

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Statement of James E. Link, Administrator
Before the Subcommittee on Agriculture, Rural Development, Food and Drug
Administration, and Related Agencies

Introduction

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the agency's FY 2007 budget proposal.

GIPSA's activities are an integral part of USDA-wide efforts to support a competitive global marketplace for U.S. agricultural products. Our mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

We fulfill our service and regulatory roles through our Packers and Stockyards Program, which promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries and our Federal Grain Inspection Service, which provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards to promote equitable and efficient marketing.

Organization

We carry out our mission with a dedicated staff of 680 employees working in partnership with a variety of State and private entities. Our Packers and Stockyards Program relies on three regional offices which specialize in poultry, hogs, or cattle/lamb. Our grain inspection services are delivered by the national inspection system, a network

of Federal, State, and private inspection personnel. The system includes 9 GIPSA field offices, 1 Federal/State office, and 56 State and private agencies authorized by GIPSA to provide official services.

Packers and Stockyards Program

Our Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act (P&S Act) to promote fair and competitive marketing in livestock, meat and poultry for the benefit of consumers and American agriculture. The P&S Act is intended to protect producers, other market actors, and consumers against unfair, discriminatory, or deceptive practices that might be carried out by those subject to the Act.

To meet this objective, GIPSA seeks to educate, regulate and investigate individuals and firms subject to the P&S Act; to respond to anti-competitive behavior, unfair, deceptive, or unjustly discriminatory trade practices; and to ensure livestock producers and poultry growers are paid for their products. GIPSA takes corrective action when there is evidence that firms or individuals have violated the P&S Act.

In April 2005, the USDA's Office of Inspector General (OIG) initiated an audit in response to Congressional concerns with the Agency's management and oversight of P&SP. The audit identified four primary areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve.

The OIG provided ten recommendations for strengthening P&SP. GIPSA concurs with all recommendations and is taking immediate actions to implement them. We have already taken steps to improve the management of investigations, to correct how we categorize and track investigations and to implement additional recommendations

from prior OIG and Government Accountability Office reviews. The Administration takes the Inspector General's findings very seriously and we have established an aggressive schedule to improve the enforcement of the P&S Act.

While improvements are needed, P&SP has delivered valuable services to the livestock, meatpacking, and poultry industries. With only 136 employees, we continued to regulate these industries, estimated by the Department of Commerce in FY 2002 to have an annual wholesale value of \$120 billion. At the close of FY 2005, 5,569 market agencies and dealers and 1,858 packer buyers were registered. In addition, there were 1,443 facilities that provided stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 202 live poultry dealers operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Last fiscal year, we conducted 1,936 activities related to compliance with the P&SP Act. These activities included 1,491 regulatory activities such as financial audits and scale check weighs and 445 investigations of P&S Act violations. As a result of these investigations, P&SP helped recover over \$14.1 million for producers and enforced the restoration of nearly \$350 million to custodial accounts and business balance sheets to protect producers from financial harm.

We continue to work with violating firms to achieve voluntary compliance, and continue to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. In FY 2005, with assistance from the Office of the General Counsel, we filed 18 administrative or justice complaints alleging violations of the P&S

Act. These formal disciplinary complaints resulted in 21 decisions ordering the payment of \$116,300 in civil penalties and suspending 7 registrants from operating for periods ranging from 21 days to 6 years. In one specific case, GIPSA worked through informal resolution channels to obtain voluntary compliance when a market agency and dealer operation in the Midwest discovered one of its employees had defrauded the company in excess of \$1 million. Through GIPSA's timely intervention, the firm secured sufficient financial protection so that none of the company's livestock sellers suffered losses.

