

2010 Explanatory Notes
Grain Inspection, Packers and Stockyards Administration

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GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Purpose Statement

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of the former Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Administration (PSA). The mission of the agency is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture. GIPSA is composed of three major activities (1) Grain Regulatory Program, (2) Grain Inspection and Weighing Services, and (3) Packers and Stockyards Program.

The Grain Regulatory Program activities are carried out under authority of the United States Grain Standards Act, as amended (USGSA), and the Agricultural Marketing Act of 1946 (AMA), and are currently funded by appropriations.

The Grain Regulatory Program promotes and enforces the accurate and uniform application of the USGSA and applicable provisions of the Agricultural Marketing Act of 1946 (AMA). GIPSA identifies, evaluates, and implements new or improved techniques for measuring grain quality. GIPSA also establishes and maintains testing and grading standards to facilitate the marketing of U.S. grain, oilseeds, and related products.

Grain Inspection and Weighing Services are authorized under both the USGSA and the AMA. The USGSA requires the mandatory inspection and weighing of grain at export ports by GIPSA or delegated State agency personnel, and the permissive inspection and weighing of grain at domestic locations by designated State and private agency personnel. The USGSA also requires GIPSA to supervise all official inspection and weighing activities. On a request basis, GIPSA performs inspection of rice and related commodities under the AMA. Both statutes require GIPSA to collect user fees to fund the costs of operations including the supervision and administration of Federal grain inspection and weighing activities.

Packers and Stockyards Program activities are authorized by the Packers and Stockyards Act of 1921 (P&S Act), as amended, and Section 1324 of the Food Security Act of 1985. These activities are currently funded through appropriations. GIPSA's Packers and Stockyards Program (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. P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. P&SP activities cover two general areas: Business Practices and Financial Protection. Business Practices are further divided into Competition and Trade Practices.

GIPSA headquarters is located in Washington, D.C. FGIS field activities are located in 8 field offices, 1 Federal/State offices, and 4 suboffices. P&SP field activities are located in 3 field offices and 46 resident agent positions across the nation. As of September 30, 2008, employment totaled 633 full-time permanent employees and 85 part-time, intermittent and/or other employees. Of the total, 101 full-time permanent employees and 3 part-time, intermittent and/or other employees were located in headquarters. The remaining 532 full-time permanent employees and 82 part-time, intermittent and/or other employees were assigned to field locations.

A discussion draft of OIG report #30016-02-Hy, a follow-up audit of the Packers and Stockyards Program, was submitted to GIPSA on March 6, 2009. GIPSA is waiting to receive the final copy of the report from the Office of Inspector General.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Available Funds and Staff-Years
2008 Actual and Estimated 2009 and 2010

Item	Actual 2008		Estimated 2009		Estimated 2010	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses.....	\$38,514,000	253	\$40,342,000	263	\$41,964,000	270
Unobligated Balance.....	-357,131	--	--	--	--	--
Total, Salaries and Expenses.....	38,156,869	253	40,342,000	263	41,964,000	270
<u>Obligations under other</u>						
<u>USDA Appropriations:</u>						
Agricultural Marketing Service						
for Pesticide Data Program	403,482	3	490,500	2	490,500	2
Farm Service Agency						
for Commodity Credit Corp.....	(12,327)	0	450,000	1	450,000	1
Misc, reimbursements.....	108,499	1	26,500	1	26,500	1
Total, Other USDA						
Appropriations.....	499,654	4	967,000	4	967,000	4
Total, Agriculture						
Appropriations.....	38,656,523	257	41,309,000	267	42,931,000	274
<u>Non-Federal Funds:</u>						
Inspection and Weighing.....	41,803,199	390	42,463,000	390	42,463,000	390
Total, Grain Inspection, Packers and Stockyards Administration	80,459,722	647	83,772,000	657	85,394,000	664

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Permanent Positions by Grade and Staff Year Summary2008 Actual and Estimated 2009 and 2010

Grade	2008			2009			2010		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Senior Executive									
Service	4	1	5	4	1	5	4	1	5
GS-15	9	5	14	9	5	14	9	5	14
GS-14	24	22	46	24	22	46	24	22	46
GS-13	41	39	80	41	39	80	41	39	80
GS-12	22	67	89	22	77	99	22	84	106
GS-11	12	62	74	12	62	74	12	62	74
GS-10	1	8	9	1	8	9	1	8	9
GS-9	2	134	136	2	134	136	2	134	136
GS-8	7	12	19	7	12	19	7	12	19
GS-7	6	70	76	6	70	76	6	70	76
GS-6	1	30	31	1	30	31	1	30	31
GS-5	1	48	49	1	48	49	1	48	49
GS-4	--	1	1	--	1	1	--	1	1
GS-3	--	--	--	--	--	--	--	--	--
GS-2	--	1	1	--	1	1	--	1	1
Ungraded Positions	2	1	3	2	1	3	2	1	3
Total Permanent Positions.....	132	501	633	132	511	643	132	518	650
Unfilled Positions									
End-of-year.....	0	0	0	0	0	0	0	0	0
Total, Permanent Full-Time Employment, End-of-year.....	132	501	633	132	511	643	132	518	650
Staff Year Estimate	135	512	647	135	522	657	135	529	664

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

SIZE, COMPOSITION AND COST OF MOTOR VEHICLE FLEET

The passenger motor vehicles of the Grain Inspection, Packers and Stockyards Administration are mainly used by professional resident agents, auditors, marketing specialists, economists and managers to conduct competition, financial and trade practice compliance and investigative activities. These activities are located in rural areas and a high degree of mobility is required. The use of common carriers is seldom feasible. Comparative studies of cost requirements involved in the use of private and Government vehicles have shown that it is more economical to make Government vehicles available than to make reimbursements for the use of private cars. Leased vehicles are replaced based on the General Services Administration (GSA) age and mileage requirements.

GIPSA pools the use of motor vehicles for different activities in order to keep the number of vehicles to a minimum and reduce overall costs of maintenance. Additions to the fleet are due to additional resident agent positions which will require the use of motor vehicles. Another change to the fleet is the transition to agency-owned vehicles from leased vehicles from GSA. These replacements are due a cost analysis which showed that owning vehicles would be more cost effective than leasing vehicles. This is reflected in the estimated per vehicle operating cost decrease in FY 2009 and FY 2010.

Size, Composition, and Annual Cost
(in thousands of dollars)

Fiscal Year	Number of Vehicles by Type							Total Vehicles	Annual Operating Cost (\$ in thous)
	Sedans and Station Wagons	Light Trucks		Medium Trucks	Heavy Trucks	Ambulances	Buses		
		4X2	4X4						
FY 2007	25	20	1					46	\$218
Change	14	5	1					20	-\$9
FY 2008	39	25	2					66	\$313
Change	0	0	30					30	+\$83
FY2009 est.	39	25	32					96	\$396
Change	30	0	0					30	+\$36
FY2010 est.	69	25	32					126	\$432

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

The estimates include appropriation language for this item as follows:

Salaries and Expenses

For necessary expenses to carry out the provisions of the United States Grain Standards Act, for the administration of the Packers and Stockyards Act, for certifying procedures used to protect purchasers of farm products, and the standardization activities related to grain under the Agricultural Marketing Act of 1946, [\$40,342,000] \$41,964,000: Provided, That this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but the cost of altering any one building during the fiscal year shall not exceed 10 percent of the current replacement value of the building.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

SALARIES AND EXPENSES - CURRENT LAW

Appropriations Act, 2009.....	\$40,342,000
Budget Estimate, 2010	<u>41,964,000</u>
Increase in Appropriation	<u>+1,622,000</u>

SUMMARY OF INCREASES AND DECREASES

(On basis of appropriation)

