

2012 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) Inspection and Weighing Services, and (3) Packers and Stockyards Program.

GIPSA's Grain Regulatory Program, which is carried out under the authority of the United States Grain Standards Act, as amended (USGSA), and the Agricultural Marketing Act of 1946 (AMA), is currently funded through appropriations. As part of the Grain Regulatory Program, GIPSA promotes and enforces the accurate and uniform application of the USGSA and applicable provisions of the AMA; identifies, evaluates, and implements new or improved techniques for measuring grain quality; and establishes and maintains testing and grading standards to facilitate the marketing of U.S. grain, oilseeds, and related products.

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. GIPSA's grain-related field activities are located in 7 field offices, 1 Federal/State office, and 4 suboffices. P&SP field activities are located in 3 field offices with 59 resident agent positions across the nation. As of September 30, 2010, employment totaled 670 full-time permanent employees, including 141 located in the headquarters office and 529 employees assigned to field locations.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Available Funds and Staff-Years
2010 Actual and Estimated 2011 and 2012

Item	Actual 2010		Estimated 2011		Estimated 2012	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses.....	\$41,964,000	310	\$41,964,000	310	\$44,192,000	310
Unobligated Balance.....	-827,619	--	--	--		
Total, Salaries and Expenses.....	41,136,381	310	41,964,000	310	44,192,000	310
<u>Obligations under other</u>						
<u>USDA Appropriations:</u>						
Agricultural Marketing Service for Pesticide Data Program.....	275,033	1	302,000	1	286,900	1
Farm Service Agency for Commodity Credit Corp.....	537,813	3	2,500,000	5	2,500,000	5
Misc, reimbursements.....	74,054	1	60,000	1	60,000	1
Total, Other USDA Appropriations.....	886,900	5	2,862,000	7	2,846,900	7
Total, Agriculture Appropriations.....	42,023,281	315	44,826,000	317	47,038,900	317
<u>Non-Federal Funds:</u>						
Inspection and Weighing.....	45,254,757	398	50,000,000	398	50,000,000	398
Total, Grain Inspection, Packers and Stockyards Administration.....	87,278,038	713	94,826,000	715	97,038,900	715

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Permanent Positions by Grade and Staff Year Summary2010 Actual and Estimated 2011 and 2012

Grade	2010			2011			2012		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Senior Executive Service	3	1	4	3	1	4	3	1	4
GS-15	9	4	13	9	4	13	9	4	13
GS-14	24	22	46	24	22	46	24	22	46
GS-13	53	40	93	53	40	93	53	40	93
GS-12	20	86	106	20	86	106	20	86	106
GS-11	11	70	81	11	70	81	11	70	81
GS-10	1	7	8	1	7	8	1	7	8
GS-9	7	156	163	7	156	163	7	156	163
GS-8	6	11	17	6	11	17	6	11	17
GS-7	5	46	51	5	46	51	5	46	51
GS-6	1	41	42	1	41	42	1	41	42
GS-5	1	37	38	1	37	38	1	37	38
GS-4	0	7	7	0	7	7	0	7	7
Ungraded Positions	0	1	1	0	1	1	0	1	1
Total Permanent Positions.....	141	529	670	141	529	670	141	529	670
Unfilled Positions End-of-year.....	0	0	0	0	0	0	0	0	0
Total, Permanent Full-Time Employment, End-of-year.....	141	529	670	141	529	670	141	529	670
Staff Year Estimate	150	563	713	150	565	715	150	565	715

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. One change to the fleet is the transition to agency-owned vehicles from leased vehicles from GSA, which was completed in FY 2010. These replacements are due to a cost analysis which showed that owning vehicles would be more cost effective than leasing vehicles. GIPSA acquires owned vehicles and replaces leased vehicles on a one-to-one basis but there is generally a lag time between the acquisition of vehicles and expiration of leases. The cost savings from the shift towards owned vehicles is reflected in the annual 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 2009	71	48	11	--	--	--	--	130	\$456
Change from 2009	-18	-24	28	--	--	--	--	-14	-\$79
FY 2010	53	24	39	--	--	--	--	116	\$377
Change from 2010	1	3	0	--	--	--	--	4	\$16
FY2011 est.	54	27	39	--	--	--	--	120	\$393
Change from 2011	-10	0	10	--	--	--	--	0	\$12
FY2012 est.	44	27	49	--	--	--	--	120	\$405

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

The estimates include appropriation language for this item as follows:

Salaries and Expenses

For necessary expenses of the Grain Inspection, Packers and Stockyards Administration, \$44,192,000: 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

Annualized Continuing Resolution, 2011.....	\$41,964,000
Budget Estimate, 2012.....	<u>44,192,000</u>
Change in Appropriation.....	<u>+2,228,000</u>

SUMMARY OF INCREASES AND DECREASES – CURRENT LAW

(On basis of appropriation)

<u>Item of Change</u>	<u>2011 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2012 Estimated</u>
Packers & Stockyards Program.....	\$23,692,000	\$0	\$2,228,000	\$25,920,000
Grain Regulatory Program.....	<u>18,272,000</u>	<u>0</u>	<u>0</u>	<u>18,272,000</u>
Total Available.....	<u>41,964,000</u>	<u>0</u>	<u>2,228,000</u>	<u>44,192,000</u>

Project Statement

(On basis of appropriation)

	<u>2010 Actual</u>		<u>2011 Estimated</u>		Increase or Decrease	<u>2012 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	\$23,157,466	175	\$23,692,000	175	\$2,228,000 (1)	\$25,920,000	175
2. Grain Regulatory	17,978,915	135	18,272,000	135	--	18,272,000	135
Unobligated Balance	<u>827,619</u>	--	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Available	<u>41,964,000</u>	<u>310</u>	<u>41,964,000</u>	<u>310</u>	<u>2,228,000</u>	<u>44,192,000</u>	<u>310</u>

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of \$2,228,000 (\$23,692,000 available in 2011) for the Packers and Stockyards Program consisting of:

(a) An increase of \$2,228,000 to strengthen GIPSA's enforcement of the Packers and Stockyards Act.

