas.

Soybeans. On September 6, 2006 (*Federal Register* (71 FR 52403)), GIPSA announced its decision to revise the U.S. Standards for Soybeans to change the minimum test weight per bushel (TW) from a grade determining factor to an informational factor. As an informational factor, TW will be reported on official certificates unless requested otherwise. GIPSA also changed the reporting requirement for TW in soybeans from whole and half pounds with a fraction of a half pound disregarded to reporting to the nearest tenth of a pound. These changes will further help to ensure market-relevant standards and grades and clarify reporting requirements. The changes become effective on September 1, 2007.

Wheat. Effective May 1, 2006, GIPSA amended the wheat standards and modified the classification policy for Hard White wheat to ensure the purity of both the Hard White and the Hard Red classes. This will help American wheat producers market Hard White wheat to those making high-quality wheat products for consumers around the world.

Specifically, GIPSA amended the standards to change the definition of contrasting classes so that Hard White wheat is no longer a contrasting class in Hard Red Winter and Hard Red Spring wheat. Rather, all Hard White wheat will be counted as wheat of other classes (WOCL) when found in predominantly Hard Red Winter or Hard Red Spring wheat. Two grading factors measure the purity of various wheat classes in the standards. The factor "contrasting classes" has tight tolerances to limit the commingling of classes that have a detrimental impact on processing. The second factor, "wheat of other classes," has less restrictive tolerances and includes all classes of wheat other than the intended class being marketed. GIPSA is also restoring to the standards the sample size used to determine sample grade factors.

GIPSA also implemented a new policy to classify Hard White Wheat. Under the policy, all Hard White wheat kernels are classified as Hard White wheat, regardless of seed coat color and whether they are in a predominantly Hard White or Hard Red wheat sample. Previously, wheat would be classified as Hard White wheat only if kernels were clearly lighter in color than the predominant Hard Red wheat. GIPSA uses both visual inspection, and, if necessary, an alkali test developed by the USDA Agricultural Research Service to distinguish Hard White kernels. This policy was implemented after a 1-year advance notice to industry to allow adequate time for inventory management.

Specialty Traits Methods

Life science organizations and breeders are developing new grains that are designed to meet new labeling requirements, and be more nutritious for human and animal consumption. For example, soybeans with lower linolenic acid levels produce oil that has half the linolenic acid level of commodity soybean oil, making it more stable and reducing or precluding the need for hydrogenation – the process that creates unhealthy trans fats in foods. The market needs standardized quality assessment methods to capture the value of the new specialty trait grain varieties. A 2006 Food and Drug Administration requirement that trans fatty acid content be reported on food labels may drive significant growth in the production of low-linolenic soybeans. GIPSA is partnering with the United Soybean Board, U.S. Wheat Associates, and the National Corn Growers Association to ensure that standardized methods are available as new specialty trait varieties come to market.

Wheat Functionality: Protein Quality Assessments

The market needs accurate test methods to differentiate the intrinsic functional qualities of wheat that impact the end products made from it. By providing that information, GIPSA will enhance the value and marketability of U.S. wheat by optimizing the use of U.S. wheat for specific end uses, and providing value transparency from the producer to the processor.

In FY 2006, GIPSA developed and implemented a rapid wet gluten test for wheat. This test adds a protein-based calibration to determine wet gluten content for Hard Red Winter and Hard Red Spring wheat to existing near-infrared transmittance instruments.

During FY 2006, GIPSA studied the Farinograph method as a means of assessing various aspects of protein quality in wheat and found significant differences in results among laboratories. In FY 2007, GIPSA plans to improve standardization of Farinograph tests.

The market lacks a clear definition of gluten strength, one of the most important aspects of wheat functionality. In FY 2007, GIPSA will cooperate with the USDA Agricultural Research Service, universities, and other entities to develop standardized methods for describing the viscous and elastic properties of gluten more precisely and reproducibly.

**Mycotoxin and
Biotechnology
Test Kit Approvals**

The grain industry needs fast, reliable tests to detect the presence of biotechnology-derived grains and oilseeds and mycotoxin-contaminated grain. To ensure that reliable, rapid tests are commercially available, GIPSA provides a test kit performance verification/approval program. In FY 2006, GIPSA evaluated 21 mycotoxin rapid test kits including 9 qualitative and 6 quantitative aflatoxin rapid test kits; and 4 qualitative and 2 quantitative deoxynivalenol rapid tests kits. Seven of the qualitative and five of the quantitative aflatoxin test kits, and four of the qualitative and two quantitative deoxynivalenol test kits met performance criteria and received GIPSA Certificates of Performance. Two biotechnology rapid test kits, one for glyphosate-tolerant corn and one for glyphosate-tolerant soybeans, were evaluated. The test kit for glyphosate-tolerant soybeans met performance criteria and received a Certificate of Performance. The test kit for glyphosate-tolerant corn did not meet performance criteria.

Reference Method Analyses

GIPSA maintains reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins. These methods are used to maintain the accuracy of current testing in the official inspection system and to develop new rapid field methods. The protein, moisture, oil, and fatty acid reference analyses support the near infrared spectroscopy (NIR), dielectric, and nuclear magnetic resonance (NMR) instruments used for rapid inspection by the official inspection system. The mycotoxin reference analyses support the evaluation and standardization of test kits for official and commercial grain inspection, and support quality assurance programs to ensure consistent and reliable testing results. In FY 2007, GIPSA will continue to provide quality reference method analyses in support of the development of new testing methods and in the maintenance of accurate field testing for the official and commercial inspection systems.

**Standardizing Commercial
Grain Inspection Equipment**

In FY 2006, GIPSA continued to participate in an ongoing cooperative effort among GIPSA, NCWM, Inc., and the National Institute for Standards and Technology (NIST) to standardize commercial inspection equipment by serving as the sole evaluation laboratory for grain inspection equipment under the NCWM, Inc.'s National Type Evaluation Program (NTEP). In FY 2006, GIPSA collected grain moisture meter calibration data for five instrument models as part of the NTEP ongoing calibration program. Calibrations developed in this program provide traceability back to the official GIPSA moisture program and air oven reference method, and can be used in the majority of commercial transactions throughout the United States. The NTEP laboratory completed an evaluation of one grain moisture meter and a near-infrared protein and oil analyzer.

In FY 2007, GIPSA will continue to collect grain moisture meter calibration data for six NTEP models, and plans to finalize NTEP testing for the test weight feature on a current NTEP grain moisture meter model and one grain moisture meter model that also would measure test weight. GIPSA testing activities will be expanded as needed to address new applications for NTEP evaluation.

Biotechnology

GIPSA continues to partner with International organizations such as the Codex Alimentarius Commission, International Organization for Standardization (ISO), AOAC International, American Association of Cereal Chemists (AACC), Institute for Reference Materials and Measurements (IRMM), and National Institute for Standards and Technology (NIST) to facilitate the harmonization of testing for biotechnology-derived grains and oilseeds.

LL601 Rice. In August 2006 GIPSA was notified that an unapproved transgenic rice variety, Liberty-Link (LL) 601, had been found in long-grain rice in commercial markets. GIPSA quickly verified the performance of a method to detect this event. In a short time, GIPSA verified two Polymerase Chain Reaction (PCR) methods – one detects the DNA sequence found in LLRICE and the other detects the sequence specific to the LLRICE 601 trait. GIPSA also verified two rapid strip test kits that quickly detect the protein produced in Liberty-Link events. GIPSA continues to work closely with other USDA agencies, the European Union’s Institute for Reference Materials and Measurements (IRMM), and the rice industry to share information on sampling, testing methodology, and procedures to minimize market impact.

Biotechnology Proficiency Program. GIPSA expanded its Proficiency Program, which enables organizations testing for the presence of biotechnology-derived grains to identify deficiencies and improve testing methodologies to enhance the accuracy and reliability of testing for biotechnology-derived events. The internationally recognized program now includes 145 participating organizations, more than 77 percent of which are from outside the United States. Participants include organizations from Africa, Asia, Europe, North America, and South America. This program provides an opportunity for participating organizations to identify deficiencies and improve testing methodologies to improve the accuracy and reliability of testing for biotechnology-derived events.

IRMM Reference Materials Testing. GIPSA is working to harmonize reference materials with the European Commission’s Institute for Reference Materials (IRMM) to minimize potential trade disruptions between the two markets. For more than 4 years, GIPSA has offered a Biotechnology Proficiency Program to help organizations testing for biotechnology-derived grains improve the accuracy and reliability of testing for biotechnology-derived events. It is important to confirm that the GIPSA proficiency samples and the newly introduced IRMM reference materials provide consistent results. In addition, GIPSA is collaborating with the IRMM to determine the feasibility of using plasmids as reference materials in lieu of ground grain.

ISO Registration

The International Organization for Standardization (ISO) represents the national standards institutes and organizations of over 100 countries, including the American National Standards Institute (ANSI). The American Society of Quality, the European Standards Institute, and the Japanese Industrial Standards Committee are a few of the major quality organizations that have endorsed ISO Standards, which are becoming the de facto standards across industries throughout the world. GIPSA maintained ISO 9000:2000 registration for its primary reference methods

(protein, oil, and moisture) and its Pesticide Data Program to enhance international credibility and acceptance of its results. In FY 2007 GIPSA plans to gain ISO 17025 Accreditation for the Pesticide Analysis Laboratory.

International Briefings

GIPSA continues to operate an active outreach and development program for international trade and government teams. Briefings are tailored to address each group's interests and concerns. Presentations include explanations of the various services available from GIPSA, the agency's use of the latest technology to provide grain traders with accurate and reliable inspection and weighing information and, for importers or potential importers new to the U.S. grain market, information on contracting for the quality they desire.