<u>Item of Change</u>	<u>2009 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2010 Estimated</u>
Packers & Stockyards Program.....	\$22,412,000	\$380,000	\$900,000	\$23,692,000
Grain Regulatory Program.....	<u>17,930,000</u>	<u>342,000</u>	<u>0</u>	<u>18,272,000</u>
Total Available	<u>40,342,000</u>	<u>722,000</u>	<u>900,000</u>	<u>41,964,000</u>

Project Statement

(On basis of appropriation)

	<u>2008 Actual</u>		<u>2009 Estimated</u>		Increase or Decrease	<u>2010 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
1. Packers and Stockyards	\$20,706,696	131	\$22,412,000	141	+1,280,000 (1)	\$23,692,000	148
2. Grain Regulatory	17,450,171	122	17,930,000	122	+342,000 (2)	18,272,000	122
Unobligated Balance	<u>357,133</u>	--	--	--	--	--	--
Total Available or Estimate	38,514,000	253	40,342,000	263	<u>+1,622,000</u>	<u>41,964,000</u>	<u>270</u>
Rescission	271,000	--	--	--			
Total, Appropriation	<u>38,785,000</u>	<u>253</u>	<u>40,342,000</u>	<u>263</u>			

JUSTIFICATION OF INCREASES AND DECREASES

- (1) A increase of \$1,280,000 in the Packers and Stockyards Program (\$22,412,000 available in 2009) consisting of:

- (a) A total increase of \$722,000 for pay costs which consists of \$380,000 for Packers and Stockyards program activities.

This increase will enable GIPSA to meet its objectives of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture, consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand to ensure a fair, open, and competitive marketing environment for livestock, meat, and poultry; and to promote and protect the integrity of the domestic and global marketing of U.S. grain for the benefit of American agriculture. Approximately 70 percent of GIPSA's budget is in support of personnel compensation, leaving very little flexibility to absorb pay cost increases. Consequently, absorbing this increase may result in staff reductions, thereby adversely affecting the ability of GIPSA to carry out its mission.

- (b) An increase of \$900,000 and 7 staff years to strengthen GIPSA's enforcement of the Packers and Stockyards Act of 1921 as amended:

GIPSA's Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act of 1921 (P&S Act). The P&S Act prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. As such, compliance with the Act is a measure of the level of protection provided in the marketplace. The Agency strives to increase industry compliance in order to maximize the level of protection afforded all market participants. To ensure compliance, GIPSA conducts two types of activities—regulatory inspections and audits, and investigations—in its administration and enforcement of the P&S Act. Regulatory inspections and audits are conducted on a routine basis to assess whether a subject entity is operating in compliance with the Act. Examples include inspections of livestock scales and custodial account audits. Investigations are conducted when a potential P&S Act violation has been identified either through industry complaints or previous GIPSA regulatory inspections. All activities are conducted by a cadre of specialists including economists, lawyers, accountants and agricultural marketing professionals that report to three regional offices. Complaints regarding potential P&S violations have increased 22 percent in recent years and the Agency's current staffing levels are insufficient to address the growing need for regulatory and audit activities. As a result, current overall industry compliance is about 80 percent. Additional staff is needed to expand regulatory and audit activities in order to raise industry compliance levels and enhance market protections for buyers and sellers of livestock, poultry and meat.

The proposed increase will enable GIPSA to hire 7 new employees to enhance direct compliance, investigative and enforcement activities in the field. The Agency will hire 4 new resident agents in Louisiana, Nebraska, New Mexico, and North Dakota to expand compliance reviews and investigations. Other professionals will be added to each regional office to provide specialized technical expertise to support the increasingly complex investigative workload in the analysis of competition issues. The average staff year cost for these positions (GS-11/12) is approximately \$118,000 which covers salary, benefit, travel, training, and equipment costs for each new employee.

This increased workforce will strengthen direct enforcement of the Act and promote greater voluntary compliance through an expanded presence within the industry. The funding will

support approximately 100 additional regulatory review audits of packers, livestock markets and dealers and allow GIPSA to respond quickly to complaints of unfair and deceptive practices. The increase would also facilitate GIPSA's ability to conduct a solvency audit of a large packer as the need arose and would allow the Agency to significantly increase routine financial audits – solvency, custodial accounts, and prompt pay – of all regulated entities including packers. The additional staffing will help GIPSA increase overall compliance with the P&S Act to 85 percent in FY 2010 once all new personnel are on-board and fully trained.

(2) A net increase of \$342,000 in the Grain Regulatory Program (\$17,930,000 available in 2009) consisting of:

- (a) A total increase of \$722,000 for pay costs which consists of \$342,000 for Grain Regulatory program activities.

This increase will enable GIPSA to meet its objectives of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture, consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand to ensure a fair, open, and competitive marketing environment for livestock, meat, and poultry; and to promote and protect the integrity of the domestic and global marketing of U.S. grain for the benefit of American agriculture. Approximately 70 percent of GIPSA's budget is in support of personnel compensation, leaving very little flexibility to absorb pay cost increases. Consequently, absorbing this increase may result in staff reductions, thereby adversely affecting the ability of GIPSA to carry out its mission.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and Expenses

USER FEES - PROPOSED LEGISLATION

Explanation of Proposed Legislation:

This proposal would recover approximately \$27 million.

The Grain Inspection, Packers and Stockyards Administration (GIPSA) develops, reviews, and maintains official U.S. grain standards that describe the grain characteristics in terms of physical, sanitary, and intrinsic value at the time of inspection. These standards provide a common language for use by producers, sellers, and buyers of U.S. grain. This proposal would initiate user fees for this service. Because these standards benefit and are used almost solely by the grain trading industry, and because they facilitate the orderly marketing of grain products, it is industry that should bear the costs. Fees would be charged to those who benefit from such services such as those who receive, ship, store, or process grain. Estimated receipts in FY 2010 would be \$3 million.

This proposal would also amend the Packers and Stockyards Act (P&S Act) to provide authority to collect license fees to cover the cost of the program. Beneficiaries of the program and activities administered under the provisions of the P&S Act are livestock market agencies, dealers, stockyards, packers, live poultry dealers, and swine contractors. These market participants benefit because they are protected from the adverse effects of anticompetitive and unfair business practices in meat and poultry marketing and distribution. Estimated receipts in FY 2010 would be \$24 million.

The collections that will be raised by initiating these new user fees will be used to reduce appropriations needs for 2011.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesGeographic Breakdown of Obligations and Staff Years
2008 Actual and Estimated 2009 and 2010

	2008		2009		2010	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas	\$71,934	1	\$74,000	1	75,000	1
Colorado	4,837,237	43	5,083,000	44	5,303,000	45
District of Columbia	17,108,523	58	17,568,000	58	18,011,000	59
Georgia	3,906,697	36	4,127,000	37	4,329,000	38
Idaho	99,441	2	102,000	2	104,000	2
Illinois	0	0	116,000	1	\$118,000	1
Indiana	0	0	116,000	1	\$118,000	1
Iowa	4,363,236	38	4,596,000	49	4,678,000	49
Kansas	568,870	8	700,000	9	713,000	9
Louisiana	951,170	10	977,000	10	1,123,000	11
Missouri	5,388,274	48	5,649,000	49	5,750,000	49
Nebraska	0	0	116,000	1	118,000	1
New Mexico	0	0	0	0	129,000	1
North Dakota	87,730	1	91,000	1	221,000	2
Ohio	138,971	1	143,000	1	146,000	1
Oklahoma	0	0	116,000	1	118,000	1
Oregon	286,830	3	295,000	3	300,000	3
South Carolina	0	0	116,000	1	118,000	1
Texas	217,187	3	223,000	3	356,000	4
Washington	130,769	1	134,000	1	136,000	1
Subtotal, Available or Estimate	38,156,869	253	40,342,000	263	41,964,000	270
Unobligated balance	357,133	--	--	--	--	--
Total, Available or Estimate	38,514,000	253	40,342,000	263	41,964,000	270

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesCLASSIFICATION BY OBJECTS2008 Actual and Estimated 2009 and 2010