This increase will strengthen direct enforcement of the Packers and Stockyards (P&S) Act and promote greater voluntary compliance with the Act through an expanded GIPSA presence within the industry. The P&S Act provides an important safety net for livestock producers and poultry growers in rural America by prohibiting unfair, deceptive, and fraudulent practices 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 to maximize the level of protection afforded to all market participants. GIPSA conducts routine and ongoing regulatory inspections and audits to assess whether subject entities are operating in compliance with the Act, and conducts investigations of potential P&S Act violations identified by either industry complaints or previous GIPSA regulatory inspections. All activities are carried out by professionals including economists, attorneys, accountants, and agricultural marketing professionals. Current economic conditions will likely result in a continued increase in complaints and, therefore, an increased need for GIPSA protection under the Packers and Stockyards Act. Additional resident agents and investigative attorneys are needed to expand investigative, regulatory, and audit activities in order to raise industry compliance levels from the 80 percent level attained in 2010. These activities, along with enforcing the amendments to the 2008 Farm Bill, will enhance market protections for buyers and sellers of livestock, poultry, and meat. The request will also fund additional legal support for enforcement of the P&S Act.

The target rate of 84 percent for 2012 reflects the improvement in GIPSA's ability to provide oversight in the industry given the additional funding. GIPSA's current inspection process is based on random samples and entities deemed at risk. The funding will allow GIPSA to perform approximately 500 additional inspection and compliance reviews per year and also enable GIPSA to establish a system for every regulated entity to undergo inspection and compliance reviews on a routine basis. GIPSA is seeking to establish onsite inspections for all regulated entities on a regular cycle of five years, or more or less if appropriate. GIPSA regulates approximately 4,468 livestock dealers, 1,205 livestock markets, 1,209 posted stockyards (which may also be a dealer and/or a market), 233 bonded packers, 727 swine contractors, and 117 live poultry dealers. At the FY 2010 compliance level of 80 percent, this increase in enforcement actions would detect approximately 100 firms in violation of the P&S Act. The funding would allow prevention of the violation and provide protection to approximately 8,400 additional livestock sellers and poultry growers. This funding supports stronger enforcement of the P&S Act and, in the process, promotes a sustainable and competitive agricultural system.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

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 2012 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 2012 would be \$24 million.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesGeographic Breakdown of Obligations and Staff Years
2010 Actual and Estimated 2011 and 2012

	2010		2011		2012	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas.....	\$84,047	1	\$85,738	1	\$85,738	1
Colorado.....	6,223,117	58	6,348,319	58	6,348,319	58
District of Columbia.....	17,103,867	73	17,447,979	73	17,447,979	73
Georgia.....	4,707,285	46	4,801,990	46	4,801,990	46
Idaho.....	112,890	2	115,161	2	115,161	2
Iowa.....	5,183,427	55	5,287,712	55	5,287,712	55
Louisiana.....	1,076,200	14	1,097,852	14	1,097,852	14
Missouri.....	5,728,796	52	5,844,054	52	5,844,054	52
North Dakota.....	83,428	1	85,106	1	85,106	1
Ohio.....	230,486	2	235,123	2	235,123	2
Oregon.....	273,488	3	278,990	3	278,990	3
Texas.....	200,505	2	204,539	2	204,539	2
Washington.....	128,845	1	131,437	1	131,437	1
Subtotal, Available or Estimate.....	41,136,381	310	41,964,000	310	41,964,000	310
Unobligated balance.....	827,619	--	--	--	--	--
Total, Available or Estimate.....	41,964,000	310	41,964,000	310	41,964,000	310

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Salaries and ExpensesCLASSIFICATION BY OBJECTS2010 Actual and Estimated 2011 and 2012

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Personnel Compensation:			
Washington, DC.....	\$6,900,828	\$7,042,446	\$7,350,046
Field.....	17,744,985	18,109,146	19,339,546
<hr/>			
Total personnel			
11 compensation.....	24,645,813	25,151,592	26,689,592
12 Personnel benefits.....	7,023,034	7,167,160	7,549,160
13 Benefits for former personnel.....	9,948	-	-
<hr/>			
Total personnel compensation & benefits.....	31,678,795	32,318,752	34,238,752
Other Objects:			
21 Travel and trans. of persons.....	1,634,069	1,667,603	1,797,603
22 Transportation of things.....	38,282	39,068	43,826
23.2 Rental payments to others.....	93,682	95,605	95,971
23.3 Communications, utilities and			
misc. charges.....	1,177,884	1,202,056	1,220,956
24 Printing and reproduction.....	87,089	88,876	92,851
25.2 Other services.....	4,260,008	4,347,431	4,433,432
26 Supplies and materials.....	833,610	850,717	898,717
31 Equipment.....	1,326,666	1,353,892	1,369,892
42 Insurance claims and Indemnities..	6,022	-	-
43 Interests.....	274	-	-
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Total other objects.....	9,457,586	9,645,248	9,953,248
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Total direct obligations.....	41,136,381	41,964,000	44,192,000
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<u>Position Data:</u>			
Average Salary, ES positions.....	\$150,000	\$150,000	\$150,000
Average Salary, GS positions.....	\$62,500	\$62,500	\$64,500
Average Grade, GS positions.....	10.1	10.1	10.1

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

Grain Regulatory Program

GIPSA's Federal Grain Inspection Service (FGIS) establishes quality standards for grains, oilseeds, pulses, and legumes; provides impartial inspection and weighing services through a network of Federal, State, and private entities; and monitors marketing practices to enforce compliance with the U.S. Grain Standards Act, as amended (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

Wheat Quality Factors

Farinograph tests are widely used to determine certain quality factors, but GIPSA studies have shown significant differences in test results among commercial laboratories which leads to confusion in markets. To identify ways for improving standardization of the Farinograph method, GIPSA initiated a multiple laboratory collaboration in FY 2008. In FY 2009 and FY 2010, collaborative studies identified the addition of water and data processing algorithms as additional sources of significant Farinograph method variation. These sources have been incorporated into a new Farinograph model by a manufacturer. GIPSA plans to continue this effort in FY 2011 to improve the Farinograph method.

Biotechnology

The Biotechnology Proficiency Program, GIPSA's internationally recognized proficiency program, now includes 160 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 to identify transgenic events of grain for the purpose of improving accuracy and precision.

In recent years, there have been instances of inadvertent releases of unapproved transgenic events into the U.S. grain handling system. GIPSA assists government and independent laboratories by performing impartial third-party verification of their methods for both qualitative and quantitative detection of transgenic events in biotechnology-derived crops. GIPSA's involvement in responding to inadvertent releases facilitates harmonization of sampling plans and international testing for biotechnology-derived grains and oilseeds.

GIPSA continues to collaborate with international organizations such as the Codex Alimentarius Commission, Canadian Grains Commission, and the National Institute for Standards and Technology to harmonize testing technologies for biotechnology-derived grains and oilseeds.