These briefings foster a better understanding of the U.S. grain marketing system and the official U.S. grain standards and the national inspection system, and enhance purchasers' confidence in U.S. grain.

Summary of Briefings with Visiting Trade and Governmental Teams In Fiscal Year 2006

Albania	Mexico
Algeria	Middle East
Argentina	Morocco
Armenia	Pakistan
Australia	Philippines
China	Senegal
Egypt	South Africa
Ethiopia	Taiwan
India	Tunisia
Japan	Uganda
Jordan	Ukraine
Kenya	United Arab Emirates
Kurdistan	Yemen
Libya	

Outreach

In FY 2006, GIPSA 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 GIPSA personnel to travel overseas to represent the agency at grain marketing and grain 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.

Such activities typically have been funded through various programs administered by the Foreign Agricultural Service (FAS), Farm Service Agency (FSA), directly by USDA cooperators, or by GIPSA. A 1995 amendment to the U.S. Grain Standards Act gave GIPSA authority to

charge and be reimbursed for travel, salary, and related expenses when a customer requests consultative expertise. Our authority to recover costs for providing consultative services has enhanced our ability to facilitate marketing of U.S. grains, oilseeds, and related commodities.

During fiscal year 2006, GIPSA helped install and checktest laboratory equipment to inspect and grade wheat at three locations in Egypt; conducted grain grading and inspection seminars in Mexico, Peru, Taiwan, and China; worked with FAS, APHIS, and FSA to facilitate U.S. grain and legume exports to Kenya, Uganda, and Tanzania; and met with FAS, APHIS, and Indian officials to attempt to resolve technical contract specifications to permit U.S. exporters to bid on wheat tenders. GIPSA also worked with the U.S. grain industry, Agricultural Research Service (ARS), and FAS/Tokyo, Japan to address concerns of the Japanese Ministry of Health, Labor, and Welfare (MHLW) about U.S. corn shipments that exceeded Japan's limit of 10 parts per billion aflatoxin; addressed Asian soybean buyer concerns about the quality of post-Katrina soybean exports; participated in seminars in Japan to address concerns about the safety of U.S. grain exports; participated in several international biotech meetings related to the Biosafety Protocol; and continued to work with other countries on biotechnology and the Biosafety Protocol, and their impact on trade. GIPSA is working with FAS and European regulators in Belgium, the United Kingdom, Italy, and the European Commission (EC) to address new EC regulations on vomitoxin in wheat, which could disrupt U.S. wheat exports to the region; and with APHIS and FAS to address customer concerns about a regulated biotech rice trait which appeared in commercial U.S. rice.

On two occasions, a GIPSA technical specialist monitored and provided on-site technical inspection expertise for U.S. wheat shipments from the point of departure in the United States to arrival in Syria and final destination in Baghdad. We observed destination sampling and provided technical assistance to the Grain Board of Iraq (GBI). Safety concerns prevented continued travel to Iraq, but our technical expert traveled to Syria 5 additional times to witness sampling activities on 12 arriving shipments of U.S. wheat. In all instances, GBI authorities cleared arriving wheat cargoes thanks to GIPSA's efforts and ability to develop and nurture close working relationships. This work enhanced our reputation in the region, instilled confidence in GIPSA's services, and helped U.S. exporters begin the process of regaining a \$1 billion export market.

During fiscal year 2006, GIPSA placed two representatives in Asia on long-term temporary duty assignments to develop a more proactive approach in working with overseas Asian customers and their governments. As a result, GIPSA had an on-site presence in the region for over 8 months during the fiscal year. This allowed GIPSA to address immediate and long-term issues in the region, promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in results, and develop face-to-face relationships with customers, USDA cooperators and government officials.

International Projects

Mexico is the United States' second most valuable market for grain and oilseed exports and a unique trading partner because of our shared borders. GIPSA has been working with Mexico's private and public grain sectors to promote the use of U.S. sampling and inspection methods to minimize differences in test results between GIPSA's export certificates and the receiver.

GIPSA, with assistance from the American Association of Grain Inspection and Weighing Agencies and USDA cooperators, conducted 1-day seminars at three major grain importing locations in Mexico to promote the official inspection system and educate buyers on grain contracting, U.S. grain standards, sampling, and inspection procedures.

The agency organized a USDA team comprised of GIPSA, APHIS, and FAS representatives who visited several Mexican border inspection offices to discuss Mexico's inspection and clearance process for U.S. grain shipments to Mexico and to explain the U.S. national inspection system and quality control programs. FAS sponsored a team of Mexican Government inspectors who address quality and phytosanitary issues on imported grain to visit the United States to learn more about GIPSA's and APHIS' roles with respect to grain exports.

The Cartagena Protocol on Biosafety, or Biosafety Protocol, entered into force on September 11, 2003. It is a multinational environmental agreement with the objective of ensuring an adequate level of protection during the international transfer, handling, and use of living modified organisms. GIPSA participated in several international meetings that resulted in implementation of the Biosafety Protocol in such a way as to avoid unnecessary trade disruption. Since it went into force, there has not been any significant resultant disruption in grain trade

**Summary of Activities
Involving International
Travel in Fiscal Year 2006**

<i>Purpose</i>	<i>Number of Travelers</i>	<i>Country Visited</i>	<i>Dates of Visit</i>
1. To participate in long-term Asian assignments to address immediate and long-term issues in the region.	2	Cambodia, China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam	10/01 – 10/22/05 02/13 – 09/24/06
2. To attend the sampling activities related to cargoes of U.S. Hard Red Winter wheat shipped to Iraq.	1	Iraq, Syria	10/04 – 11/05/05
3. To participate in Foreign Agricultural Service (FAS), U.S. Wheat Associates, Taiwan Flour Millers Association, and port authorities meetings to discuss shipment discrepancies and unloading and weighing procedures.	1	Taiwan	10/14 – 10/21/05
4. To give presentations at the annual APPAMEX/North American Export Grain Association Grain Forum.	1	Mexico	11/17 – 11/20/05
5. To attend the sampling activities related to cargoes of U.S. Hard Red Winter wheat shipped to Iraq.	1	Iraq, Syria	12/15 – 01/12/06
6. To help close down the FGIS Montreal Field Office.	1	Canada	12/16 – 12/24/05
7. To present sampling and corn grading seminar at the request of Bartlett Grain Company.	1	Mexico	01/17 – 01/19/06
8. To set up wheat inspection labs and to train grain technicians, at request of U.S. Wheat Associates.	1	Egypt	02/22 – 03/06/06
9. To attend the Biosafety Protocol Third Meeting of the Parties.	1	Brazil	03/10 – 03/18/06
<i>Continued</i>			

<i>Purpose</i>	<i>Number of Travelers</i>	<i>Country Visited</i>	<i>Dates of Visit</i>
10. To conduct two 1-day wheat grading seminars at the request of U.S. Wheat Associates.	1	Peru	4/02 – 4/06/2006
11. To give a corn and sorghum grading presentations and address importers' quality concerns.	2	Mexico	04/02 – 4/08/06
12. To make a presentation at the 2006 Institute of Electrical & Electronic Engineers Instrumentation & Measurement Technology Conference.	1	Italy	04/21 – 05/15/06
13. To attend National American Biotechnology Initiative (NABI) Meeting.	1	Canada	04/23 – 04/26/06
14. To attend American Society for Testing Material Conference.	2	Canada	04/24 – 04/26/06
15. To work with Indian officials to resolve inspection issues related to India's wheat tenders.	1	India	05/06 – 05/11/06
16. To attend the 27 th session of the FAO/WHO Codex Committee on Methods of Analysis and Sampling.	1	Hungary	05/13 – 05/19/06
17. To give a presentation at the Grain Buyers Conference and meet with SENASICA officials.	1	Mexico	06/18 – 06/23/06
18. To consult with European authorities on European testing requirements in U.S. wheat.	2	Belgium, United Kingdom, Italy	06/19 – 06/28/06
19. To meet with APHIS and government officials on grain quality and phytosanitary import requirements.	1	Kenya, Uganda, Tanzania	06/22 – 07/3/06
20. To perform seaboard grain inspections.	1	Canada	06/25 – 06/28/06
21. To perform seaboard grain inspections.	1	Canada	07/09 – 07/12/06
22. To perform seaboard grain inspections.	2	Canada	07/19 – 07/23/06
23. To perform seaboard grain inspections.	1	Canada	07/23 – 07/28/06
24. To attend International Organization of Legal Metrology meeting.	1	Canada	09/24-09/27/06

Protecting the Integrity of U.S. Grain and Related Markets

Alleged Violations

At the beginning of FY 2006, 10 cases involving alleged violations of the USGSA and the AMA were pending further GIPSA action. During FY 2006, GIPSA opened nine new cases related to numerous alleged violations, including: improper procedures, improper use of an FGIS license (false impersonation), attempting to cause the issuance of false official inspection certificates, deceptive loading, altering an official document, false or misleading export loading instructions, exporting corn without official aflatoxin testing service, and requesting official inspection services improperly. GIPSA took administrative action (informational letters) to close six cases during the year and closed a seventh case by issuing a cautionary letter due to insufficient evidence of a violation. Twelve cases were pending at the end of the fiscal year.

Two of the open cases were referred for further action. GIPSA referred one case to USDA's Office of the General Counsel requesting the assessment of a civil monetary penalty. GIPSA's investigation revealed evidence that a grain company's actions knowingly caused the issuance of false official inspection certificates. In addition, the Office of Inspector General and the Justice Department are pursuing criminal action in another investigation which involves causing the issuance of false official inspection certificates.