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Personnel Compensation:			
Washington, DC.	\$8,111,261	\$8,300,000	\$8,500,000
Field.	<u>14,543,582</u>	<u>15,500,000</u>	<u>16,300,000</u>
11 Total personnel compensation	22,654,843	23,800,000	24,800,000
12 Personnel benefits.	5,854,809	6,150,000	6,600,000
13 Benefits for former personnel. .	<u>6,158</u>	<u>0</u>	<u>0</u>
Total personnel compensation & benefits	28,515,810	29,950,000	31,400,000
Other Objects:			
21 Travel and trans. of persons . . .	2,058,660	2,400,000	2,440,000
22 Transportation of things	124,657	135,000	140,000
23.2 Rental payments to others.	62,318	100,000	134,000
23.3 Communications, utilities and misc. charges	713,592	730,000	735,000
24 Printing and reproduction.	63,601	80,000	120,000
25.2 Other services	5,114,503	5,400,000	5,440,000
26 Supplies and materials	601,829	617,000	620,000
31 Equipment	901,854	930,000	935,000
43 Interests	<u>45</u>	<u>0</u>	<u>0</u>
Total other objects	<u>9,641,059</u>	<u>10,392,000</u>	<u>10,564,000</u>
Total direct obligations.	<u>38,156,869</u>	<u>40,342,000</u>	<u>41,964,000</u>
<u>Position Data:</u>			
Average Salary, ES positions.	\$154,000	\$160,000	\$164,000
Average Salary, GS positions.	\$69,000	\$72,000	\$74,000
Average Grade, GS positions	12.2	12.2	12.2

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
SALARIES AND EXPENSES
STATUS OF PROGRAM

Federal Grain Inspection Service

GIPSA's Federal Grain Inspection Service (FGIS) administers uniform, national grain inspection and weighing programs established by the U.S. Standards Act. The program 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 (USGSA) and Agricultural Marketing Act (AMA) of 1946. Through these activities, FGIS facilitates the marketing of grain, oilseeds, and related products.

Current Activities:

Providing the Market with Terms and Methods for Quality Assessments

Mycotoxin and Biotechnology Test Kit Approvals

The grain industry needs fast, reliable tests to assess the presence of biotechnology-derived grains and oilseeds and mycotoxins in grain. To ensure that rapid and reliable tests are commercially available, GIPSA provides a performance verification and approval program for such rapid tests.

In FY 2008, GIPSA evaluated a total of 28 rapid test kits for 5 different mycotoxins. More specifically, GIPSA evaluated 12 qualitative and 16 quantitative rapid test kits, approving all of the qualitative tests and 14 of the quantitative tests (Table 1).

TABLE 1: FY 2008 Mycotoxins Rapid Test Kit Evaluation Summary

Mycotoxin	Quantitative Methods		Qualitative Methods	
	<i>Evaluated</i>	<i>Approved</i>	<i>Evaluated</i>	<i>Approved</i>
Aflatoxins	5	4	3	3
Deoxynivalenol	7	6	9	9
Ochratoxin	2	2	0	0
Fumonisin	1	1	0	0
Zearalenone	1	1	0	0
Totals	16	14	12	12

GIPSA also evaluated six biotechnology rapid tests. All six of the tests met established performance criteria and received Certificates of Performance.

Corn Standards

USDA loan programs for grains, oilseeds, and related commodities rely for Specialty Type Corn on GIPSA's definitions and standards for those crops. In FY 2008, GIPSA established standardized criteria and uniform inspection procedures to facilitate the marketing of blue corn, which is predominantly used to make blue tortillas, tortilla chips, and flour. Producers of these crops may now qualify for marketing assistance loans and loan deficiency payments, both tools in helping them manage their risks.

Sorghum Standards

Effective June 1, 2008, GIPSA revised the official U.S. Standards for Sorghum to amend the definitions for various sorghum types as well as to amend the grade limits for broken kernels and foreign material. These changes will help facilitate the marketing of U.S. sorghum by better describing the types of grain sorghum produced by American farmers and by imposing tighter limits on BNFMs.

Pesticide Residue Method Development and Testing

GIPSA analyzed 650 corn samples in FY 2008 as part of the agency's participation in the Pesticide Data Program, a cooperative effort of the USDA, U.S. Environmental Protection Agency and 10 participating states. In addition,

GIPSA developed new methodology for analyzing rice that will be validated and used to analyze approximately 650 rice samples.

GIPSA's current wheat export cargo pesticide survey was also augmented by the development and validation of a method for analyzing spinosad in wheat and the work in developing a method for analyzing glyphosate in wheat.

Post Harvest Grain Quality Surveys

In FY 2008, GIPSA has continued the "farm gate" survey of first-point-of-sale grading quality for grain sorghum that began in 2006. As the assessment process continues, GIPSA is analyzing the data already collected to assess average quality. GIPSA also extended the soybean farm gate survey initiated in 2007 to include an export assessment to compare the quality of U.S. soybeans at the farm gate versus at the point of export. This first-point-of-sale, or farm-gate, inspection data provides a baseline of grading quality that allows FGIS to better evaluate the market impact of proposed changes to the grain standards.

Reference Methods

Objective grain quality assessments depend on reliable, well standardized measurement methods. GIPSA maintains reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins. These methods are used to maintain the accuracy of testing in the official inspection system and to support development of new rapid field methods. Due to the market's lack of both a clear definition and standardized measurement test of gluten "strength"—widely regarded as one of the most important aspects of wheat functionality—GIPSA has continued to cooperate with the USDA Agricultural Research Service (ARS), universities, and the private sector in FY 2008 to develop new standardized methods for describing the viscous and elastic properties of gluten.

In FY 2008, GIPSA also established and demonstrated the utility of a High Performance Liquid Chromatography (HPLC) reference method that is consistent with work performed at the ARS laboratory in Manhattan, Kansas. The HPLC reference method serves as an objective method of identifying wheat varieties that will augment the official inspection system's current subjective analyses. GIPSA also evaluated Ultra-High Performance Liquid Chromatography (UPLC) in FY 2008 for potential use as the aflatoxin reference method. This new method has the potential of providing more rapid and accurate analyses.

Biotechnology

The Biotechnology Proficiency Program, GIPSA's internationally recognized proficiency program, now includes 159 participating organizations, more than 80 percent of which are from outside the United States. Since most biotechnology challenges come from international trade, the high percentage of foreign participants illustrates the global reach of this program and its contribution to GIPSA's efforts to facilitate trade. The program enables organizations that test for the presence of biotechnology-derived grains to improve both the accuracy and precision of testing by identifying deficiencies and improving testing methodologies.

In recent years, there have been instances of unintentional releases of unapproved transgenic events into the U.S. grain handling system. In FY 2008, GIPSA established a formal Memorandum of Understanding (MOU) with the USDA Animal and Plant Health Inspection Service (APHIS) to provide expertise and assistance in responding to unintended releases of unapproved biotechnology events.

Standardizing Commercial Grain Inspection Equipment

In FY 2008, GIPSA continued to participate in an ongoing cooperative effort with the National Conference on Weights and Measures (NCWM) 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's National Type Evaluation Program (NTEP). GIPSA collected grain moisture meter calibration data for six instrument models as part of NTEP's 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 moisture meters used in commercial transactions throughout the United States. The NTEP laboratory completed an evaluation for test weight per bushel determination as an add-on feature for one currently approved grain moisture meter model. GIPSA is certified by NIST's Echelon III Metrology lab, which enables GIPSA to

calibrate its test weight standards and perform test weight calibrations for the grain industry and other commercial entities. In FY 2008, GIPSA carried out approximately 180 calibrations.

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. In FY 2008, GIPSA maintained IS 9000:2000 registration for its primary reference methods (protein, oil, and moisture) and its Pesticide Data Program as part of the Agency's quality management focus and to enhance international credibility and acceptance.