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 commercial availability of rapid and reliable tests, GIPSA provides a performance verification and approval program for such tests. In FY 2010, GIPSA temporarily suspended evaluation of test kits to focus on re-evaluating specifications and the evaluation process. In FY 2011, GIPSA will conduct evaluations using updated specifications that better reflect market needs and the capability of state-of-the-art technologies.

Sorghum Standards

In FY 2009, GIPSA met with a cross-section of the sorghum industry to achieve a common understanding regarding the acceptability of various odors and levels of intensity in grain sorghum. Unacceptable types and levels odor in grain pose problems such as feed refusal by target animals resulting in reduced average daily gain, non-use of the grain as a food in the case of food donation programs, and potential problems in finished products where grain is

used in industrial applications. Based on recommendations from the Grain Inspection Advisory Committee, FGIS engaged a sensory expert from Kansas State University (KSU) to develop reference material for inspectors in the official system to assist in determining the acceptability of grain sorghum odors. In FY 2010, KSU successfully identified chemical compounds to create odor reference samples and conducted shelf-life tests to determine which compounds can be used over extended periods. GIPSA assisted KSU and provided additional samples of various odors in an initial experiment to assess the suggestions for creating reference samples. GIPSA will continue to work with KSU and engage industry stakeholders, prepare additional reference samples, and conduct field tests on the feasibility and value of routine use of reference samples for standardization of official sorghum odor determinations.

Grain Standards

GIPSA regularly reviews the official standards for grain to ensure that the standards remain relevant to the marketplace. GIPSA published an Advanced Noticed of Proposed Rulemaking (ANPR) in FY 2010 asking stakeholders to comment on whether the wheat standards and grading procedures need to be amended. GIPSA is preparing a *Federal Register* publication addressing the comments to the ANPR. In FY 2011, GIPSA will continue its review of the U.S. Standards for Wheat, last amended in 2006. The use of corn for ethanol and the number of hybrids with specialty traits have increased greatly since the last revision of the corn standards in 1996. As a result, GIPSA initiated the corn standards review in FY 2010 by publishing an ANPR in the *Federal Register*, inviting stakeholders to comment on whether the corn standards and grading procedures need to be changed. The review of the corn standards will continue in FY 2011.

Rice Standards

GIPSA reviews the official standards for certain commodities under the AMA to ensure that standards and official grading practices remain relevant to the marketplace. In FY 2010, GIPSA initiated a review of the U.S. Standards for Rice by publishing an ANPR in the *Federal Register* inviting interested parties to comment on whether the current rice standards and grading procedures need to be changed. Since the standards were last revised, numerous changes have occurred in the breeding and production practices of rice; rice marketing; and the technology used to harvest, process, and test rice. GIPSA will continue the rice standards review in FY 2011.

Pesticide Residue Method Development and Testing

GIPSA developed two new methods for oats and analyzed 300 oat samples in FY 2009 as part of the agency's participation in the Pesticide Data Program (PDP), a cooperative effort of USDA, the U.S. Environmental Protection Agency and 10 participating States. In FY 2011, GIPSA's participation in the PDP will include the analysis of approximately 400 soybean samples.

Post Harvest Grain Quality Surveys

In FY 2010, GIPSA continued to work with stakeholders to capture inspection data for grain entering the value chain. Through a multi-year initiative, GIPSA is collecting samples at the first-point-of-sale when producers deliver grain to the elevator during harvest. These samples will provide a baseline of quality for grading factors such as damage and foreign material content, plus non grade factors such as foreign material composition (i.e., specific types of foreign material, such as plant parts, other grains, weed seeds, and other non-specific foreign material), moisture, oil, and protein. Since 2006, GIPSA has collected over 7,000 samples representing 29 soybean or sorghum-producing States. In FY 2010, GIPSA completed its fifth sorghum and fourth soybean farm gate assessments. The knowledge gathered from this project will allow GIPSA to better evaluate the potential impact on the marketplace 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 moisture for all grains and related commodities; protein for wheat, corn, and soybeans; oil for soybeans, sunflower seed, safflower, and corn; fatty acid composition for safflower, soybeans, and sunflower seeds; and mycotoxins for a variety of grains, such as wheat, barley, oats, corn, and soybeans. These methods are used to maintain the accuracy of testing in the official inspection system and to support development of new rapid field methods.

In FY 2008, GIPSA also established and demonstrated the utility of a High Performance Liquid Chromatography (HPLC) reference method. The HPLC reference method serves as an objective method of identifying wheat varieties that will augment the official inspection system's current subjective analyses. After evaluating Ultra-High Performance Liquid Chromatography (UPLC) in FY 2008 for potential use as the aflatoxin reference method, GIPSA initiated a two-year effort in FY 2009 to convert the aflatoxin reference method to UPLC. This new method has the potential of providing more rapid and accurate analyses. In FY 2010, FGIS continued to provide quality reference method analyses in support of the development of new testing methods and in the maintenance of accurate field testing for official and commercial inspection systems.

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 2010, GIPSA updated and replaced all of the current wheat and sorghum VRIs using new technology techniques that significantly improve image quality.

Standardizing Commercial Grain Inspection Equipment

In FY 2010, GIPSA continued the 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 implementing a new five-year agreement. GIPSA serves 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 five 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 a grain moisture meter and near-infrared model that was previously in the on-going calibration program for a different U.S. distributor. In FY 2011, GIPSA will again collect data for five instrument models and will conduct NTEP testing for new grain inspection equipment models upon request.

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

Alleged Violations

At the beginning of FY 2010, 11 cases involving alleged violations of the USGSA and the AMA were pending further GIPSA action. During FY 2010, 11 cases were opened, including cases involving foreign quality complaints, deceptive loading, and failure to follow procedures and maintain records. GIPSA issued a combination of sanction, warning, cautionary, and informational letters to close 17 cases originating from prior years and 6 cases from FY 2010.

Delegation and Designation Program

GIPSA oversees 51 State and private agencies that are designated under the USGSA to provide voluntary official inspection and/or weighing services for domestic trade. In addition, GIPSA supervises four States that are designated and delegated to provide mandatory official services at export port locations within the State. One additional State is delegated to provide official mandatory services at select export port locations but not designated to provide voluntary services within the State. Designations must be renewed every 3 years. In FY 2010, GIPSA renewed 17 agencies for full 3-year terms after reviewing their requests. Two agencies were renewed for a reduced 1 year term due to failure to comply with regulations.