Registration

The USGSA requires that all persons who buy, handle, weigh, or transport grain for sale in international commerce register with GIPSA. During calendar year 2006, GIPSA issued 88 Certificates of Registration to individuals and firms involved in the foreign commerce grain business.

Compliance Reviews

Compliance reviews are independent third-party reviews of GIPSA's grain inspection and weighing field operation, which includes Federal field offices and suboffices, and State and private agencies (official agencies). During FY 2006, GIPSA personnel conducted on-site compliance reviews of 3 GIPSA field offices, 2 State departments of agriculture, and 21 official agencies. Review teams evaluated a range of parameters, including customer satisfaction (including potential service delivery discrimination), management effectiveness and efficiency, and procedural compliance. During the on-site reviews, GIPSA found no instances of service delivery discrimination. All identified noncompliance items were corrected. None of the findings during the on-site compliance reviews appear to have affected the overall integrity of GIPSA's mission or programs, or the national inspection system.

Delegation/Designation Programs

GIPSA currently oversees 55 official agencies that are designated under the USGSA, as amended, to provide permissive official inspection and/or weighing services at domestic locations. Four of these are States that are also delegated to provide mandatory official inspection and weighing services at export locations.

Two additional States are delegated but are not designated. Delegations are permanent unless GIPSA or the State decides to terminate the agreement. During FY 2006, one State voluntarily canceled its designation due to financial considerations. Through a competitive process, GIPSA selected one new and six existing private official agencies to provide domestic services within the State.

Under the triennial renewal process, 18 official agency designations automatically terminated in FY 2006. GIPSA renewed 14 of the 18 for full 3-year terms after reviewing their performance. Two official agencies were designated for 1 year due to repeat noncompliances, and 2 new official agencies were designated for 18 months. GIPSA designated an official agency in a previously unassigned area where a need for official services was demonstrated.

Conflicts of Interest

At the beginning of FY 2006, three designated official agencies were operating with discretionary conflict-of-interest waivers. All three agencies remain designated and are operating properly under conflict waivers.

Drug-Free Workplace

As each designated official agency becomes eligible for designation renewal, it must certify to GIPSA that it provides a drug-free workplace. Each of the 16 agencies renewed in FY 2006 provided this certification.

Pilot and Exception Programs

During FY 2006, GIPSA continued to operate three exception programs to gather information on the effect of allowing more than one designated official agency to inspect or weigh grain in a single geographic area.

The timeliness-of-service exception program allows official agencies to provide service to facilities located outside of their assigned geographic area on a case-by-case basis when official service cannot be provided within established timeframes. During FY 2006, one facility used the timeliness-of-service exception.

The nonuse-of-service exception program allows official agencies to offer their service to facilities outside their assigned area if no official service has been provided during the previous 3 months. During FY 2006, 98 facilities received 232,024 inspections under this program. This included 441 for barges, 64,264 for railcars, and 167,319 other inspections (e.g., trucks, containers, and Starlink™ testing).

The barge exception program allows customers shipping grain in barges to select any official agency to probe-sample and inspect the grain. During FY 2006, one facility received 23 barge inspections under this program.

Grain Exported in Containers

In recent years, the high-quality specialty grain market has evolved as specialty grain shippers have catered to the specific needs of buyers around the world. Traditionally, shippers of high-quality specialty grain exported in containers handled less than 15,000 metric tons of grain annually and were, therefore, exempt from mandatory inspection and weighing requirements in accordance with Section 800.18(b) of the regulations under the USGSA. However, as the market has grown, specialty grain shipment volumes have begun to exceed the 15,000-metric-ton waiver threshold, requiring shippers to obtain official inspection and weighing services in accordance with the USGSA.

In response to this evolving market need, and in accordance with the recommendations of the USDA Grain Inspection Advisory Committee, in FY 2005, GIPSA published an interim final rule in the *Federal Register* (70 FR 21921) requesting comments on amending the regulations under the USGSA to waive the mandatory inspection and weighing requirements for high-quality specialty grains exported in containers. Based on comments received and to facilitate marketing, GIPSA decided to clarify the definition of "high-quality specialty grain."

On December 13, 2005, GIPSA published the final rule in the *Federal Register* (70 FR 73556) amending the regulations under the USGSA to waive the mandatory inspection and weighing requirements for high-quality specialty grains exported in containers. The final rule became effective on January 12, 2006, and expires on July 31, 2010.

Complaints

GIPSA administers a grain quality and weight discrepancy process. When an importer of U.S. grains reports a quality or weight discrepancy, GIPSA analyzes samples retained on file from the original inspection and samples submitted from destination (if the buyer chooses to submit them) to evaluate whether the discrepancy was due to differences in samples, procedures, or an actual change in quality from the time of the original inspection. The process verifies whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. GIPSA then issues a report outlining its findings and providing suggestions to avoid similar discrepancies in the future.

Occasionally, a particular buyer or importing country reports repeated discrepancies that cannot be resolved by a shipment-by-shipment review under this process. In such cases, GIPSA may conduct collaborative sample studies or joint monitoring activities to address the discrepancy in a more comprehensive manner.

In FY 2006, GIPSA received nine quality complaints and no weight complaints from importers on grains inspected under the U.S. Grain Standards Act, as amended. These complaints involved 290,768 metric tons, or about 0.3 percent by weight, of the total amount of grain exported during the year. This compares to 10 quality and 1 weight complaints received in FY 2005, representing about 0.4 percent of grain exports by weight. In the preceding 5 years, GIPSA received an average of 11.2 complaints per year, representing about 0.3 percent of U.S. grain exports by weight. Fifteen years ago (1985 to 1989), we received an average of 47.8 complaints per year, or about 1.9 percent of U.S. grain exports by weight.

**Summary of Complaints
Reported by Importers on
Inspection and Weighing
Fiscal Year 2006**

<i>Complainant</i>	<i>Grain</i>	<i>Number of Complaints</i>	<i>Nature of Complaint</i>
Africa and Middle East			
Algeria	Wheat	1	Damage, heat damage
Asia			
China	Soybeans	2	Quality
Japan	Corn	1	Aflatoxin
Malaysia	Soybeans	2	Damage, heat damage, foreign material, odor
Taiwan	Soybeans	1	Foreign material, damage, heat damage, odor, heating
South America			
Colombia	Corn	1	Quality, mycotoxins
Peru	Wheat	1	Quality, foreign material, damage, stones
TOTAL		9	

Providing Official Grain Inspection and Weighing Services

- Wet Gluten Test for Wheat** On May 1, GIPSA began providing an official wet gluten content testing service for Hard Red Winter (HRW) wheat and Hard Red Spring (HRS) wheat using a protein-based calibration on official near-infrared transmittance (NIRT) instruments. Buyers of U.S. wheat often ask for analysis of functional characteristics of the commodity being purchased. This new service is providing the market with information on the functional characteristics of wheat and specifically the ability of milled wheat to produce bread, pasta, and noodle products. GIPSA provides wet gluten content determination as official criteria under the authority of the United States Grain Standards Act, as amended.
- Contracting** The U.S. Grain Standards Act authorizes the Secretary of Agriculture to contract with private persons or entities to perform inspection and weighing services at export port locations (7 U.S.C. 79(e)(I), 84(a)(3)). GIPSA is undertaking a 2-year pilot test to assess the cost-effectiveness and impact on the official system of contracting with private entities to provide mandatory inspection and weighing services in four export locations. GIPSA will contract for both personnel to supplement the Federal workforce, and for persons or entities to provide full official inspection service delivery. Contracts will be implemented only if their use improves the cost effectiveness of service delivery and maintains the official inspection system's high level of integrity. GIPSA began the contracting pilot test on May 28, 2006.
- Visual Reference Material** GIPSA's Visual Reference Image (VRI) system is the primary tool for standardizing GIPSA's subjective quality control program. In FY 2006, GIPSA developed online versions of the VRI and deployed calibrated displays to GIPSA field offices to allow field personnel to directly access the online VRI and Inspector Calibration content. In FY 2007, GIPSA will develop additional online Inspector Calibration content.
- Educational Material** GIPSA provides educational materials and grading aids to GIPSA customers through various outlets, including an equipment company and several State grain and feed associations, at industry meetings and trade shows, and via the GIPSA web site. In FY 2006, GIPSA updated all the existing online grading tutorials and inspector calibration content. GIPSA also consolidated several individual multimedia CDs into a single Grain Inspection Resource CD. This will significantly reduce the cost of maintaining and distributing the material, and is more convenient for our customers. In FY 2007, GIPSA will complete electronic learning courses on rough, brown, and milled rice inspection; laboratory scale testing; and an overview of the official inspection system.

**Inspection Program Data
Fiscal Years 2004-2006**

Item	Fiscal Years		
	2004	2005	2006
Quantity of Grain Produced ¹ (Mmt) ²	405.0	439.2	426.0
Quantity of Standardized Grain Officially Inspected (Mmt) ³			
Domestic	135.8	137.1	174.5
Export by GIPSA	76.3	69.9	75.3
by Delegated States	24.4	25.7	26.6
by Designated Agencies	<u>4.9</u>	<u>7.0</u>	<u>9.1</u>
Total	241.4	239.7	285.5
Quantity of Non-Standardized Grain Officially Inspected (Mmt) ⁴			
Domestic	0.4	0.5	0.3
Export by GIPSA	0.2	0.4	0.9
by Delegated States	0.0	0.0	0.0
by Designated Agencies	<u>0.0</u>	<u>0.0</u>	<u>1.3</u>
Total	0.6	0.9	2.5
Delegated States/Official Agencies			
Delegated and Designated States	7	6	4
Delegated States	0	0	2
Designated States	6	5	6
Private Agencies	<u>43</u>	<u>45</u>	<u>45</u>
Total	56	56	57
<i>(continued)</i>			

¹ Source: USDA World Agricultural Supply and Demand Estimates. This figure includes production of wheat, corn, sorghum, barley, oats, and soybeans.