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

Alleged Violations

At the beginning of FY 2008, 12 cases involving alleged violations of the U.S. Grain Standards Act (USGSA) and the AMA were pending further GIPSA action. During FY 2008, 24 cases were opened, including cases involving exporting without official inspection and weighing, adding water to grain, and employee misconduct. GIPSA issued a combination of cautionary, warning, and informational letters to close 15 cases originating in FY 2007 and FY 2008 and leaving 21 cases opened at the end of FY 2008.

Delegation and Designation Program

GIPSA oversees 54 official agencies that are designated under the USGSA to provide permissive official inspection and/or weighing services at domestic locations. Of these, four are States that are also delegated to provide mandatory official inspection and weighing services at export locations. One additional State is delegated but not designated. Delegations are permanent unless GIPSA or the State terminates the agreement.

Under the triennial renewal process, 19 official agency designations automatically terminated in FY 2008. After performance reviews, GIPSA renewed 18 of the 19 for full 3-year terms, and 1 was renewed for a limited 1-year term and not designated for all of the geographic area for which they applied due to major noncompliances found. One State was added as a designated state.

Conflicts of Interest

Under the USGSA's conflict of interest provisions, official personnel are prohibited from retaining or maintaining any financial interest in any grain business, and being employed or otherwise engaged in such businesses or accept any gratuity from such businesses. At the beginning of FY 2008, GIPSA approved three designated official agencies to operate with discretionary conflict-of-interest waivers. All three agencies remain designated with conflict waivers.

Compliance Reviews

Compliance reviews inspect GIPSA's grain inspection and weighing field operation, which includes Federal, State, and private laboratories. GIPSA conducted onsite compliance reviews of 2 GIPSA offices, 1 State agriculture department, and 27 private agencies in FY 2008. Customer satisfaction and procedural compliance were evaluated. GIPSA found no instances of service delivery discrimination. None of the findings appear to have affected the integrity of the national inspection system.

Complaints

GIPSA administers a grain quality and weight discrepancy process. When an importer of US grains reports a quality or weight discrepancy, GIPSA initiates an investigation to determine the validity of the discrepancy. GIPSA analyzes samples retained on file from the original inspection and samples submitted from destination to evaluate whether the discrepancy was due to inspector or instrument error, or 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 provides suggestions to avoid similar discrepancies in the future.

In 2008, the Farm Service Agency (FSA) notified GIPSA that they received quality complaints from U.S. Agency for International Development (USAID) food aid recipients in Malawi, Guatemala, and Honduras on edible dry beans they received from the United States. Per FSA's request, GIPSA sent an inspector to those countries to initiate comprehensive investigations of the alleged quality complaints and obtain representative samples that were analyzed by GIPSA's Technical Services Division (TSD) in Kansas City, Missouri. After lengthy and thorough investigations, GIPSA issued detailed reports of its findings to FSA confirming the receivers' allegations of receiving beans that did not meet contract requirements. FSA is pursuing further investigation.

In FY 2008, GIPSA received seven quality complaints and one weight complaint from importers on grains inspected under the U.S. Grain Standards Act (Table 2). These complaints involved 121,613 metric tons, or about 0.09 percent by weight, of the total amount of grain exported during the year. This compares to 6 quality and 3 weight complaints received in FY 2007, representing about 0.2 percent of grain exports by weight. In the preceding 5 years, GIPSA received an average of 10 complaints per year, representing about 0.2 percent of U.S. grain exports by weight.

TABLE 2: Summary of Complaints Reported by Importers on Inspection and Weighing, FY 2008

Complainant	Grain	No. of Complaints	Nature of Complaint
Asia			
China	Soybeans	1	Treated beans
Malaysia	Corn	1	Odor, damage
Philippines	Wheat	1	Odor
South Korea	Corn	1	Broken corn, foreign material
Taiwan	Wheat	1	Odor
Central/South America			
Chile	Wheat	1	Odor, damage
Europe			
Italy	Wheat	1	Short weight
North America			
Mexico	Corn	1	Damage, heat damage
TOTAL		8	

Exception Programs

During FY 2008, GIPSA continued to operate three exception programs which allow more than one designated official agency to inspect or weigh grain in a single geographic area under specific circumstances.

The timeliness-of-service 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 2008, no facilities used the timely service exception.

The service exception program allows official agencies to offer their services to facilities outside their assigned area if no official service has been provided during the previous 3 months. During FY 2008, 99 applicants received 306,590 inspections under this program. This included 684 for barges, 65,558 for railcars, and 240,348 other inspections (e.g. trucks, containers, and Starlink™ testing).

FGISonline

In FY 2008 GIPSA continued to modernize the business functions of its grain program and continued to develop its core applications, including programs to capture inspection, testing, and weighing information at the point of origin; capture and manage technical testing information; automate the licensing process, and expand the agency's quality assurance and control capabilities. Enhancements were also made to the Certificates program and the Inspection Data Warehouse were released during FY 2008.

International Projects

GIPSA maintains ongoing initiatives 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 and the receiver. During FY 2008, GIPSA and the U.S. Grains Council visited several Mexican feed manufacturing laboratories throughout Mexico to discuss grain quality concerns, check-test lab equipment, and educate participants about GIPSA's role in the U.S. grain marketing system and U.S. export inspection procedures.

GIPSA representatives traveled to Ethiopia to review commodity standards and provide grain sampling and inspection training to local officials of a newly-established commodity exchange which opened in April 2008. GIPSA also placed two representatives in Asia on long-term temporary duty assignment to develop a more proactive approach in working with overseas Asian customers and their governments.

GIPSA collaborated with FAS, the U.S. Trade Representative, and USA Rice Federation to ensure open markets for U.S. rice in European and other international markets. GIPSA developed a letterhead statement to accompany shipments of U.S. rice to Russia to address concerns about LLRICE 601, an unapproved product of genetic engineering. Letterhead statements augment the information provided on the official certificate and are used to show information requested by the applicant but not required by regulation or procedure. GIPSA also worked with FAS and European Commission representatives to develop a protocol for point-of-origin rice sampling and certification that U.S. rice shipped to Europe has tested negative for LLRICE 601; and hosted EC officials' visits to Kansas, Louisiana, and Arkansas to audit USDA's and the U.S. industry's implementation of the protocol.

Outreach

Education

Based on the recommendation given by the Grain Inspection Advisory Committee for GIPSA in FY 2008 to join forces with the industry in a distance-education program, GIPSA teamed with the Grain Elevator and Processing Society and Kansas State University to develop a basic-level distance education course. The course will provide an introduction to the U.S. grain inspection system and is scheduled to be available in April 2009.

Delegation Meetings

GIPSA personnel frequently meet with delegations visiting from other countries to brief them on the U.S. grain marketing system, the national inspection and weighing system, U.S. grain standards, and GIPSA's mission. 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. During FY 2008, GIPSA personnel met with 43 teams from 38 countries.

Overseas Assistance

In FY 2008, 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 for GIPSA personnel to travel overseas to resolve issues relating to the movement of U.S. grain and grain products in international markets. These activities include participating in grain marketing and grain grading seminars, meeting with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, helping other countries develop domestic grain and commodity standards and marketing infrastructures, assisting importers with quality specifications, and training local inspectors in U.S. inspection methods and procedures.

Codex Involvement

The Codex Committee on Methods of Analysis and Sampling (CCMAS) met March 10-14, 2008, in Budapest, Hungary. The Committee serves as a coordinating body for Codex with other international groups working in methods of analysis and sampling and quality assurance systems for laboratories. A GIPSA representative serves as an alternate delegate to the Committee, providing technical expertise as the United States continues to be an active participant and very influential with respect to documents and proposals brought before the CCMAS.

PART Assessment

The Federal Grain Inspection Service underwent a PART assessment for the FY 2005 budget, and the overall program rating was “Moderately Effective.” Specifically, the findings of the assessment concluded that this GIPSA program had a clearly outlined strategic plan but contained deficiencies in purpose and design as well as performance evaluation. To address these concerns, improvements in how user fee data is collected and analyzed were undertaken through examinations of underlying assumptions in the fee structure. The program has also restructured the rice inspection workforce and adjusted the fees for rice inspection services in response to the decreased demand for such services. In addition, a pilot program was initiated to assess the effectiveness of delegating official inspections services to private sector companies. This pilot program and the analysis of results remain ongoing.