Compliance Reviews

GIPSA conducts reviews of grain inspection and weighing operations within the official system's Federal, State, and private laboratories. GIPSA conducted onsite compliance reviews of 4 GIPSA offices, 1 State department of agriculture, and 8 private agencies in FY 2010. Customer satisfaction and procedural compliance were evaluated. GIPSA found no instances of service delivery discrimination and determined that the overall integrity of the national inspection system is intact.

Complaints

GIPSA administers a formal process for investigating grain quality and weight discrepancies. 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, and evaluates the accuracy of the initial inspection. This 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 FY 2010, GIPSA received, investigated, and closed 16 quality complaints and 1 weight complaint from importers on grains inspected under the USGSA (Table 1). These complaints involved 594,533 metric tons or about 0.5 percent by weight of the total amount of grain exported during the year. This compares to 15 quality and no weight complaints received in FY 2009, representing about 0.06 percent of grain exports by weight.

TABLE 1: Summary of Complaints Reported by Importers on Inspection and Weighing, FY 2010

Complainant	Grain	No. of Complaints	Nature of Complaint
Asia			
China	Corn	1	Damage, heat damage
	Soybeans	4	Treated soybeans
	Soybeans	1	Short weight
Indonesia	Soybeans	1	Foreign material
Japan	Wheat	1	Foreign material
Korea	Soybeans	1	Quality, protein
Malaysia	Soybeans	1	Damage, heat damage
Taiwan	Corn	1	Damage, infestation
Vietnam	Soybeans	1	Foreign material, damage, heat damage
Central/South America			
Colombia	Corn	1	Heat damage, broken corn, and foreign material
Venezuela	Corn	2	Broken corn, foreign material, damage, heat damage
Middle East			
Syria	Soybeans	1	Damage
North America			
Mexico	Wheat	1	Protein
TOTAL		17	

Quality Management Program

As part of its strategic plan, FGIS is integrating the principles of modern quality management into the official system. The Quality Management Program (QMP) adopted by GIPSA requires that all private and State agencies, as well as FGIS field offices that provide official inspection and weighing services, establish a program based on the principles of quality control, quality assurance, and quality improvement as a key component in the way they deliver official services. GIPSA expects that implementation of the QMP will further enhance delivery of official services to the grain, feed, and processing industries while supporting Agency efforts to manage costs and staff resources. All official agencies and GIPSA field offices developed a quality manual and conducted an initial internal audit in FY 2010. In addition, GIPSA transitioned its compliance reviews to quality management reviews in the fourth quarter of FY 2010.

FGISonline

GIPSA continued the modernization of its inspection and weighing program with implementation of three new FGISonline applications in FY 2010: the Inspection, Testing, and Weighing application to allow electronic

processing of inspection, testing, and weighing information; the FGIS Official Service Provider Licensing application for automation of the licensing process of samplers, technicians, weighers, and inspectors; and the Quality Assurance and Control application which provides a database of quality control results. The modernization effort has improved the efficiency and effectiveness of service delivery by streamlining business practices as FGISonline integrates several business processes that were previously manual or in separate systems. In addition, the system utilizes validation requirements that minimize data entry errors and ensures more accurate and timely results. Ultimately, this system will provide instantaneous access to official inspection and weighing information for customers around the world.

International Projects

GIPSA assembled a delegation including USDA/Foreign Agricultural Service (FAS), USDA/Animal and Plant Health Inspection Service (APHIS), and the Food and Drug Administration to Beijing, China, and negotiated draft language for a non-binding Memorandum of Understanding (MOU) to address China's concerns over soybean quality, plant health, and food safety. Key provisions of the MOU include establishing a bilateral Technical Working Group to exchange information and resolve issues at the technical level; and, when warranted, sending a rapid response team from the U.S. to China to investigate problem shipments.

Coordinating with representatives from APHIS and FAS, GIPSA worked to resolve issues with Egypt's phytosanitary requirements for a zero tolerance for ambrosia (ragweed) seeds in wheat which prevents U.S. exporters from submitting bids for wheat tenders. GIPSA, FAS, and U.S. Wheat Associates coordinated a visit of high level Egyptian officials to the U.S. to learn about our quality control and export inspection procedures and convince them to drop the zero tolerance. Egypt's tender terms still require a zero tolerance for ragweed seed, which U.S. suppliers cannot meet.

GIPSA successfully collaborated with representatives from FAS, APHIS, and the USA Rice Federation regarding U.S. rice shipments to Mexico. Mexican officials claimed that rice shipments from three U.S. exporters were contaminated with Liberty Link rice. The detained rice shipments were released after Mexican officials acknowledged that the allegations were scientifically unfounded.

Since 2002, GIPSA has annually stationed an employee in Asia for a 1-3 month detail to work with Asian customers and their governments. During FY 2010, a GIPSA officer traveled to China, Indonesia, Japan, the Philippines, Singapore, Taiwan, and Vietnam to conduct seminars and meet with individuals and groups involved in the grain and milling industry in Asia. The GIPSA officer was able to address quality concerns and misunderstandings regarding contract specification and grain grading. In addition, several feed mills expressed interest in future training seminars on U.S. grain standards and inspection and grading procedures.

Outreach

Education

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. GIPSA developed the following courses in FY 2010: Experimental Design, Oat Grading, Sunflower Grading, and Flaxseed Grading. GIPSA also developed posters of Principal Stored Grain Insects and Principal Grain Damages for the major and minor grains. A pocket-sized version of the principle Visual Reference Images for the major grain, call Grading Strips, were also developed.

Delegation Meetings

GIPSA personnel frequently provide information to foreign delegations 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 entire U.S. grain marketing system and serves to enhance purchasers' confidence in U.S. grain. Ultimately, these efforts help move our Nation's harvest to end-users around the globe. During FY 2010, GIPSA personnel met with 39 teams from 45 countries.

Overseas Assistance

In FY 2010, GIPSA responded to customers' needs for technical expertise in foreign markets. Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments, occasionally ask for GIPSA personnel to provide expertise. These activities include representing the Agency at grain marketing and grain grading seminars, meeting with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, helping other countries develop domestic grain and commodity standards and marketing infrastructures, assisting importers with quality specifications, and training local inspectors in U.S. inspection methods and procedures.

Codex Involvement

The Codex Committee on Methods of Analysis and Sampling (CCMAS) met in March 2010, 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.

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 Protection.

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 2) or a suspension of a registration required under the P&S Act to conduct regulated activity.