² Million metric tons.

³ Includes grains for which GIPSA maintains official standards: barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, and mixed grain.

⁴ Includes items inspected under the authority of the U.S. Grain Standards Act that do not meet the requirements for grain as set forth in the Official U.S. Standards for grain, including cracked corn.

Item	Fiscal Years		
	2004	2005	2006
State/Private Agency AMA Agreements	18	18	22
Number of Official Original Inspections ¹			
GIPSA	98,561	94,766	92,774
Delegated States/Official Agencies	<u>2,461,514</u>	<u>2,732,618</u>	<u>2,777,014</u>
Total	2,560,075	2,827,384	2,869,788
Number of Grain Reinspections			
GIPSA	3,017	3,827	293
Delegated States/Official Agencies	<u>15,627</u>	<u>21,639</u>	<u>22,155</u>
Total	18,644	25,446	22,448
Number of Grain Inspection Appeals			
Field Offices	3,556	2,114	3,686
Board of Appeals and Review	<u>575</u>	<u>404</u>	<u>579</u>
Total	4,131	2,518	4,265
Number of Official Commercial Inspections			
GIPSA	0	25	0
Delegated States/Official Agencies	<u>789,996</u>	<u>977,946</u>	<u>986,201</u>
Total	789,996	977,971	986,201
Number of Barley Protein Inspections			
GIPSA	0	0	0
Delegated States/Official Agencies	<u>0</u>	<u>2,395</u>	<u>6,083</u>
	0	2,395	6,083
Number of Corn Protein, Oil and Starch Inspections			
GIPSA	7	3	27
Delegated States/Official Agencies	<u>62</u>	<u>219</u>	<u>498</u>
Total	69	222	525
<i>(continued)</i>			

¹ Includes original inspections for grade, factor-only inspections, official criteria, and official commercial inspections.

Item	Fiscal Years		
	2004	2005	2006
Number of Wheat Protein Inspections			
GIPSA	24,466	21,599	19,339
Delegated States/Official Agencies	<u>431,829</u>	<u>444,293</u>	<u>446,627</u>
Total	456,295	465,892	465,966
Number of Soybean Protein and Oil Inspections			
GIPSA	12,957	16,688	11,877
Delegated States/Official Agencies	<u>16,657</u>	<u>16,677</u>	<u>28,763</u>
Total	29,614	33,365	40,640
Number of Sunflower Seed Oil Inspections			
GIPSA	0	0	0
Delegated States/Official Agencies	<u>33,655</u>	<u>19,830</u>	<u>41,713</u>
Total	33,655	19,830	41,713
Number of Grain Aflatoxin Inspections			
GIPSA	32,526	29,391	44,205
Delegated States/Official Agencies	<u>69,725</u>	<u>67,741</u>	<u>173,871</u>
Total	102,251	97,132	218,076
Number of DON Inspections			
GIPSA	9,524	11,027	9,909
Delegated States/Official Agencies	<u>37,976</u>	<u>77,117</u>	<u>114,993</u>
Total	47,500	88,144	124,902

(continued)

Item	Fiscal Years		
	2004	2005	2006
Number of Fumonisin Tests			
GIPSA	94	8	60
Delegated States/Official Agencies	<u>1,403</u>	<u>940</u>	<u>3,215</u>
Total	1,497	948	3,275
Number of StarLink™ Tests			
GIPSA	2,167	2,588	2,173
Delegated States/Official Agencies	<u>27,304</u>	<u>21,219</u>	<u>16,630</u>
Total	29,471	23,807	18,803
Number of Wet Gluten Tests			
GIPSA	0	0	0
Delegated States/Official Agencies	<u>0</u>	<u>0</u>	<u>1,145</u>
Total	0	0	1,145
Quantity of Rice Produced (Mmt) (milled)	10.5	10.0	8.7
Quantity of Rice Inspected (Mmt) (milled)	2.5	3.0	2.8
Number of Rice Inspections			
GIPSA	42,659	49,348	17,912
Cooperators	<u>1,578</u>	<u>4062</u>	<u>20,325</u>
Total	44,237	53,410	38,237
Number of Rice Appeals	189	125	137
Number of Rice Board of Review Appeals	10	22	25
<i>(continued)</i>			

Item	Fiscal Years		
	2004	2005	2006
Quantity of Pulses Produced (Mmt) (beans, peas, lentils)	1.5	2.1	1.8
Quantity of Pulses Inspected (Mmt)			
GIPSA	.3	.5	.7
Cooperators	<u>.1</u>	<u>.1</u>	<u>.1</u>
Total	.4	.6	.8
Number of Pulse Inspections			
GIPSA	11,265	12,771	14,220
Cooperators	<u>3,928</u>	<u>4,839</u>	<u>7,370</u>
Total	15,193	17,610	21,590
Number of Pulse Appeals	124	153	252
Number of Pulse Board of Review Appeals	16	12	30
<i>(continued)</i>			

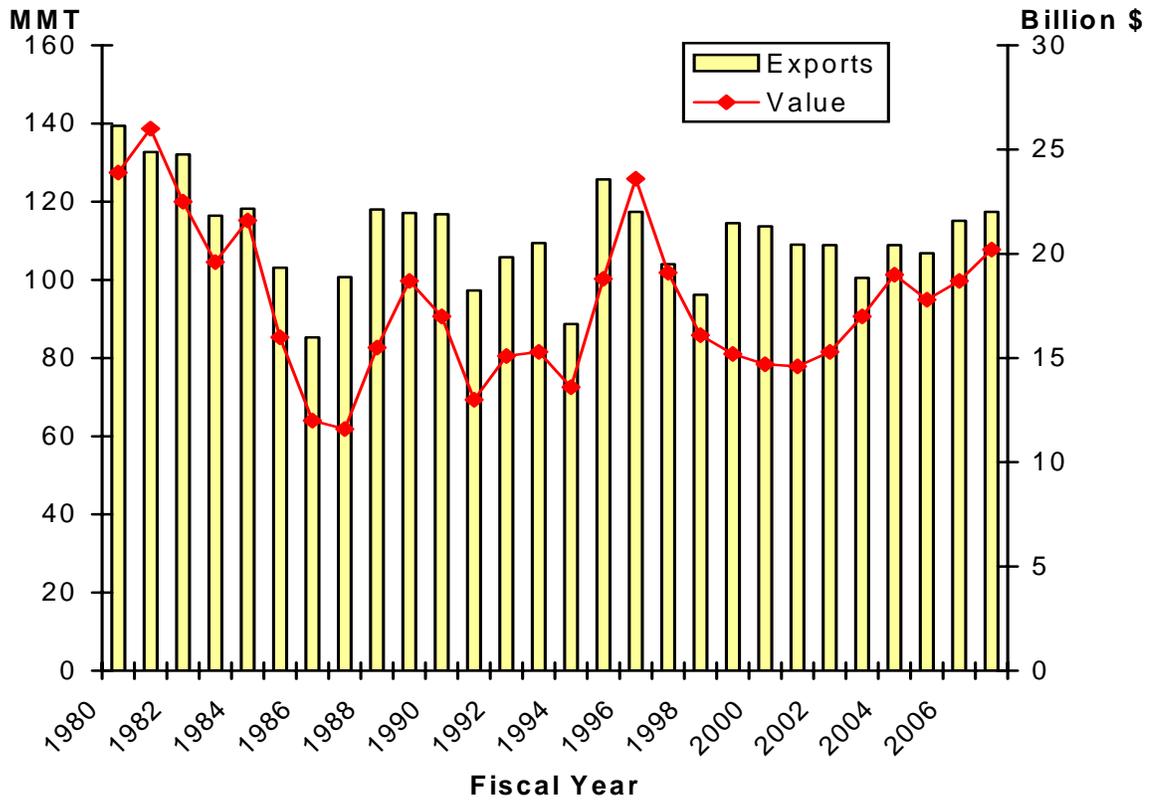
**Weighing Program Data
Fiscal Years 2004-2006**

Item	Fiscal Years		
	2004	2005	2006
Official Weight Certificates Issued			
GIPSA			
Class X ¹	82,418	77,684	69,127
Class Y ²	<u>3,562</u>	<u>4,037</u>	<u>2,518</u>
Total	85,980	81,721	71,645
Delegated States/Official Agencies			
Class X ¹	16,810	44,541	76,602
Class Y ²	<u>106,978</u>	<u>99,029</u>	<u>77,742</u>
Total	123,788	143,570	154,344
Exported Grain Weighed (Mmt)			
GIPSA	76.4	69.9	75.3
Delegated States	<u>24.4</u>	<u>26.1</u>	<u>27.7</u>
Total	100.8	96.0	103.0
Number of Certified Scales in Service			
Export Elevators	230	210	230
Number of Scales Tested			
Railroad Track Scales	240	240	200
Hopper Scales	730	736	740
Vehicle Scales	75	120	160

¹ Class X weighing involves 100 percent supervision of weighing.