Packers and Stockyards Program

GIPSA’s Packers and Stockyards Program (P&SP) is responsible for administering the Packers and Stockyards Act (P&S Act). The Act prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and certain meatpacking industries as well as affording livestock sellers and poultry growers specified financial protections. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. Program activities cover two general areas: Business Practices and Financial. Business Practices are further divided into Competition and Trade Practices.

Regulatory and investigative actions frequently find that entities are in compliance with the Act. When violations are discovered, GIPSA assesses fines for admitted violations or pursues administrative or civil litigation with the USDA Office of the General Counsel before a USDA Administrative Law Judge or through the Department of Justice. Litigation may also result in a fine against the offending entity (Table 1) or a suspension of a registration required under the P&S Act to conduct regulated activity.

TABLE 3: Dollar Penalties Levied, 2005-2008, for P&S Act Violations

Type Judgment	2005	2006	2007	2008
Stipulations (\$)	NA	NA	9,750	23,275
Administrative penalties	114,300	196,350	404,150	657,770
DOJ Civil penalties (\$)	NA	NA	36,500	51,240

GIPSA maintains a toll-free telephone number and a dedicated e-mail address to allow members of the grain, livestock, and poultry industries and the public to report complaints and share concerns. Individuals or firms with complaints about the industries are encouraged to call the appropriate regional office to discuss their concerns, anonymously if desired. GIPSA responds to all of these complaints and sources of information. GIPSA may also initiate investigations independently, for example, as a result of information obtained from monitoring industry behavior.

Current Activities:

Business Practices

The Business Practices units include legal specialists, economists, and marketing specialists who focus on competition and trade practice issues. This unit is supported by resident agents that are remotely located throughout the country. The business practices unit conducts regulatory reviews and investigations to identify alleged unfair trade practices at auction markets, livestock dealers and order buyers, slaughtering packers, live poultry dealers, and meat dealers and brokers, and monitors market and firm prices for indications of anti-competitive firm behavior.

Competition and Trade Practices

Since 2006, GIPSA's regional Trade Practices and Competition Unit offices have been merged to bring the units under a single supervisor and more closely reflect that trade practice and competition violations form a continuum requiring the knowledge and skills of the marketing specialist, economists, and legal specialist to properly monitor and enforce the Act.

Anticompetitive behavior includes 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 examines the existence of unfair or deceptive trade practices in violation of the P&S Act by conducting 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.

To obtain compliance with the P&S Act, GIPSA undertakes investigative and regulatory activities. These are identified as either competitive or trade practices activities. Investigations are enforcement actions conducted when there is reason to believe a violation of the P&S Act is occurring. Investigations at a firm-level may be a follow-up to previously identified violations, in response to industry-driven complaints, and in response to possible violations found while conducting regulatory activities on a business's premises, or through other monitoring activities. Investigations may be conducted as rapid response actions to prevent irreparable harm to the regulated industries. In FY 2008, GIPSA closed 15 competition investigations, 640 financial investigations, and 613 trade practice investigations, for a total of 1,268 investigations closed.

Regulatory activities, on the other hand, are activities undertaken to determine whether or not a regulated entity is complying with the P&S Act. Two examples of regulatory activities are scale inspections and audits of custodial bank accounts maintained by market agencies for seller proceeds. In FY 2008, 456 scale checks were conducted finding 38 violations and 176 custodial account audits resulted in account corrections worth slightly more than \$5 million. 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, monitoring fed cattle and hog prices, and structural changes in the livestock, meat, and poultry industries. Monitoring activities have led to firm-level investigations.

Fed Cattle Price Monitoring

In 2003, following the first case of Bovine Spongiform Encephalopathy in the U.S., GIPSA reviewed its fed-cattle market monitoring practices and revised its econometric model used since the mid-1990's to detect price differences in regional fed cattle markets. The statistical model relies on publicly reported price data to assess regional price differences. The model is run weekly, and any price outlier that is not caused by certain statistical factors triggers a regulatory review. If the review does not determine that the price outlier was caused by certain external factors or readily observable market conditions, then a formal investigation is initiated to determine the cause of the price outlier. The formal investigation involves a deeper examination of the price data and cattle characteristics, and interviews with buyers, sellers, and other market participants.

In 2008, the fed cattle price monitoring program initiated 19 regulatory activities, and 4 indicated cause for investigation. Of the 4 investigations initiated in 2008, 3 were completed and one is ongoing. None of the completed investigations discovered any competition violations. Although no competition violations have been identified, the ongoing program allows GIPSA to actively monitor market prices on a weekly basis and timely initiate regulatory reviews and investigations, if necessary, of observed market price anomalies.

Additional Monitoring Program Development

The fed cattle monitoring is an example of a monitoring program that looks first at market price behavior and then secondarily at firm pricing behavior. In FY 2008, GIPSA began developing a complementary competition monitoring program that looks at firm pricing behavior initially. This program will evaluate cost and price data of firms to help detect any potential anticompetitive activities. GIPSA is collaborating with USDA's Economic Research Service (ERS) to utilize their expertise and allow ERS to objectively assess the project feasibility. The monitoring program will cover the poultry, hog, and cattle industries and GIPSA hopes to have it in place in 2009. GIPSA is also initiating a hog market price monitoring program in early 2009.

Committed Procurement Review and Audit

Each year, GIPSA economists obtain fed cattle and hog procurement data and any new or modified contracts and agreements for the previous calendar year from the five largest beef and hog packers. Economists classify, review, and tabulate the individual transactions data, and calculate the reliance of the top packers on committed procurement methods. GIPSA economists review the contracts and, if necessary, discuss them with the packers to determine the nature of the agreements as they relate to the committed procurement categories of interest. In FY 2008, GIPSA met with two of the major beef packing companies. These meetings resulted in a clear, mutual understanding of the reporting of fed cattle committed procurement, and more reliable reporting and calculation of the packers' reliance on committed procurement methods.

Financial Protection

The financial units have the primary responsibility to enforce the financial provisions of the P&S Act and regulations. These enforcement actions assist in maintaining the financial integrity and stability of the livestock, poultry, and meatpacking industries. Enforcement is carried out through review of annual and special reports, and by on-site financial compliance reviews and investigations. When GIPSA determines a potentially serious financial situation exists that may cause imminent and irreparable harm to livestock producers, rapid response teams are deployed to investigate the problem. Under the P&S Act, regulated businesses must be solvent (current assets must exceed current liabilities). GIPSA requires special reports from firms whose annual reports disclose insolvencies. In addition, on-site financial investigations are conducted to follow up on reported insolvencies or other financial issues.

Trusts and Bonds

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. When a trust claim is filed, P&SP analyzes the claim to determine if the claim appears to be timely and supported by adequate documentation. Additionally, 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, they must file a bond claim within 60 days of the transaction. Both trustees and bond sureties receive GIPSA's analysis as a courtesy. GIPSA does not pay trust or bond claims, and cannot compel payments.

Failures and Restitution

Bonding requirements usually do not cover the entire loss sustained when a firm fails financially. A large packer's failure (one failed in 2002, owing more than \$15 million), may impact auction markets and dealers from whom it purchased livestock and failed to pay. In FY 2008, GIPSA achieved record levels of restitution to livestock sellers. Since 1998, there has been an average of 11 dealer failures per year. Percent restitution to livestock sellers from all sources has averaged 20 percent per year. In FY 2008, the percent of restitution to livestock sellers from all sources was 55 percent, with 41 percent originating from bonds (Table 2).