TABLE 2: Penalties Levied for P&S Act Violations, 2006-2010

Type Judgment	2006	2007	2008	2009	2010
Stipulations (\$)	NA	9,750	23,275	30,775	127,787
Administrative penalties (\$)	196,350	404,150	657,770	364,700	341,027
DOJ Civil penalties (\$)	NA	36,500	51,240	59,580	347,705

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:

Regulation Status Update

GIPSA received approximately 61,000 comments on the proposed rule, "Implementation of Regulations Required Under Title XI of the Food, Conservation and Energy Act of 2008; Conduct in Violation of the Act." The comment period closed November 22, 2010. The proposed rule encompasses sections 11005 and 11006 of the 2008 farm bill, and seeks to address concerns raised by producers across the country who have called on USDA to evaluate unfair,

deceptive and anticompetitive practices in the market. A GIPSA team is identifying and sorting comments by section of the proposed rule and analyzing that information. A second team, comprised primarily of economists, is assessing comments related to the cost-benefit analysis with the goal of gaining an understanding of the analytical approach used by the commenters and identifying factors not considered in the original analysis. The Office of the Chief Economist and GIPSA are jointly conducting the cost-benefit analysis of the final rule and in coordination with the Office of the Undersecretary for Marketing and Regulatory Programs, the Office of Budget and Program Analysis, and the Office of the General Counsel to determine the complete content of the final rule.

Business Practices

The Business Practices units include lawyers, 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 marketing specialists, economists, and lawyers 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 2010, GIPSA closed 33 competition investigations, 1,201 financial investigations, and 620 trade practice investigations, for a total of 1,854 investigations closed.

Regulatory activities, on the other hand, are activities undertaken to determine if 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 2010, 671 scale checks were conducted, finding 77 violations; and 297 custodial account audits resulted in account corrections worth approximately \$2.4 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. The fed cattle price monitoring program initiated 16 regulatory activities in 2010, none of which indicated cause for investigation.

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 based on cost-price ratios. This program evaluates cost and price data of firms to help detect any potential anticompetitive activities. GIPSA collaborated with USDA's Economic Research Service (ERS) in FY 2009 to utilize their expertise and allow ERS to objectively assess the monitoring concept. Based on suggestions provided by ERS, GIPSA pilot tested the program in 2009 with cattle packers and extended the program in 2010 into the hog industry.

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 four largest 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 2009, GIPSA found it unnecessary to meet with the beef packing companies as their transaction data reconciled with their annual reports. However, GIPSA did meet with all four hog packers. These meetings resulted in a clear, mutual understanding of the reporting of requirements for committed procurement and more reliable reporting and calculation of the packers' reliance on committed procurement methods. In 2010, GIPSA continued to conduct regulatory reviews of the procurement practices of the four largest hog packers to assess whether the procurement methods reported to the Agency in the packers' yearly reports accurately reflect packer procurement transactions data.

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, GIPSA 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.

Poultry Contract Compliance Review Process

In FY 2009, GIPSA added a formal poultry contract compliance review as a component of GIPSA's industry compliance rate performance measure. Contract reviews, in addition to the other component reviews that are conducted based on a random sample, may be initiated based on industry intelligence or complaints. GIPSA developed a sub-process module to be followed when agents conduct reviews. Contracts are reviewed for consistency and adherence to regulations and a randomly chosen payment sample data is reviewed for accuracy and

completeness. If discrepancies are found in the firm's documentation, an investigation will be opened. Otherwise, exit interviews are provided indicating that the firm is found to be free of violation.

Packers and Stockyards Automated System

As a result of the Business Process Re-engineering effort initiated by GIPSA in FY 2006 to develop workflow process descriptions for all major activities, GIPSA standardized business practices across the agency and then focused on automating the information management system. GIPSA merged three database systems that stored critical data into the Packers and Stockyards Automated System (PAS), an integrated system that eliminates multiple data entry and ensures accuracy for reporting and management. Implementation of PAS began in summer 2008 and full software functionality, regional enforcement analysis, and policy analysis was completed in FY 2009 to fully implement the system. GIPSA has now begun enhancements to PAS in FY 2010, including updating the standard operating procedures and designing a workflow to automate the process for scale tests. In addition, software developers have previewed a "dashboard" concept which allows data to be easily accessed by users, sorted based on user preferences, and displayed in a tabular or graphical format. Since PAS collects a vast amount of data, dashboards will be released in phases. The goal is to implement dashboards for investigations and regulatory activities. The execution of these "dashboards" will be the final phase for fully implementing and completing development for PAS.

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. Since 1999, there has been an average of 13 dealer failures per year. Percent restitution to livestock sellers from all sources has averaged 16 percent per year. In FY 2010, it was 9 percent, with 9 percent originating from bonds (Table 3).

TABLE 3: Total Dealer Financial Failures and Restitution, 2001-2010

Fiscal Year	No. of Failures Closed	Closed, Owed For Livestock (\$)	Closed, Restitution		Closed Recovery (%)
			From Bonds (\$)	From Other Sources (\$)	
2001	11	2,841,305	317,444	24,786	12
2002	11	3,271,962	618,764	60000	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	56
2009	25	3,134,145	348,018	411,133	24
2010	7	213,332	20,000	0	9
Avg.	13	2,704,590	274,776	140,292	16
SD	10	1,820,821	272,469	202,998	16

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. Since 1999, an average of 6 auction markets per year have failed, with consignors receiving an average restitution of 47 percent. In FY 2010, the average auction restitution received was 22 percent, with almost all the restitution originating from bonds (Table 4).

TABLE 4: Total Auction Market Financial Failures and Restitution, 2001-2010

Fiscal Year	No. of Failures Closed	Closed, Owed Consignors (\$)	Closed, Restitution		Closed Recovery (%)
			From Bonds (\$)	From Other Sources (\$)	
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	29
2004	2	145,772	60,000	16,649	53
2005	3	336,006	85,000	201,840	85
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
2009	7	981,189	261,498	1,365	27
2010	4	20,901	4,547	0	22
Avg.	6	695,221	167,702	156,150	47
SD	3	428,297	121,666	179,982	26