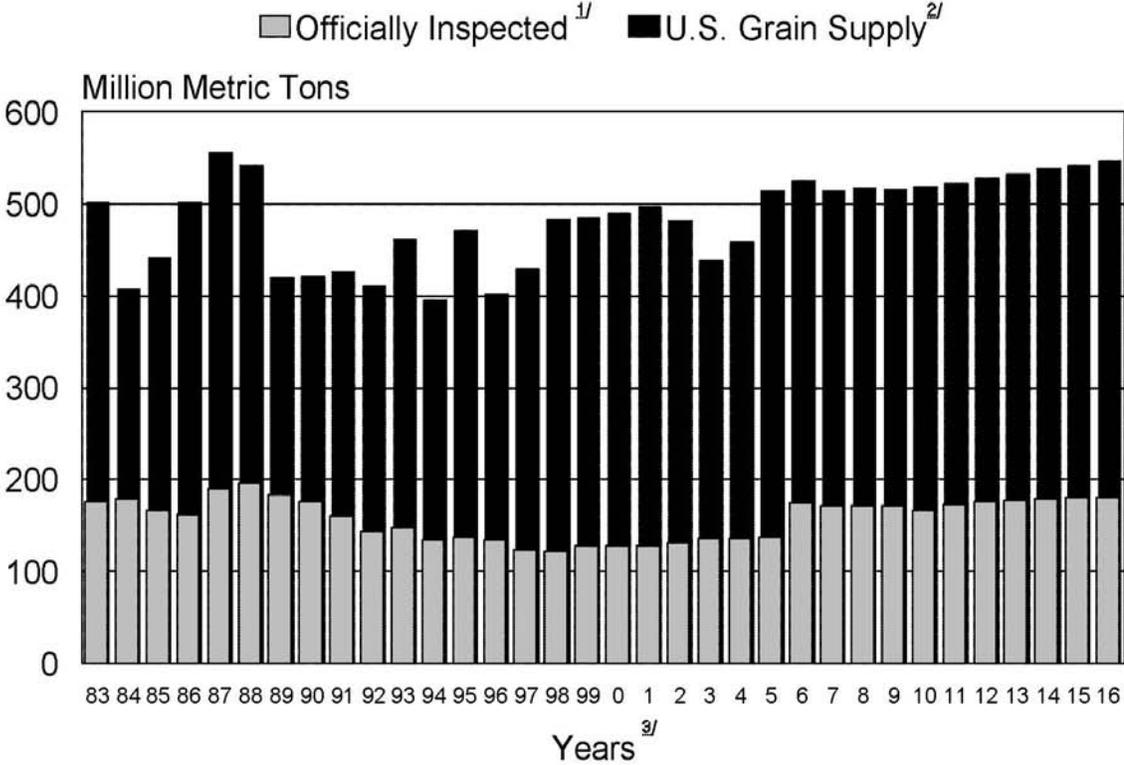
² Class Y weighing involves a minimum of 25 percent supervision of weighing.

U.S. Grain, Oilseed, and Rice Exports: Volume and Value



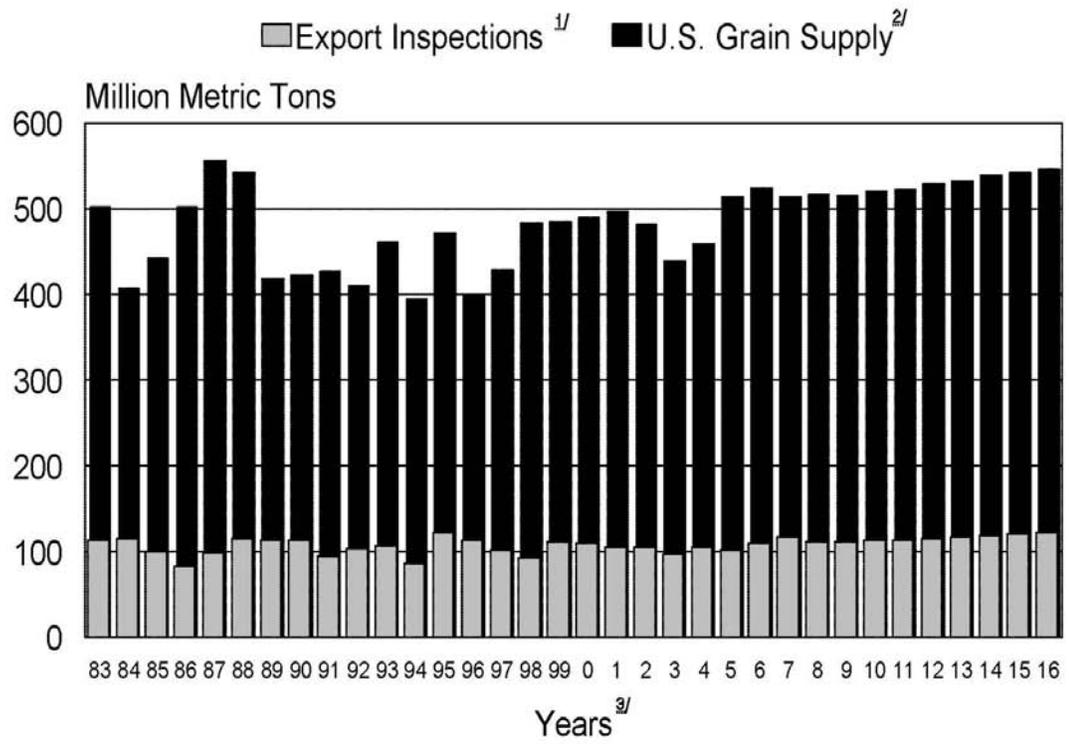
Sources: GIPSA Export Grain Inspection System and the USDA Economic Research Service, Outlook for Agricultural Exports

U.S. DOMESTIC GRAIN INSPECTIONS



Source:
^{1/} GIPSA, GIWIS for 1983 - 06 and 2006 inspection rate (33.3%) applied to estimated supplies for 2006-2016.
^{2/} USDA, ERS market year figures for 1983 -2004, WASDE (Oct. 12, 2006) for 2005-2007 and WAOB baseline projections for 2008-2016.
^{3/} Domestic inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

U.S. EXPORT GRAIN INSPECTIONS



Source:

^{1/} GIPSA, EGIS for 1983 - 06, WASDE (Oct. 12, 2006) for 2007, and WAOB baseline projections for 2008-2016.

^{2/} USDA, ERS market year figures for 1983 - 04, WASDE (Oct. 12, 2006) for 2005-2007, and WAOB baseline projections for 2008-2016.

^{3/} Export inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

**Volume of Grain Inspections
by Port Areas
October 2005-September 2006**

Port Area	Million Metric Tons (MMT)	Percent of Total U.S. Exports
California	0.036	0.03
Chicago	0.800	0.72
Columbia River	16.664	15.01
Duluth-Superior	1.833	1.65
East Gulf	1.023	0.92
Interior	9.254	8.34
Mississippi River	55.695	50.20
North Atlantic	0.215	0.19
North Texas	9.114	8.21
Puget Sound	11.375	10.25
South Atlantic	1.699	1.53
South Texas	1.632	1.46
Toledo	1.660	1.49
Total	111	100.00



Provision of Inspection and Weighing Services by State

State	Grain			Commodities		
	State Agencies		Private Designated Agencies	GIPSA Locations	State/Private Agencies	GIPSA Locations
	Delegated	Designated				
Alabama	•	•			•	
Alaska						
Arizona			•		•	
Arkansas			•	•		•
California			•	•	•	
Colorado			•			•
Connecticut						
Delaware						
Florida						
Georgia		•		•	•	
Hawaii						
Idaho			•	•	•	•
Illinois			•	•	•	
Indiana			•			
Iowa			•	•		•
Kansas			•	•		•
Kentucky			•			
Louisiana		•		•	•	•
Maine						
Maryland				•		•
Massachusetts						
Michigan			•			•
Minnesota	•			•	•	•
Mississippi				•	•	
Missouri		•		•	•	•
Montana		•			•	•
Nebraska			•		•	•
Nevada						
New Hampshire						
New Jersey						
New Mexico			•			
New York						•
North Carolina		•			•	
North Dakota			•	•	•	•
Ohio			•	•		•
Oklahoma			•			•
Oregon		•		•	•	•
Pennsylvania						
Rhode Island						
South Carolina	•	•				
South Dakota			•			•
Tennessee			•			
Texas			•	•	•	•
Utah		•				•
Vermont						
Virginia	•	•				
Washington	•	•		*	•	•
West Virginia						
Wisconsin	•				•	•
Wyoming			•		•	•

* Federal/State office.

Packers and Stockyards Program

- *Business Practices*
- *Financial Protection*
- *Reports and Research*
- *Other Initiatives and Activities*

Business Practices

Overview

Business Practices activities include monitoring concentration, competition, and trade practices in the industry. GIPSA monitors markets and conducts compliance reviews to identify possible violations of the Packers and Stockyards (P&S) Act, and to keep abreast of constantly evolving pricing and procurement practices. In addition, the agency investigates all complaints alleging anticompetitive behavior prohibited by the P&S Act.

One of GIPSA's responsibilities under the P&S Act is to promote fair business practices in the marketing and procurement of livestock, meat, and poultry, and to determine if unfair or deceptive practices are occurring. GIPSA conducts trade practice investigations of alleged unfair trade practices at auction markets, livestock dealers and order buyers, slaughtering packers, live poultry dealers, and meat dealers and brokers.

Concentration

Occasionally, GIPSA receives complaints about concentration levels and mergers that may relate to competition, but that do not violate the P&S Act and/or necessarily result in investigations. While concentration has generally increased since 1980, changes in recent years have varied somewhat across livestock types (Table 5). Concentration of the four largest steer and heifer slaughterers rose from about 36 percent in 1980 to a high of 82 percent in 1994 and has remained relatively stable since then. Four-firm concentration in hog slaughter rose from about 34 percent in 1980 to 64 percent in 2003 and has remained at that level through 2005. Four-firm concentration in sheep and lamb slaughter rose from about 56 percent in 1980 to 73 percent in 1996, declined to about 65 percent in 1997, and increased to 70 percent in 2005.