TABLE 4: Total Dealer Financial Failures and Restitution, 1998-2008

Fiscal Year	No	Owed for Livestock (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	%
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	0
2006	13	3,018,131	134,936	26,856	5
2007	31	6,941,930	257,634	549,303	12
2008	20	2,054,647	843,682	301,916	55

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. Since 1998, an average of 5 auction markets per year have failed, with consignors receiving an average restitution of 52 percent. In FY 2008, the average auction restitution received was 98 percent, with 40 percent origination from bonds (Table 3).

TABLE 5: Total Auction Market Financial Failures and Restitution, 1998-2008

Fiscal Year	No	Owed Consignors (\$)	Restitution From Bonds (\$)	Restitution From Other Sources (\$)	%
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	9	979,543	267,174	19,380	29
2007	11	511,704	37,252	155,890	38
2008	6	602,100	237,734	352,111	98

Risk Assessment Model Development

As the livestock and meat industries evolve, GIPSA continues to examine alternate methods of regulating and monitoring the livestock industry to effectively allocate its resources for planning and conducting regulatory compliance reviews. In FY 2008, GIPSA began evaluating a risk-assessment model that combines statistical methods, accounting theory, and the operating history of entities as a tool in our regulatory work. The model calculates a “credit rating” similar to the score used in lending industries. The score can be applied to gauge the potential for behavior that may violate the P&S Act, such as operating while insolvent. The model will enable GIPSA to more effectively schedule audits and other compliance reviews of entities that expose livestock sellers' capital to a greater level of risk.

Centralized Reporting Unit

GIPSA formed a centralized reporting unit (CRU) in FY 2008 that will receive and handle annual reports submitted by entities that are regulated under the P&S Act. The CRU will increase the efficiency in processing annual reports and enhance the agency's ability to take enforcement action against firms that fail to complete or submit an annual report and firms that submit incomplete forms in a timely fashion. Annual reports are submitted by firms to determine if custodial accounts are short, set appropriate bond amounts, and monitor trade practices. A stepped-up effort to enforce filing requirements, which are prosecuted under Section 6 of the Federal Trade Commission Act incorporated in the P&S Act, has resulted in the Department of Justice issuing civil penalties of \$36,500 and \$51,240 in FY 2007 and FY 2008, respectively.

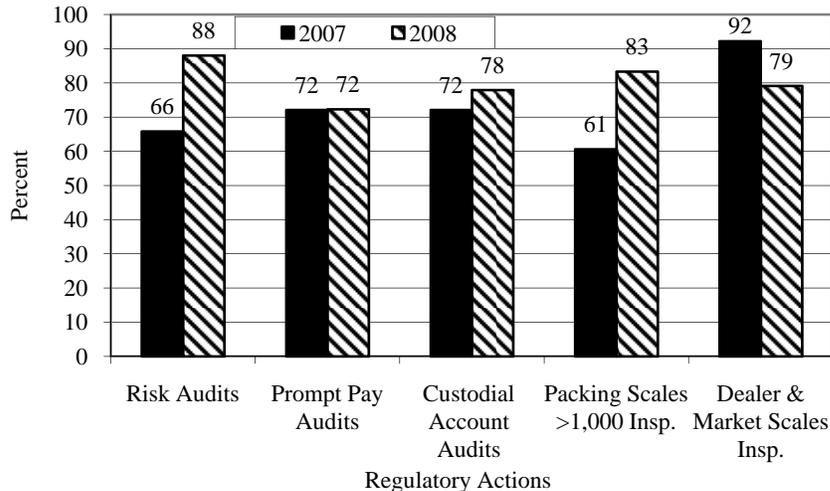
Performance and Efficiency Measurement

Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations. In addition, despite the increase in the total number of investigations, the investigative period declined to 78 days in 2008, versus 165 days in the previous year. In FY 2008, 1,402 investigations of regulated firms were opened while 1,268 cases opened from 2008 and prior years were resolved and closed.

In FY 2008, the program's performance and efficiency measures showed strong improvement. GIPSA measures the overall performance of the Packers and Stockyards program by annually monitoring the regulated entities' compliance with the P&S Act. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the complicate rate—risk audits, custodial account audits, prompt pay audits, packing scale inspections, and dealer and

market scale inspections (Figure 1). The results show an increase in compliance rates in 2008 for four out of the five areas reviewed, with a decline in only the livestock dealer and market category. Aggregate industry compliance in FY 2008 was estimated at 80 percent, a seven percent increase from the previous year.

FIGURE 1: Comparison of 2007 & 2008 Performance Measure Component Compliance Rates



Industry Assessment

As required by the P&S Act, GIPSA issued a report on the Assessment of the Livestock and Poultry Industries in March 2008 for the 2007 fiscal year. GIPSA has also completed the assessment for FY 2008, which will be delivered to Congress in early 2009. This assessment is based on analyses conducted by GIPSA on data originating from annual reports filed by regulated firms and aids in the monitoring of the industry's financial and business practices.

Data show that the number of entities subject to the P&S Act seems to be stabilizing following a downward trend over the last several years. In contrast, GIPSA found that the aggregate dollar business volume has trended upward over the past several years. The four largest firms' share of the total value of livestock purchases, i.e., aggregate industry concentration, has trended downward over the past 5 years. Patterns of concentration in purchase of different types of livestock, however, have exhibited different trends. Four-firm concentration by volume of slaughter in steer and heifer slaughter and boxed beef production has been relatively stable in recent years, although boxed beef concentration declined in 2007.

Industry Concentrations

GIPSA found in its 2008 analyses that cattle slaughter concentration has increased in the last 10 years due to the acquisition of several smaller plants by larger operations. On the other hand, concentration in poultry slaughter has been fairly constant since 2003. Hog slaughter has also remained fairly constant, after a sharp increase in 2003. Concentration in sheep slaughter declined from 1998 through 2004 as the largest plants in the industry decreased slaughter at a higher rate than total industry slaughter decline, but has since increased. Due to the small total slaughter of the sheep industry, relatively moderate volume adjustments among any of the largest four firms result in relatively large changes in the percent of industry total slaughter accounted for by those firms.

Pricing methods

Pricing methods are most often divided into two categories: live-weight or carcass pricing methods. With live-weight purchasing of livestock, the price is quoted and the final payment is determined based on the weight of the live animal. In a "carcass-based" purchase, 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. Trends in marketing practices of packers vary by species. For example, carcass-based purchases of cattle exhibited a strong upward trend from 1998 through 2002 before declining in 2004 and again increasing in 2007. Carcass-based purchases of hogs have also

displayed a general upward trend. In comparison, the volume of sheep purchased on a carcass basis has fluctuated greatly in the last 10 years, declining to half of the 1996 level. Despite the break in the downward trend that occurred in 2007, GIPSA expects a small decline for the final 2008 totals.

As carcass-based procurement has historically increased in volume, packers have increased the development and testing of carcass evaluation devices in the beef industry. GIPSA found that changes to carcass merit programs for hogs were not significant in 2007, perhaps reflecting the fact that trends in carcass-basis purchases of hogs have stabilized in recent years.

Procurement

The largest beef packers' use of committed procurement methods increased in 2006 and 2007, but packer feeding and use of marketing agreements continue to be below levels of the beginning of this decade. Forward contracts and packer feeding each continue to represent relatively small portions of total cattle procurement. The most common methods for hog procurement are production and marketing contracts. In production contracts, contractors provide hogs, retain ownership, and contract with growers to care for and raise hogs according to contract standards. In marketing contracts, producers who own the hogs contract with a packer to sell them under agreed-upon terms. Procurement methods used in the purchase of sheep and lambs for slaughter are similar to those used for other species and include purchase in spot markets, use of marketing agreements, use of various other forms of advance sales contracts, and packer feeding. As with other species, the various procurement methods used for lambs continue to evolve but GIPSA has not observed major changes in the methods in recent years and expects this stability to continue. Live poultry production is coordinated through production (grow-out) contracts, company-owned farms, and marketing agreements. GIPSA did not observe any major changes in the basic industry structure and procurement methods used in the poultry industry in 2008.