Centralized Reporting Unit

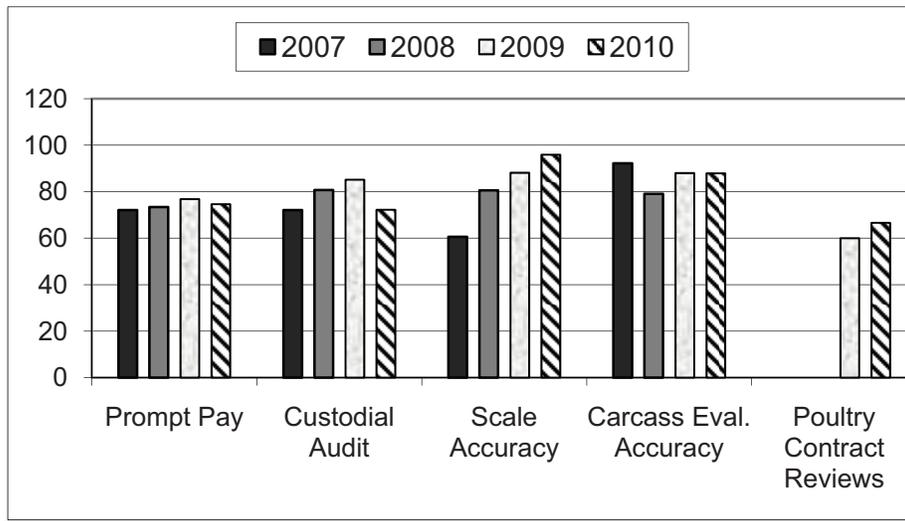
GIPSA formed a centralized reporting unit (CRU) in FY 2008 to receive and handle annual reports submitted by entities that are regulated under the P&S Act. Fully functional in FY 2009, the CRU increased the efficiency in processing annual reports and enhanced the agency's ability to take enforcement action against firms that fail to complete or submit an annual report and firms that submit incomplete forms in a timely fashion. In FY 2010, the CRU continued to analyze annual reports submitted by firms to determine if custodial accounts are short, set appropriate bond amounts, and monitor trade practices.

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. The time declined from 114 days in 2009 to 98 days for investigations closed in 2010. GIPSA closed 42 percent more investigations and regulatory actions in 2010 than in 2009, with a 10 percent reduction in the number of investigations and regulatory actions remaining open at the end of the fiscal year. Total number of both types of actions worked on during the year increased about 27 percent, from 4,353 in 2009 to 5,525 in 2010. In FY 2010, 2,110 investigations of regulated firms were opened while 1,854 cases opened from 2010 and prior years were resolved and closed. The comparable numbers for 2009 were 1,439 cases opened and 1,059 cases closed.

In FY 2010, the program's performance and efficiency measures remained constant despite the downturn in the economy. GIPSA measures the overall performance of the Packers and Stockyards program by annually monitoring the regulated entities' compliance with the P&S Act. The aggregate industry compliance rate for 2010 stayed at the 80 percent level from 2009 and 2008. 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 aggregate compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews (Figure 1). The results of the individual component inspection and audits that comprise the aggregate index show a year-to-year increase in compliance rates in 2010 for three of the five areas reviewed. The poultry contract compliance review shows improvement from the initial rate of 60 percent in 2009 to 67 percent in 2010. Of the other four components, two were above 85 percent and the third and fourth were 75 and 73 percent respectively.

FIGURE 1: Performance Measure Component Compliance Rates, 2007 – 2010



In previous years, aggregate index insolvency audits were included as part of the aggregate compliance measure. GIPSA removed these audits from the index in FY 2009 because the firms were selected for solvency review based on targeted information and chosen to prevent harm to livestock sellers rather than based on random samples. Keeping insolvency audits in the index would have resulted in an aggregated measure of compliance at 85 percent.

Annual Industry Assessment

GIPSA completed the assessment of the industries regulated under the P&S Act based on data from annual reports filed by regulated firms for the firms' 2009 fiscal year. The assessment indicates that the four largest firms' share of total value of livestock purchases (i.e., aggregate industry concentration) has been stable over the past 5 years but increased in 2009. Four-firm concentration ratios by volume of steer and heifer slaughter increased slightly in 2009.

Concentration in poultry slaughter has trended upward since 2000. Cow and bull slaughter concentration increased from 1999 to 2007 then declined in 2008 and 2009. Concentration in hog slaughter increased sharply in 2003 was stable until a decline in 2006, returned to the previous level in 2007 and 2008, then declined slightly in 2009. Concentration in sheep slaughter has varied since 1999 from a low of under 65 percent in 2004 to a high of over 70 percent in 2008, but declined slightly in 2009 to just over 69 percent, a little more than one percentage point higher than in 1999.

Pricing methods

Pricing methods are 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. The total volume of cattle purchased on a carcass basis, trended upward from 1998 through 2002. After a sharp decline in 2004, the volume stabilized in 2005 and 2006, and then increased through 2008 remaining close to constant in 2009. The proportion of cattle purchased on a carcass basis is expected to remain in the 60-percent range with modest fluctuations. Carcass-based purchases have become the predominant method used for hogs purchased for slaughter with a sharp increase in 2008, but declined in 2009 to a level more consistent with the longer term trend. The proportion of hogs purchased on a carcass basis will likely stabilize at current levels. In comparison, the volume of sheep purchased on a carcass basis peaked at over 1.9 million head in 2001 but has declined to around 1 million head in recent years.

Procurement

Overall committed procurement of fed cattle by the top five beef packers increased from 46.8 percent of fed cattle slaughter in 2008 to 49.0 percent of slaughter in 2009. All categories of committed procurement except forward

contracts increased in percentage terms from 2008 to 2009. The gain in 2009 came primarily from an increased use of packer feeding; as forward contracts increased slightly and marketing agreements declined. Packer feeding and forward contracting represent only about 12 percent and 10 percent, respectively, 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.

Industry Concerns

Markets for cattle and hogs sold for slaughter are increasingly reliant on self-referencing to determine the market price. That is, many livestock are sold through contract transactions that reference a price determined in the negotiated segment of the slaughter livestock market. Among the various benefits from contract transactions are lower costs to discover the market price. In effect, traders let someone else conduct negotiations but still reference the price as a public good. These users are benefiting from what is termed the “free rider” effect in the economic literature on public goods. Since the benefits of negotiating the price do not accrue solely to the person engaged in the negotiated transaction, public goods are provided at below optimal levels. The Texas-Oklahoma regional fed cattle market, which has a significant proportion of trade between large feed lots and packers, dropped 13 percent in the negotiated market from mid-2008 to mid-2009. The Iowa-Minnesota market, which has a high proportion of large swine contractors, had only roughly 2 percent of its volume traded in negotiated transactions in mid-2009 and instances are observed where only a handful of transactions set the day’s price. In addition, on December 3, 2010 in the Western Cornbelt region, there were no negotiated purchased hogs for the first time in price reporting history. Whether these markets accurately determine a price that reflects supply-demand conditions or determine a price that reflects unintentional or intentional strategic behavior is the subject of many complaints received by GIPSA. For example, hog prices are frequently being determined by firms’ definitions of its base hog, the hog that does not earn premiums or discounts. Based on this definition, firms either raise or lower the price of hogs when they trade.