Table 5. Four-Firm Concentration in Livestock Slaughter by Livestock, Selected Years, 1980-2005.¹

Year	Steers & Heifers	Boxed Beef	Sheep & Lambs	Hogs
	Percent			
1980	36	53	56	34
1995	81	84	72	46
2000	81	85	67	56
2001	80	84	66	57
2002	79	83	65	55
2003	80	84	65	64
2004	79	82	65	64
2005	80	NA	70	64

¹ Figures are based on calendar year federally inspected slaughter except for 1980 and figures for all years for boxed beef, which are based on firms' fiscal years as reported to GIPSA.

Competition

GIPSA also evaluates complaints alleging anticompetitive behavior such as attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, price discrimination, price manipulation, and predatory pricing.

GIPSA's economists and legal specialists work closely on an informal basis with the Office of General Counsel (OGC) during the conduct of essentially all competition investigations. When the results of the investigation indicate to GIPSA and OGC that the evidence and circumstances support legal action, GIPSA then formally refers the case file to OGC for such action. Currently, GIPSA has seven significant ongoing investigations in the competition area.

Regulatory Compliance

GIPSA works closely with the industries to achieve voluntary compliance with the P&S Act. This approach is more cost-effective and provides better protection for producers and the industry than lengthy formal litigation. Pricing and procurement practices are becoming increasingly complicated, and competition investigations are complex and often require sophisticated economic modeling and analyses. Litigating anticompetitive complaints is very expensive for the agency in terms of financial and personnel resources, and can take years. For example, one case filed in April 1999 remains unresolved due to pending appeals.

Examples of GIPSA achieving voluntary compliance with the anticompetitive provisions of the P&S Act include such resolutions as a case wherein a preliminary investigation disclosed evidence of turn-taking, and a meeting with company officials resulted in the firms involved voluntarily and immediately discontinuing the practice. In another instance, a potential complaint about collusion was avoided when a preliminary investigation and subsequent meeting with company officials resulted in the firms discontinuing the collusive behavior, again changing the practice voluntarily prior to a complaint being filed. In a third instance, a preliminary investigation and meetings with a major packer resulted in the firm modifying a requirement that producers market 100 percent of their animals to the packer. In this last instance, GIPSA's actions resulted in the packer notifying all of its producers by letter that the requirement was modified to allow producers to sell a consistent number of animals to the packer. In each of the aforementioned instances, the agency saved time and resources by working with industry to achieve voluntary compliance with the P&S Act for the benefit of producers and the industry.

Monitoring and Surveillance

GIPSA conducts many activities aimed at monitoring changes in the industry structure in order to understand the nature of and reasons for change, and to anticipate potential competitive issues that may result from those changes. GIPSA collects information on current procurement methods in the cattle, hog, lamb/sheep, and poultry industries, and meets with beef, pork, and lamb/sheep packers and live poultry dealers to remain abreast of current practices and increase the industry's understanding of the P&S Act and regulations. GIPSA also performs statistical analyses necessary to produce the agency's annual Packers and Stockyards Statistical Report, which documents changes in structure and business practices in the industry over time. GIPSA is also conducting the Livestock and Meat Marketing Study, a Congressionally mandated study of issues surrounding the use of packer feeding and other marketing arrangements in the livestock and meat packing industries that is described in the "Reports, Research, and Other Initiatives and Activities" section of this report.

GIPSA also audits committed procurement data submitted each year by the top four packers. These data show that packers' use of packer feeding and other types of committed procurement has increased in the last 10 years, but appears to have leveled off or even declined slightly as a percent of their total slaughter in the last 2 to 3 years (Table 6).

Table 6. Top Four Packers' Packer-fed Cattle and Acquisition by Forward Contracts and Marketing Agreements as a Percentage of Total Steer and Heifer Slaughter, 1995-2005.

Year	Packer-fed cattle	Cattle from forward contracts and marketing agreements (Percent of slaughter)	Total
1995	3.2	18.1	21.3
1996	3.4	19.2	22.5
1997	3.8	16.2	20.1
1998	3.5	18.9	22.4
1999	8.4	24.0	32.4
2000	9.1	29.1	38.2
2001	10.9	32.0	43.0
2002	9.6	34.8	44.4
2003	10.4	28.0	38.4
2004	8.3	26.8	35.1
2005 (est)	6.4	29.2	35.6

Interagency Cooperation

GIPSA collaborates with other programs within the Department of Agriculture and other non-USDA agencies on issues relevant to competition in the industry. For example, GIPSA helped USDA's Agricultural Marketing Service clarify producer-packer relationships in the hog industry to ensure accurate reporting of livestock prices. This support helps to ensure that livestock markets operate fairly, and reduces the potential for price manipulation and anticompetitive procurement practices in these markets. GIPSA also provides industry expertise to the Department of Justice in its review of proposed mergers and acquisitions, and actively participates with other law enforcement agencies in investigations of criminal activity in the regulated industries. Finally, GIPSA assists the Commodity Futures Trading Commission (CFTC) by providing information and analysis of livestock and meat marketing issues that are relevant to the CFTC's regulation of livestock futures trading.

Trade Practices

Firms that furnish stockyard services in commerce are required to post a notice that informs the public that the stockyard meets the definition of a stockyard under the P&S Act. Once posted, the stockyard remains posted until de-posted by public notice (see Table 1). GIPSA attempts to meet with new auction market owners and managers as soon as possible after operations begin. These visits ensure that market operators understand their fiduciary responsibilities under the P&S Act, and that they are operating in compliance with the P&S Act and regulations.

These visits in the early stages of a market's operations also provide important protection to livestock producers who rely on the market to provide a nondiscriminatory and competitive marketplace. Similarly, GIPSA conducts feed mill orientations to help ensure that feed mill operators are aware of the regulatory requirements for feed weights used to calculate producer/grower payments, thereby helping ensure that the feed weights are accurate.

To determine if unfair or deceptive trade practices in violation of the P&S Act are occurring in the procurement of livestock, meat, and poultry, GIPSA conducts procurement compliance reviews of subject firms. The reviews cover pricing methods; payment practices; weighing of livestock, carcasses, and poultry; carcass grades used for payment; and accountings issued to sellers.

Market agencies, dealers, packers, and live poultry dealers are required to maintain their scales in an accurate condition. The P&S Act and regulations require these entities to test their scales at least semi-annually at intervals of approximately 6 months, by competent persons, and file the scale test reports with GIPSA. Scales that are inaccurate are taken out of use until they are repaired and pass the scale test. GIPSA and state and private companies test scales. GIPSA also conducts check-weigh and other investigations to determine if scale operators and firms subject to the P&S Act are properly using their scales and properly recording weights in the purchase and sale of livestock and poultry.

Any apparent change in the purchase weight caused by a person, whether by adding to the actual weight of the livestock or failing to pass on a shrink allowance, is an unfair and deceptive practice. Any increase to the original purchase price, either in purchases on order or sales based on cost plus an agreed-upon margin, is also an unfair and deceptive practice. Anyone believing an action of a stockyard, market agency, or dealer has caused personal loss or damage in violation of the P&S Act may file a complaint seeking reparation (damages) with GIPSA within 90 days of learning of the action that caused damages. Reparation complaints may not be filed against packers, live poultry dealers, or swine contractors.

Pricing Methods

Livestock are purchased through a variety of procurement and pricing methods in combination. Pricing methods are most often divided into two categories: either live-weight or carcass pricing. With live-weight purchasing livestock, the price is quoted, and the final payment is determined, based on the weight of the live animal (Table 7).

Transactions that use some variation of live-weight purchase are usually on an "as-is" basis with a single price used for the entire transaction. The price may be fixed by negotiation in advance, or established from prices reported by a market price reporting service after the animals are delivered or slaughtered. In some instances, provisions may be made for paying different prices for animals that differ significantly from other animals in the transaction (for example, animals that are much smaller than the average for the transaction may receive a lower price).

A “carcass-based” purchase is a purchase in which the price is quoted, and the final payment is determined, based on the hot weight of each animal’s carcass after it has been slaughtered and eviscerated (Table 8). Carcass-based purchase methods frequently involve provisions for premiums or discounts based on the quality or other characteristics of the animals in each transaction. In some transactions, prices are adjusted for nonquality factors such as time of delivery and number of animals in the transaction.

After declining year-to-year through most of the 1980s and 1990s, the proportion of cattle purchased on a live-weight basis by packers reporting to GIPSA increased in 2003 and again in 2004 (Table 7).

Table 7. Number and Percentage of Cattle Purchased Live-Weight and Carcass-Weight by Packers Reporting to GIPSA, 1995-2004.¹

Year	Live-weight		Carcass-weight	
	Head (000)	Percent	Head (000)	Percent
1995	18,086	53.5	15,751	46.5
1996	18,837	52.7	16,907	47.3
1997	18,413	52.5	16,628	47.5
1998	19,049	55.9	15,016	44.1
1999	17,545	50.5	17,217	49.5
2000	17,102	48.4	18,207	51.6
2001	14,932	44.2	18,877	55.7
2002	12,541	37.2	21,158	62.8
2003	14,116	40.2	21,008	59.8
2004	15,112	46.6	17,348	53.4

¹ 2005 data reported originates with the annual reports of regulated entities. Generally these reports are due April 15, 2006. Audit processes frequently delay the receipt until July 2006. Data for 2005 will be first reported in the GIPSA Annual Statistical Report in March 2007.