Industry Concerns

Livestock sellers have expressed concern regarding the difficulty in obtaining information about the tariff schedules of markets and bond protection levels carried by livestock dealers, markets, and packers. In response to this concern, GIPSA initiated postings on its public website in FY 2008 of the bond levels carried by regulated entities. This service allows the nonproprietary information to be readily available to sellers and facilitates improved access to public information of businesses regulated under the Act. GIPSA continues to explore the potential for listing tariff information.

Certain production contracts' provisions were a concern to GIPSA and with the new production contract requirements created by the Farm Bill, which clarified the terms under which a producer may cancel a production contract, GIPSA began promulgation of required regulations. The regulations will establish factors to help define an unreasonable preference, adequate notice of suspended deliveries, when an additional capital investment constitutes a violation, and whether a reasonable period of time has been provided to remedy a breach of contract. GIPSA held three Town Hall meetings to gather information and recommendations from interested individuals and organizations to discuss and address existing problems, possible obstacles, and potential solutions that would help in the development of the regulations, which are in the early stages of development.

Since the poultry industry is highly concentrated, growers often do not realistically have the option of negotiating contract terms with a large poultry company. Growers also may also be unable to contract with another poultry company on more favorable terms because there may be no other poultry companies in the area. In addition, considerable information asymmetry, stemming from the imbalance in market power, characterizes the relationship between growers and firms. Therefore, there is significant potential for poultry companies to engage in unfair and deceptive practices. GIPSA believes the failure to disclose certain terms in a poultry growing out arrangement constitutes an unfair, discriminatory, or deceptive practice in violation of the P&S Act. The agency has proposed amendments that require additional information, including advanced written notification to growers before termination of a contract, the allowance of growers to terminate contracts given advance written notice, and permission to growers to discuss contract terms with financial and business advisors. After publishing the amendment notice, over 400 comments were received and the regulation is in the final stages of development.

GIPSA also published a notice of proposed rulemaking in FY 2008 regarding amending existing regulations to change requirements on weighing feed and adding swine contractors to the types of entities covered under the feed weighing regulations. Such changes are intended to clarify inconsistencies currently present in the language to ensure that the weighing process is fair and accurate for all growers, and the regulation is in the early stages of development.

PART Assessment

The Packers and Stockyards Program underwent a PART assessment for the FY 2006 budget, and the overall program rating was “Results Not Demonstrated.” Specifically, the findings of the assessment concluded that this GIPSA program lacked a proper performance evaluation measure. As a result, changes were made to data collection and the program has proposed a new performance evaluation measure. The measure, rate of industry compliance, is directly linked to the agency’s strategic plan. Since the PART assessment, the Packers and Stockyards Program has collected 2 years of data and is ready to undergo another PART assessment in the 2009 fiscal year.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Limitation on Inspection and Weighing Services Expenses:

Not to exceed \$42,463,000 (from fees collected) shall be obligated during the current fiscal year for inspection and weighing services: Provided, that if grain export activities require additional supervision and oversight, or other uncontrollable factors occur, this limitation may be exceeded by up to 10 percent with notification to the Committees on Appropriations of both Houses of Congress.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

LIMITATION ON INSPECTION AND WEIGHING SERVICES

Estimate, 2009	\$42,463,000
Budget Estimate, 2010	<u>42,463,000</u>
Increase in Appropriation	<u> --</u>

Project Statement
(On basis of appropriation)

	<u>2008 Actual</u>		<u>2009 Estimated</u>		Increase or Decrease	<u>2010 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Inspection and Weighing Activities	\$41,803,198	390	\$42,463,000	390	--	\$42,463,000	390
Nonexpenditure transfer	-768,090	--	--	--	--	--	--
Unobligated Balance Start of Period	-6,461,753	--	-6,403,000	--	--	-6,403,000	--
Unobligated Balance End of Period	<u>11,129,129</u>	--	<u>6,403,000</u>	--	--	<u>6,403,000</u>	--
Collections	<u>45,702,484</u>	<u>390</u>	<u>42,463,000</u>	<u>390</u>	--	<u>42,463,000</u>	<u>390</u>

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Inspection and Weighing ServicesGeographic Breakdown of Obligations and Staff Years
2008 Actual and Estimated 2009 and 2010

	2008		2009		2010	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas	\$2,044,083	22	\$2,350,000	22	\$2,350,000	22
District of Columbia	9,497,004	79	9,481,000	79	9,481,000	79
Idaho	241,717	3	292,000	3	292,000	3
Iowa	298,319	3	249,000	3	249,000	3
Kansas.....	332,771	3	438,000	3	438,000	3
Louisiana.....	14,951,734	153	16,283,000	153	16,283,000	153
Missouri	241,952	2	337,000	2	337,000	2
North Dakota	997,408	10	1,081,000	10	1,081,000	10
Ohio	1,762,133	14	1,856,000	14	1,856,000	14
Oregon	4,014,127	36	4,081,000	36	4,081,000	36
Texas.....	7,346,565	64	5,932,000	64	5,932,000	64
Washington	75,385	1	83,000	1	83,000	1
Total, Available or Estimate	41,803,198	390	42,463,000	390	42,463,000	390

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
INSPECTION AND WEIGHING SERVICES
STATUS OF PROGRAM

Federal Grain Inspection Service

Providing Official Grain Inspection and Weighing Services

The U.S. Grain Standards Act (USGSA) 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.

Services under the USGSA are performed on a fee basis for both export and domestic grain shipments. The USGSA 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. Official inspection and weighing of U.S. grain in domestic commerce are performed upon request.

Table 1 displays an overview of GIPSA's inspection and weighing program activity.

TABLE 1: Inspection and Weighing Program Overview, Fiscal Years 2006-2008

Item	Fiscal Years		
	2006	2007	2008
<i>Inspection Program</i>			
Quantity of Grain Produced ¹ (Mmt) ²	426.0	477.5	477.4
Quantity of Standardized Grain Officially Inspected (Mmt)			
Domestic	174.5	178.2	181.3
Export by FGIS	75.1	76.9	81.4
by Delegated States	27.1	26.6	32.2
by Designated Agencies	<u>8.8</u>	<u>12.5</u>	<u>14.8</u>
Total	285.5	294.2	309.7
Quantity of Non-Standardized Grain Officially Inspected (Mmt)			
Domestic	0.0	0.0	0.0
Export by FGIS	1.1	1.0	0.1
by Delegated States	0.0	0.0	0.0
by Designated Agencies	<u>1.3</u>	<u>1.5</u>	<u>0.1</u>
Total	2.4	2.5	0.2
<i>Weighing Program</i>			
Official Weight Certificates Issued			
FGIS	71,653	74,083	88,109
Delegated States/Official Agencies	159,271	243,816	340,43
Exported Grain Weighed (Mmt)			
FGIS	75.1	76.7	81.1
Delegated States	<u>26.6</u>	<u>26.5</u>	<u>31.9</u>
Total	101.7	103.2	113.0

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.

Current Activities:*Contracting Inspection and Weighing Services*

The USGSA authorizes the Secretary of Agriculture to contract with private persons or entities to perform inspection and weighing services at export port locations. GIPSA is running a 2-year pilot test, which began in 2006, to assess the cost effectiveness and impact on the official system of contracting with private entities to provide mandatory inspection and weighing services at export port locations. The pilot test will help GIPSA determine how to best use existing contracting authority as one component in delivering official inspection services. Contracts will be implemented only when their use further enhances the Agency's goal of providing high-quality, cost-effective export inspection and weighing services that are recognized worldwide as being accurate and reliable. The pilot test is due to conclude at the end of the 2008 shipping period.

To date, GIPSA has implemented contracts in the State of California; Milwaukee, Wisconsin; and GIPSA's Toledo field office circuit—Chicago, Illinois; Portage, Indiana; Toledo, Ohio; and Albany, New York. GIPSA also has a supplemental labor contract for the Corpus Christi, Texas, area. Additionally, GIPSA is currently establishing contracts for the area serviced by GIPSA's Stuttgart, Arkansas, field office under the Agricultural Marketing Act of 1946.