Effective August 19, 2010, the Department of Justice (DOJ) increased its Herfindahl-Hirschman Index (HHI) threshold to define highly concentrated markets from above 1,800 to above 2,500. DOJ works closely with GIPSA in the review process when there are mergers and acquisitions of entities regulated by GIPSA, as has been the case the last several years. While GIPSA continues to work closely with DOJ on mergers of joint regulatory and enforcement interest, the change in threshold to above 2,500 may allow considerable structural concentration in the livestock, meat, and poultry industries. For example, with the current market share of the top-4 fed cattle slaughterers at 81.4 and an HHI of 1,748, if there is a slaughter increase and it is captured all by these large slaughterers to reach an HHI of 2,500, the market share of the top-4 fed slaughterers would increase to 98.2 percent. How this will affect regulated business practices will be a concern GIPSA closely monitors.

GIPSA has received an increase in complaints related to price determination in poultry tournament systems. A range of grower complaints have been received. For example, growers have complained about poultry integrators replacing the growers in a settlement group after settlement and then the integrator recalculates the wage rate paid to growers. Another type of complaint is related to integrators segregating a subset of a settlement group and then making a different management treatment available to the subset, which affects the remaining group adversely on payment. A feature of price determination in competitive supply-demand driven markets is the impartiality in establishing the value each party receives from the transaction based on supply-demand conditions outside the control of either trading partner. The determination of the grower’s wage rate in any given poultry tournament has the potential to be highly partial, and equity considerations are observed to rest on the benevolence of the poultry integrator in any particular settlement.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Limitation on Inspection and Weighing Services Expenses:

Not to exceed \$50,000,000 (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, 2011.....	\$50,000,000
Budget Estimate, 2012.....	<u>50,000,000</u>
Change.....	<u><u>0</u></u>

Project Statement
(On basis of appropriation)

	<u>2010 Actual</u>		<u>2011 Estimated</u>		Increase or Decrease	<u>2012 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	\$45,254,757	398	\$50,000,000	398	--	\$50,000,000	398
Nonexpenditure transfer	(873,758)	--	--	--	--	--	--
Unobligated Balance Start of Period	-9,948,137	--	-14,597,290	--	--	-14,597,290	--
Unobligated Balance End of Period	<u>14,661,985</u>	--	<u>14,597,290</u>	--	--	<u>14,597,290</u>	--
Collections	<u><u>49,094,847</u></u>	<u>398</u>	<u><u>50,000,000</u></u>	<u>398</u>	--	<u><u>50,000,000</u></u>	<u>398</u>

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Inspection and Weighing ServicesGeographic Breakdown of Obligations and Staff Years
2010 Actual and Estimated 2011 and 2012

	2010		2011		2012	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas.....	\$2,178,926	20	\$2,407,400	20	\$2,407,400	20
District of Columbia.....	9,549,383	53	10,550,695	53	10,550,695	53
Idaho.....	254,212	2	280,868	2	280,868	2
Iowa.....	370,845	2	409,730	2	409,730	2
Louisiana.....	17,521,518	181	19,358,759	181	19,358,759	181
Missouri.....	236,714	2	261,535	2	261,535	2
North Dakota.....	1,228,230	9	1,357,018	9	1,357,018	9
Ohio.....	2,148,360	18	2,373,629	18	2,373,629	18
Oregon.....	4,113,205	38	4,544,500	38	4,544,500	38
Texas.....	7,572,974	72	8,367,047	72	8,367,047	72
Washington.....	80,390	1	88,819	1	88,819	1
Total, Available or Estimate.....	45,254,757	398	50,000,000	398	50,000,000	398

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

Inspection and Weighing Services

Providing Official Grain Inspection and Weighing Services

The U.S. Grain Standards Act, as amended (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 5: Inspection and Weighing Program Overview, Fiscal Years 2008-2010

Item	Fiscal Years		
	2008	2009	2010
<i>Inspection Program</i>			
Quantity of Grain Produced ¹ (Mmt) ²	474.7	478.4	500.8
Quantity of Standardized Grain Officially Inspected (Mmt) ³			
Domestic	181.3	168.3	191.5
Export by GIPSA	81.4	71.4	77.7
by Delegated States	32.2	24.9	29.7
by Designated Agencies	<u>14.8</u>	<u>10.0</u>	<u>11.0</u>
Total	309.7	274.6	309.9
<i>Weighing Program</i>			
Official Weight Certificates Issued			
GIPSA	88,109	69,163	80,095
Delegated States/Official Agencies	340,434	226,533	222,778
Exported Grain Weighed (Mmt)			
GIPSA	81.1	70.3	77.1
Delegated States	<u>31.9</u>	<u>24.8</u>	<u>29.0</u>
Total	113.0	95.1	106.1

Current Activities:

Container Inspections

The U.S. grain industry has experienced a significant increase in the demand for grain exported in containers. Inspection of containerized cargo has increased from 0.7 percent of total grain officially inspected at export (metric tons) in 2005 to 2.6 percent of total grain officially inspected at export (metric tons) in 2010.

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 grain for which GIPSA maintains official standards.

GIPSA is challenged to keep up with the growing number of container loading facilities. In 2002, eight facilities exported grain by container. Currently, there are over 140 loading facilities, with the majority in proximity to the railroad hub in Chicago. GIPSA is developing outreach material for current and potential buyers of U.S. grain to improve their understanding of the sampling, inspection, and certification process for grain exported in containers.

In order to accommodate the containerized grain trade, GIPSA has remained flexible with regard to sampling containerized lots and certification procedures. However, to ensure that GIPSA regulations and service operations effectively address current and evolving market conditions, the Agency has initiated a comprehensive review of the policies and procedures governing official inspection and weighing services for grain exported in containers, and plans to propose any necessary regulatory changes during FY 2011.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance

Statement of Department Goals and Objectives

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established on October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Program (P&SP). 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.

The GIPSA has two strategic goals and four strategic objectives that contribute to one of the Secretary’s Strategic Goals.