The proportion of cattle purchased on a live-weight basis is considerably less than in 1980, but has exhibited a mixed pattern of change over time. After trending upward from 2000 through 2003, live-weight purchases declined considerably in relative importance, but still accounted for about half of packer purchases for slaughter in 2004 (Table 8).

Table 8. Number and Percentage of Calves Purchased Live-Weight and Carcass-Weight by Packers Reporting to GIPSA, 1995-2004.¹

Year	<u>Live-weight</u>		<u>Carcass-weight</u>	
	Head (000)	Percent	Head (000)	Percent
1995	633	49.2	653	50.8
1996	607	43.8	779	56.2
1997	734	59.5	500	40.5
1998	656	56.6	504	43.4
1999	504	47.6	556	52.4
2000	495	51.3	470	48.7
2001	479	54.7	397	45.3
2002	492	57.3	367	42.7
2003	553	59.4	377	40.6
2004	351	49.6	357	50.4

¹ See Table 7 footnote.

Procurement of sheep and lambs also has exhibited a mixed pattern over time, with live-weight purchases continuing to account for half of the purchases for slaughter by packers reporting to GIPSA (Table 9).

Table 9. Number of Sheep and Lambs Purchased by Live-Weight and Carcass Weight for Packers Reporting to GIPSA.¹

Year	<u>Live-weight</u>		<u>Carcass-weight</u>	
	Head (000)	Percent	Head (000)	Percent
1995	2,354	54.0	2,006	46.0
1996	1,801	48.2	1,938	51.8
1997	1,773	56.3	1,378	43.7
1998	1,899	57.9	1,380	42.1
1999	1,513	47.6	1,663	52.4
2000	1,323	44.1	1,674	55.9
2001	840	30.1	1,951	69.9
2002	1,062	39.6	1,615	60.4
2003	1,023	47.0	1,156	53.0
2004	1,329	53.9	1,135	46.1

¹ See Table 7 footnote.

The proportion of hogs purchases on a live-weight basis steadily declined over the last several years, and carcass basis purchases have become the dominant method of pricing hogs purchased for slaughter (Table 10).

Table 10. Number of Hogs (Thousands) Purchased by Live-Weight and Carcass-Weight for Packers Reporting to GIPSA. ¹

Year	<u>Live-weight</u>		<u>Carcass-weight</u>	
	Head (000)	Percent	Head (000)	Percent
1995	52,318	57.1	39,293	42.9
1996	40,338	48.3	43,191	51.7
1997	32,821	37.4	54,978	62.6
1998	27,448	29.9	64,383	70.1
1999	24,823	25.3	73,153	74.7
2000	24,711	26.3	69,145	73.7
2001	26,883	28.0	69,070	72.0
2002	25,077	25.8	72,003	74.2
2003	22,413	23.1	74,748	76.9
2004	23,092	23.4	75,496	76.6

¹ See Table 7 footnote.

Some carcass-based purchases, often known as “carcass merit” purchases, include a base price that applies to all carcasses in the transaction, with premiums or discounts for individual carcasses based on quality or other attributes of each carcass, such as quality grade, yield grade, yield, or percentage of lean meat in the carcass. Some carcass merit transactions use USDA grades to determine carcass quality. A growing number of transactions include price adjustments for quality characteristics that are not covered by USDA grades, such as percent of lean meat in the carcass and size of rib eye.

Financial Protection

Overview

GIPSA supports the financial integrity and stability of the livestock, poultry, and meatpacking industries by administering the P&S Act and regulations. Financial investigations address solvency issues, payment to livestock sellers and poultry growers, bond claims, trust claims, and maintenance of custodial accounts. When GIPSA determines that a potentially serious situation exists that may cause imminent harm to livestock producers, rapid-response teams are deployed to investigate the matter.

Solvency

Under the P&S Act, most regulated entities must be solvent (current assets must exceed current liabilities). However, live poultry dealers, swine contractors, meat distributors, brokers, and packers with annual livestock purchases less than \$500,000 are not subject to the solvency requirements. GIPSA monitors the solvency of regulated entities through its review of annual and special reports and by on-site financial compliance reviews and investigations.

GIPSA monitors all firms with pending insolvencies and, if necessary, notifies firms by certified letter to correct their pending insolvencies. The agency requires special reports from firms whose annual reports disclose insolvencies. In addition, GIPSA conducts on-site financial investigations to follow up on reported insolvencies or other financial issues. Formal disciplinary action is initiated against firms when appropriate.

Payment Practices

The P&S Act requires every dealer, market agency, and packer purchasing livestock on a live-weight basis to pay for livestock and that live poultry dealers pay to cash sellers of live poultry before the close of the next business day following purchase. The P&S Act also requires every packer, market agency, or dealer purchasing livestock on a carcass weight or grade and yield basis to pay the full amount of the purchase price not later than the close of the first business day following determination of the purchase price. The P&S Act further requires that live poultry dealers pay poultry growers for live poultry obtained under a poultry growing arrangement by the close of the fifteenth day following the week in which the poultry is slaughtered.

Before packers, market agencies, or dealers can issue drafts in payment for livestock or otherwise extend the time in which payment is due for livestock, they must enter into a written credit agreement with the seller. Packers purchasing \$500,000 annually must also obtain a written trust waiver acknowledgement from the seller waiving his/her trust rights.

Custodial Accounts

Market agencies selling livestock on commission (auction markets) must establish and maintain a bank account entitled “custodial account for shipper’s proceeds,” commonly referred to as a custodial account, for proceeds from the sale of consigned livestock. Auction markets have a fiduciary responsibility to safeguard the account and make timely distribution from it to livestock sellers. Auction markets are required to maintain this account in balance at all times.

GIPSA monitors custodial accounts by reviewing annual reports from market agencies, special custodial account report analysis, and on-site audits of the custodial accounts. When the monitoring reveals shortages, steps are taken to restore the funds and, if possible, bring the accounts up to the required level (Table 11).

Table 11. Number of Market Audits, Shortages Found, and Amounts Restored, 1998-2006

Fiscal Year	Market Audits	Markets With Shortages	Total Shortage	Amount Restored
1998	393	187	\$5,705,252	\$3,690,355
1999	233	103	\$4,294,368	\$2,701,091
2000	374	154	\$9,161,520	\$5,916,746
2001	322	156	\$8,966,218	\$6,313,383
2002	206	97	\$6,906,986	\$2,814,439
2003	262	92	\$4,984,315	\$2,055,203
2004	272	94	\$4,646,031	\$2,144,986
2005	252	102	\$6,712,420	\$5,269,525
2006 (est)	347	140	\$9,242,692	\$7,256,052

Bond and Trust Claims

All market agencies, dealers, and slaughtering packers purchasing over \$500,000 of livestock annually are required to file and maintain bonds or bond equivalents for the protection of livestock sellers. When a seller fails to receive payment on a transaction, he/she must file a bond claim within 60 days of the transaction. GIPSA analyzes the claim to determine if it is filed within the timeline and supported by adequate documentation. The agency provides its analysis to the bond surety or trustee as a courtesy to the industry.

The P&S Act also establishes a statutory trust on certain assets of packers and live poultry dealers for the benefit of unpaid cash sellers of livestock, and unpaid cash sellers or contract growers of live poultry grown for slaughter. Packers and live poultry dealers are the trustees of the statutory trusts. Packer trust assets consist of all livestock purchased in cash sales, inventories, receivables, proceeds from meat, meat food products, and livestock products derived from the purchase of livestock in cash sales. Poultry trust assets consist of all poultry obtained by live poultry dealers in poultry purchases in cash sales or by poultry growing arrangements, inventories, receivables, or proceeds from poultry or poultry products.

In order to be eligible for restitution under a trust, a seller must file within 30 days of the unpaid transaction. When a trust claim is filed, GIPSA analyzes the claim to determine if the claim appears to be filed timely and supported by adequate documentation. The trustee receives GIPSA's analysis as a courtesy. It is the responsibility of the trustee or surety company to make the final evaluation of claims and make payment. In some cases, claims may be made against and paid by both bond and trust assets.

Financial Failures And Amounts Paid

Bonding requirements usually do not cover the entire loss sustained when a firm fails financially. Further, some livestock sellers do not always determine the current bond status of smaller packers, dealers, and market agencies before selling livestock to them, making those sellers vulnerable to insufficient bond protection when these smaller firms fail. If a large packer fails (as one did in 2002, owing more than \$15 million), its losses may impact auction markets and dealers from whom it purchased livestock and whom it failed to pay.

Since 1997, there have been an average of 8 dealer failures per year, with as many as 11 in 1 year and as few as 1. Percent restitution to livestock sellers from all sources has been as high as 38 percent and as low as 8 percent in any year, with an average of 21 percent (Table 12).

Table 12. Total Dealer Financial Failures and Restitution, 1997-2006

Fiscal Year	No	Owed for Livestock (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	Percent
1997	8	732,424	243,450	38,064	38
1998	10	685,726	133,345	61,435	28
1999	10	1,684,128	291,261	38,024	20
2000	11	1,464,733	324,979	91,800	28
2001	11	2,841,305	317,444	24,786	12
2002	11	3,271,962	618,764	60,000	21
2003	5	1,805,600	112,281	28,923	8
2004	3	770,860	95,000	0	12
2005	1	2,993,990	*	0	0
2006 (est)	10	128,383	73,892	26,856	78

* Recovery rate undetermined pending final resolution.