GIPSA continued to conduct additional market research on contracting inspecting and weighing services in FY 2008. The agency posted three requests for information (RFI) seeking statements of capabilities from parties that may be interested in providing either full inspection and weighing servicing or in providing GIPSA with supplemental labor.

Container Inspections

The exportation of grain in shipping containers is also subject to USGSA weighing requirements. In FY 2008, GIPSA approved 25 percent more container loading facilities than in FY 2007, bringing the total number of approved facilities to 141. GIPSA issued 4,591 export weight certificates for container shipments in FY 2008, an increase of 1,053, or 30 percent, over the previous year's levels.

To ensure that GIPSA regulations and service operations effectively address current and evolving market conditions, GIPSA has initiated a comprehensive review of the policies and procedures governing official inspection and weighing services for grain exported in containers.

Visual Reference Material

GIPSA's Visual Reference Image (VRI) system serves as the primary tool to ensure standardization of official subjective (visual) grain inspection services. VRIs ensure consistent and uniform application of grading lines and illustrate types of damage in conjunction with written descriptions. In FY 2008, GIPSA created general appearance prints for lentils and rice, and updated several other VRIs.

Educational Material

GIPSA provides educational materials and grading aids to GIPSA customers through various outlets, at industry meetings and trade shows, and to the public through the GIPSA website. In FY 2008, GIPSA developed courses for Testing Corn for Aflatoxin using the Vicam Aflatest method and Testing Wheat and Barley for Deoxynivalenol using the R-Biopharm Ridascreen FAST method.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance
Statement of Goals and Objectives

The GIPSA has two strategic goals and six strategic objectives.

Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<p>Agency Goal 1: Promote fair and competitive marketing in livestock, meat, and poultry.</p>	<p>Objective 1.1: Increase level of compliance through preventive regulatory actions.</p> <p>Objective 1.2: Attain compliance through investigation and enforcement.</p>	<p>Packers and Stockyards Program</p>	<p>Key Outcome 1: Protect fair trade practices and competitive markets for livestock, meat, and poultry through increased industry compliance with the P&S Act.</p>
<p>Agency Goal 2: Facilitate the marketing of U.S. grain and related agricultural products</p>	<p>Objective 2.1: Provide the market with terms and methods for quality assessments.</p> <p>Objective 2.2: Protect the integrity of U.S. grain and related markets.</p> <p>Objective 2.3: Provide official grain inspection and weighing services.</p>	<p>Grain Regulatory Program</p> <p>Inspection and Weighing Program</p>	<p>Key Outcome 2: Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.</p>

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Selected Accomplishments Expected at the FY 2010 Proposed Resource Level:

- Packers and Stockyards Program –During fiscal year 2010, the proposed increase will enable GIPSA to hire 7 new employees to enhance direct compliance, investigative, and enforcement activities in the field. The Agency will hire 4 new resident agents to expand compliance reviews and investigations in currently unstaffed territories. Other professionals will be added to each regional office to provide specialized technical expertise to support the increasingly complex investigative workload and analysis of competition issues. Strengthening the P&SP field staffing level will enable the Agency to increase direct enforcement of the Packers and Stockyards Act and promote greater voluntary compliance through an expanded presence within the industry. As a result of the Agency’s increased vigilance, we estimate that compliance with the P&S Act will increase from 80 percent in FY 2008 to 85% in FY 2010.
- Grain Regulatory Program - During fiscal year 2010, the proposed increases will assist GIPSA in facilitating the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user fee funded official inspection and weighing services. GIPSA will provide the market with quality assessment terms and methods that reflect the evolving market needs, including direct product testing and documentation of specific production or processing methods, to help the market differentiate its diverse products. The percentage of grain quality attributes for which GIPSA provides standardization will increase from 97.8 percent in FY 2008 to 99.4 percent by the end of FY 2010. To protect the integrity of U.S. grain and related markets, GIPSA will maintain regulatory requirements for grain handling, marketing, and the performance of laboratories authorized to provide grain quality assessments that promote fair marketing. The agency also will continue to provide grain inspection and weighing services to American agriculture through the national system, a network of Federal, State, and private service providers.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance
Key Performance Outcomes and Measures**Goal 1: Promote fair and competitive marketing in livestock, meat, and poultry.**

Explanation of Key Outcome 1: GIPSA will protect fair trade practices and competitive markets for livestock, meat, and poultry through increased industry compliance with the P&S Act. The Agency plans to obtain this outcome by increasing industry compliance with the P&S Act and will focus on 1) preventative regulatory actions to promote voluntary compliance, and 2) investigation and enforcement activities where alleged violations have occurred.

The rate of industry compliance with the P&S Act is measured as a composite index using data results from the following program activities:

- Conducting 100 percent of financial audits on identified high risk firms (10 per region) annually.
- Conduct 100 percent of custodial account audits on a random sample for 90 percent confidence level annually.
- Conduct 100 percent of prompt pay audits on a random sample for 90 percent confidence level annually.
- Inspect scales and weighing practices in every packing plant purchasing in excess of 1,000 head of livestock annually on a carcass weight basis.
- Inspect carcass evaluation devices at a random sample of packing plants purchasing in excess of 1,000 head of livestock annually on a carcass weight basis and that use carcass evaluation devices in determining price.

Goal 2: Facilitate the marketing of U.S. grain and related agricultural products.

Explanation of Key Outcome 2: GIPSA will provide methods and additional intrinsic quality standard assessments that the market needs to expand trade in U.S. grain and related products. The Agency's goal is to provide methods for 98.6 percent of market-identified quality attributes in FY 2009 and 99.4 percent by 2010.

Key Performance Measures:

Measure #1: Percent of industry compliance with the P&S Act.

Measure #2: Percent of market-identified quality attributes for which GIPSA has provided standardization.

Key Performance Targets:

Performance Measure	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Target	2010 Target
Percent of industry compliance with the P&S Act.						
a. Percent	N/A	N/A	75.0	80.0	83.0	85.0
b. Dollars (in Millions)	\$ 18.8	\$ 18.9	\$20.2	\$20.9	\$22.4	\$23.7
Percent of market-identified quality attributes for which GIPSA has provided standardization						
a. Percent	96.7	94.0	95.7	97.8	98.6	99.4
b. Dollars (in Millions)	\$ 10.7	\$ 11.5	\$10.8	\$11.0	\$11.2	\$11.4

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Full Cost by Strategic Goal				
Strategic Objective 1: Promote fair and competitive marketing in livestock, meat, and poultry.				
PROGRAM	PROGRAM ITEMS	2008 AMOUNT (\$000)	2009 AMOUNT (\$000)	2010 AMOUNT (\$000)
Packers and Stockyards Program				
	Packers and Stockyards Program	16,094	17,257	18,243
	Indirect costs	4,807	5,155	5,449
	Total Costs	20,901	22,412	23,692
	FTEs	131	141	148
	Performance measure: Rate of industry compliance with the P&S Act (%)	80.0	83.0	85.0
Total for Strategic Objective 1.1				
	<i>Total Costs (program, direct, indirect)</i>	20,901	22,412	23,692
	<i>FTEs</i>	131	141	148
Strategic Objective 2: Facilitate the marketing of U.S. grain and related agricultural products				
Grain Regulatory Program				
	Grain Regulatory Program	16,380	16,675	16,993
	Indirect costs	1,233	1,255	1,279
	Total Costs	17,613	17,930	18,272
	FTEs	122	122	122
	Performance measure: Percent of market-identified quality attributes for which GIPSA has provided standardization. (%)	97.8	98.6	99.4
Total for Strategic Objective 2.2				
	<i>Total Costs (program, direct, indirect)</i>	17,613	17,930	18,272
	<i>FTEs</i>	122	122	122