USDA Strategic Goal	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
<p>USDA Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.</p>	<p>Agency Goal 1: Promote fair and competitive marketing of livestock, meat, and poultry.</p>	<p><u>Objective 1.1:</u> Protect fair trade practices, financial integrity, and competitive livestock, meat, and poultry markets.</p>	<p>Packers and Stockyards Program</p>	<p><u>Key Outcome 1:</u> Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.</p>
	<p>Agency Goal 2: Facilitate the marketing of U.S. grain and related agricultural products.</p>	<p><u>Objective 2.1:</u> Provide the market with terms and methods for quality assessments.</p> <p><u>Objective 2.2:</u> Protect the integrity of U.S. grain and related markets.</p> <p><u>Objective 2.3:</u> Provide official grain inspection and weighing services.</p>	<p>Federal Grain Inspection Service</p>	<p><u>Key Outcome 2:</u> 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>

Key Outcome 1: Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.

Long-term Performance Measure: Percent of compliance with the Packers and Stockyards (P&S) Act.

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- Packers and Stockyards Program – After establishing the baseline of 75 percent industry compliance with the P&S Act in FY 2007, industry compliance remained at the FY 2008 level of 80 percent in FY 2009 and FY 2010.
- Efficiency, measured by the decline in average numbers of days comprising an investigation, dropped to 98 days in FY 2010 from an average of 114 days in FY 2009.

Selected Accomplishments Expected at the FY 2011 Proposed Resource Level:

- In FY 2012, GIPSA expects to maintain industry compliance with the P&S Act and achieve a level of 84 percent compliance, up 9 percent compared to the baseline of 75 percent for FY 2007. The Agency expects to achieve this by continuing preventive regulatory actions and investigation and enforcement activities. Recent adverse economic conditions in the economy as a whole negatively affected the financial health of the livestock and poultry industries. The industry's anticipated recovery may result in compliance rates improving slightly less in the coming 2 years than previously projected.
- In FY 2012, GIPSA will implement directives, policies, regulations, and perform industry analysis that effectively and efficiently keep pace with the changing livestock, meat, and poultry industries. This will include prioritizing and developing regulations and policies; and improving the reporting on regulated industry.
- GIPSA will improve organizational efficiency and effectiveness of its Packers and Stockyards Program by effectively aligning organizational structure with process. To attain this goal, GIPSA will ensure an appropriately skilled workforce to address attrition and changing business needs; implement optimal staffing to improve program delivery and results; improve the organizational climate; automate operations; and improve the public perception of P&SP.

Efficiency Measure: Decrease the number of days needed to investigate and resolve potential violations within P&SP by 5 percent yearly.

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.

Long-term Performance Measure: Percent of market-identified quality attributes for which GIPSA has provided standardization.

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- In FY 2009, the GIPSA Market Opportunities Team evaluated its master list of market needs, in cooperation with entities representing all segments of the grain and related commodities markets, and correspondingly recalculated target levels of performance for FY 2010 and beyond. GIPSA was able to provide standardization for 98.6 percent of market identified attributes, prior to the recalculation. In FY 2010, GIPSA was able to provide standardization for 85 percent of market identified attributes.
- In FY 2010, GIPSA played a significant role in maintaining the level of U.S. grain exports traded without disruptions or reported quality discrepancies at 99 percent. This indicates the accuracy and reliability of GIPSA's grain quality measurements and the success of our efforts to ensure that all of America's international trading partners understand how grain quality is determined.

Selected Accomplishments Expected at the FY 2012 Proposed Resource Level:

- In FY 2012, GIPSA expects to provide standardization for 88 percent of all market-identified quality attributes. During FY 2012, GIPSA anticipates continued success 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 providing both direct product testing, and documentation of specific production or processing methods, to help the market differentiate its diverse products. To protect the integrity of U.S. grain and related markets, GIPSA will maintain regulatory requirements for grain handling, marketing, and performance of laboratories authorized to provide official grain quality assessments that promote fair marketing. The agency also will continue to provide official grain inspection and weighing services to American agriculture through the official national system, a network of Federal, State, and private service providers.

Efficiency Measure: Decrease the average time for GIPSA to issue an official certificate to 2.5 days from 3 days.

Strategic Goal Funding Matrix
(On basis of appropriation)

Goal 1	2010 Actual		2011 Estimated		Increase or Decrease	2012 Estimated	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
Packers and Stockyards	\$23,157,466	175	\$23,692,000	175	\$2,228,000	\$25,920,000	175
Grain Regulatory	17,978,915	135	18,272,000	135	--	18,272,000	135
Total, Goal 1	41,136,381	310	41,964,000	310	2,228,000	44,192,000	310
Total, Available	41,136,381	310	41,964,000	310	2,228,000	44,192,000	310

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance

Key Performance Outcomes and Measures

Goal: USDA will assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.

Key Outcomes:

Outcome 1: A fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.

Outcome 2: An efficient, accurate, and reliable means to determine the value of the product being sold or purchased and facilitation of the marketing of America's grain domestically and around the world.

Key Performance Measures:

Measure 1: Percent of industry compliance with the Packers and Stockyards Act

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

Key Performance Targets:

Performance Measures	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Target	2012 Target
Percent of industry compliance with the Packers and Stockyards Act						
a. Percent	75	80	80	80	81	84
b. Dollars (in millions)	\$20.2	\$20.9	\$22.4	\$23.2	\$23.7	\$25.9
Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization.						
a. Percent	95.7	97.8	98.6	85.0 ¹	87.0 ¹	88.0 ¹
b. Dollars (in millions)	\$10.8	\$11.0	\$11.0	\$10.9	\$11.0	\$11.0

¹ In FY 2009, GIPSA recalculated its assessment of market needs based on input from domestic and international customers, producers, and trade associations representing all segments of the grain and related commodity markets. As a result, the target performance levels for fiscal years 2010 and beyond were adjusted.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION				
Full Cost by Department Strategic Goal				
USDA Strategic Goal 1: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving				
PROGRAM	PROGRAM ITEMS	2010 AMOUNT (\$000)	2011 AMOUNT (\$000)	2012 AMOUNT (\$000)
Packers and Stockyards Program				
	Packers and Stockyards Program	\$20,336	\$20,806	\$22,763
	Indirect Costs	2,821	2,886	3,157
	Total Costs	23,157	23,692	25,920
	<i>FTEs</i>	175	175	175
	Performance measure: Rate of industry compliance with the P&S Act (%)	80	81	84
Grain Regulatory Program				
	Grain Regulatory Program	\$15,095	\$15,341	\$15,341
	Indirect Costs	2,884	2,931	2,931
	Total Costs	17,979	18,272	18,272
	<i>FTEs</i>	135	135	135
	Performance measure: Percent of market-identified quality attributes for which GIPSA has provided standardization (%)	85.0	87.0	88.0
Total for Strategic Goal 1				
	Total Costs for Goal 1	41,136	41,964	44,192
	<i>FTEs</i>	310	310	310