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. If a large dealer fails (as one did in 2005, owing more than \$1 million in unprotected livestock debt), its losses may impact every auction market which it failed to pay. Since 1997, there have been as many as 6 auction market failures in any 1 year and as few as 2, with an average of 4 per year. The percent restitution to consignors averages 54 percent, ranging from 78 to 29 percent (Table 13).

Table 13. Total Auction Market Financial Failures and Restitution, 1997-2006

Fiscal Year	No	Owed Consignors (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	Percent
1997	5	258,768	182,029	13,473	76
1998	2	225,001	66,131	0	29
1999	3	862,666	60,000	424,589	56
2000	4	399,023	100,193	186,113	71
2001	4	1,104,985	133,745	519,265	59
2002	6	1,082,034	378,610	0	35
2003	6	1,187,979	211,464	138,848	30
2004	2	145,772	60,000	16,649	53
2005	3	336,006	85,000	201,840	78
2006 (est)	6	672,524	166,000	19,380	28

Risk Assessment

As the livestock and meat industries evolve, GIPSA continues to examine alternate methods of effectively regulating and monitoring the livestock industry to effectively allocate its resources for conducting and planning regulatory compliance reviews. GIPSA is designing a risk-assessment model to be used as a tool in our regulatory work. The model applies statistical methods for calculating a “credit rating” similar to the score used in lending industries. The score can then be applied to gauge the potential for behavior that may violate the Act, such as operating while insolvent. The model is being designed to improve the effectiveness of compliance reviews by enabling GIPSA to better schedule audits and other compliance reviews of entities that expose livestock sellers' capital to a greater level of risk.

Reports, Research, and Other Initiatives and Activities

Assessment Report

GIPSA has released five assessment reports to Congress on the cattle and hog industries covering calendar years 2000 through 2005. Two of the reports also examined the poultry industry; one reviewed the sheep industry. The reports indicated that substantial changes are occurring in industry structure, and in the behavior of firms in the livestock and meatpacking industries. Livestock and poultry feeding is more concentrated and feeding operations have gotten larger, and vertical coordination arrangements are becoming more varied and sophisticated. Competitive forces, such as technological developments and changes in consumer demand, drive many of the changes, often with positive effects for the industries involved, for consumers, and for the Nation as a whole. As a consequence of those industry changes, GIPSA monitors industry structure, performance, and behavior for signs of violations of the Packers and Stockyards Act.

GIPSA is monitoring these changes in industry structure and behavior, and investigating practices that may be unlawful under the P&S Act. The agency may undertake regulatory initiatives to assure more effective enforcement of the P&S Act. In addition, GIPSA uses research and analysis, and other tools to assess the economic, competitive, and trade practice implications of structural and behavioral changes.

Statistical Report

In February 2006, GIPSA published an annual statistical report on the livestock and meatpacking industry for calendar year 2004. The report provides data on industry concentration, plant size, packer financial performance, and number of animals purchased by packers by source of supply – public markets (terminals and auctions) and nonpublic (all other) sources of livestock. The report includes data on slaughtering packers; market agencies buying or selling livestock on commission, including auction markets and selling agencies at terminal stockyards; and livestock dealers buying and selling livestock for their own accounts.

Livestock and Meat Marketing Study

GIPSA is conducting a Congressionally mandated study of issues surrounding the use of packer feeding and other marketing arrangements in the livestock and meatpacking industries. The study is examining marketing arrangements that are being used to transfer cattle, beef, hogs, pork, sheep, and lamb through the production and marketing system.

GIPSA contracted with Research Triangle Institute, International (RTI) of Research Triangle Park, North Carolina, to conduct the study. RTI delivered an interim report in July 2005, describing alternative marketing arrangements and their terms, and reasons that industry participants give for using alternative arrangements. RTI will deliver a final report in February 2007. It will provide a quantitative analysis of prices, costs, and benefits of alternative marketing arrangements. The second report will assess the implications of potential future changes in the use of various types of marketing arrangements, including packer feeding.

Management Initiatives

Management Initiatives

OIG Audit Report

USDA's Office of the Inspector General audited GIPSA's management and oversight of P&SP and issued their report (Report No. 30601-01-Hy) on January 10, 2006. The audit report presented four findings; identified three material weaknesses under the Federal Managers Financial Integrity Act; and provided 10 recommendations to improve management and oversight of the P&SP.

GIPSA agreed with the findings of the audit and proposed an action plan to address each recommendation. The GIPSA response was incorporated into the audit report and management decision was reached on all 10 recommendations.

Through September 2006, GIPSA completed work on 9 of the 10 recommendations. GIPSA is addressing the final recommendation by developing a comprehensive internal review program to improve monitoring and reporting on agency activities. The agency has developed draft procedures and audited compliance with established policy on a trial basis as the first step in establishing an internal control program which will be implemented in FY 2007.

Competitive Sourcing

GIPSA's competitive sourcing program remains on schedule. The agency completed its Federal Activities Inventory Reform (FAIR) Act Inventory on schedule and prior to the Department's targeted deadline. The inventory defines Inherently Governmental and Code "A" Commercial positions. GIPSA also completed its fiscal year 2006 – 2009 Competitive Sourcing "Green" plan in a timely manner.

Enterprise Architecture

GIPSA continues to modernize its entire application portfolio, based upon results of its Enterprise Architecture effort to improve the efficiency and effectiveness of service delivery by streamlining business practices and improving customer service, meeting the Federal governments eGov requirements, as well as USDA initiatives. The name of this program is the GIPSA Application Modernization (GAM). During FY 2006, GIPSA deployed seven (7) applications that are Web based and will be accessible by the public. Further enhancements were being addressed for Federal Grain Inspection Services Inspection Data Warehouse and Certificates applications which are now scheduled to be deployed in January 2008. One of the more recent deployments this year was GIPSA Delegation, Designation, and Export Registration, where state agencies and private companies can apply to inspect grain under the name of USDA. In FY 2007, GIPSA plans to modernize its Inspection, Testing, and Weighing, Service Offerings, Service Requests, Field Test Equipment, and Equipment Capability Testing applications.

**Toll-Free Hotline
And E-mail**

GIPSA maintains a toll-free number (1-800-998-3447) and e-mail address (PSPComplaints@usda.gov) to allow members of the grain, livestock, and poultry industries and the public to report complaints and share concerns. Alternatively, individuals or firms with complaints about the livestock and poultry industries are encouraged to call the appropriate Regional Office to discuss their complaints.

Explosion Data

GIPSA receives information on agricultural dust explosions through the cooperation of Dr. Robert Schoeff, Professor Emeritus, Kansas State University; Mavis Rogers, GIPSA; and a news clipping service. GIPSA does not investigate agricultural dust explosions and the private sector is not required to report explosions to GIPSA. This data is subject to change as new information becomes available.

**Summary of Reported
Agricultural Dust Explosions
Fiscal Years 2004 –2006**

	2004	2005	2006
Number of Explosions	6	10	9
Number of Injuries	3	3	11
Number of Deaths	0	1	1

**Reported Agricultural
Dust Explosions
FY 2006**

Facility	Location	Date	Injuries	Fatalities
Wells Food	Monmouth, IL	08/27/06	0	0
General Mills	American Falls, ID	05/03/06	0	0
Post Cereals	Battle Creek, MI	02/24/06	0	0
Livengood Feeds	Lockhart, TX	02/23/06	2	0
Browns of Carolina	Laurinburg, NC	12/30/05	2	0
Land O'Lakes Purina LLC	Statesville, NC	12/30/05	1	1
Crystal Cooperative	Vernon Center, MN	10/25/05	6	0
Wendell Farmers Elevator Co.	Wendell, MN	10/22/05	0	0
Johnson Feed and Seed Inc.	Johnstown, CO	10/02/05	0	0

Financial Overview

Financial Overview

Status of GIPSA User Fee-Supported Accounts* Fiscal Year 2006

Program	Revenue 09/30/06	Obligations 09/30/06	Profit/(Loss) 09/30/06	Retained Earnings 09/30/06
US Grain Standards Act				
Canadian Operations	\$ 267,753	\$ 176,283	\$ 91,470	\$ 153,417
Inspection & Weighing	30,125,661	28,633,468	1,492,193	2,061,465
Official Agencies	2,232,148	1,646,907	585,241	1,425,079
Registration	15,720	21,690	(5,970)	101,706
USGSA Subtotal	\$32,641,282	\$ 30,478,348	\$ 2,162,934	\$3,741,667
Agricultural Marketing Act				
Rice Inspection	3,974,180	4,443,115	(468,935)	(114,282)
Commodity Inspection	2,082,491	2,244,782	(162,290)	1,897,263
AMA Subtotal	\$ 6,056,671	\$ 6,687,897	\$ (631,225)	\$ 1,782,981
Total Fiscal Year 2006	\$38,697,953	\$37,166,244	\$1,531,709	\$5,524,648

*Number may not sum due to rounding.

GIPSA's Appropriated Budget Authority Fiscal Years 2002-2006

Dollars in thousands

Appropriated Funds	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Federal Grain Inspection Service	\$15,244	\$15,244	\$16,939	\$17,491	\$18,186
Packers and Stockyards Program	17,873	23,426	18,951	19,510	20,257
Total Budget Authority	\$33,117¹	\$39,950^{2/3}	\$35,890⁴	\$32,299⁵	\$38,443⁶

1 Reduced by a rescission of \$51,071.

2 Reduced by a rescission of \$259,675.

3 Includes \$2 million that was reprogrammed to the FGIS Inspection and Weighing user fee account.

4 Reduced by a rescission of \$212,000 under H.R. 2673.

5 Reduced by a rescission of \$298,392 under P.L. 108-447.

6 Reduced by a rescission of \$384,430 under P.L. 109-97.

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