We regularly assist the FBI, State and local law enforcement agencies with their investigations. Some of our investigations involve overlapping jurisdiction, and sometimes these agencies call on GIPSA for its expertise. In addition, we communicate with our sister agencies within USDA, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

GIPSA maintains a toll-free hotline (800-998-3447) as an avenue for receiving complaints and other communications from livestock producers, poultry growers and other members of the industry or general public. Use of the hotline allows callers to voice their concerns or file a complaint anonymously without fear of retaliation. In FY 2005, GIPSA's Packers and Stockyards Program received 39 hotline calls. Those calls that related to livestock or poultry issues resulted in investigations. To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions (28 in 2005) for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

In FY 2005, we continued working with stakeholders and other interested parties to develop and publish two additional voluntary industry standards for technologies used to assess quality and determine payment for livestock, meat, or poultry. The tentative code was published by the American Society for Testing and Materials in the 2006 National Institute of Standards and Technology – Handbook 44 “Specifications, Tolerances and Other Technical Requirements for Weighing and Measuring Devices”, which was released in October 2005. The new standards will help producers receive full value for the quality of livestock they produce as well as help packers pay only for the product they want to purchase. We will continue to work with stakeholders to develop additional standards, as needed, to enhance transparency in the marketplace.

GIPSA continues to operate the Swine Contract Library (SCL) which includes information pertaining to price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs. The data is available on GIPSA’s website on a real time basis. In October 2005, the reporting requirements under the Livestock Mandatory Reporting Act of 1999 became voluntary due to the sunset of the law.

GIPSA continues to administer a livestock and meat marketing study that examines the broad issues surrounding packer ownership of livestock. Research Triangle Institute (RTI), the firm with whom GIPSA has contracted to complete the study, released an interim report in August 2005. RTI began contacting survey respondents in November 2005 and collecting transaction data in February 2006. The final report is scheduled for release in early 2007.

Federal Grain Inspection Service

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of grain handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.

FGIS establishes terms and methods for quality assessments that the grain industry uses to buy and sell about \$50 billion of commodities annually. These standards for quality assessments provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse end-use needs of today's food and feed industry. GIPSA currently maintains 131 unique standards and quality assessment factors to characterize the quality of grain and grain-related products.

We continue work with producers, technology providers, and food and feed manufacturers to consensually identify the essential quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture. In FY 2005, GIPSA implemented artificial neural network (ANN) technology to streamline and improve the accuracy of the wheat protein testing program, and to offer, for the first time, a barley protein testing service. The new official ANN protein testing services facilitate the marketing of these grains by providing a fair, accurate, and transparent third-party determination, backed by a national quality control process, and standardized instrumentation, reference samples, calibration, and procedures.

GIPSA also conducted activities related to soybeans in FY 2005. GIPSA verified and adopted an American Oil Chemists' Society (AOCS) gas chromatographic method as a reference method to measure levels of various fatty acids in soybeans, including linolenic acid. Soybeans with lower linolenic acid levels were introduced during 2004. "Low-lin" soybeans produce oil that has half the linolenic acid level of commodity soybean oil, making it more stable and reducing or precluding the need for hydrogenation – the process that creates unhealthy trans fats in foods. This standard quality assessment method will help the market capture the full value of this emerging product. GIPSA continues to explore rapid tests for fatty acid contents of soybeans and other grains.

We are also working with the wheat industry in an effort to regain the U.S. wheat market share which has declined from 33 percent of the international market in 1995 to an estimated 25percent in 2005.

Our goal is to develop rapid measurement methods to differentiate wheat quality at the first point of sale and allow the U.S. wheat industry to better meet the needs of foreign buyers. To date, working with the wheat industry, we have identified several key quality attributes, such as gluten strength, that require rapid measures, as well as the need to validate international reference methods relating to the attributes.

In FY 2005, GIPSA validated and adopted three widely used, internationally recognized reference methods that assess various aspects of protein quality in wheat: the Farinograph reference method to measure water absorption and dough strength; the Glutomatic reference method for wet gluten quantity; and the Alveograph reference method to measure dough strength.

Gaining consensus on the salient wheat attributes and reference methods will allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale.

As we develop measures of new attributes entering the market, we are ensuring the current measurement methods are accurate and cost-effective. For example, we are working to transform the measurement of grain moisture. Maintaining current calibrations for moisture measurement is time consuming and resource intensive. Advances in the basic means to measure moisture, led by GIPSA, have the potential to greatly reduce maintenance costs and improve the accuracy of moisture measurements over a much wider range. These advances will benefit the entire grain industry, from producer to food manufacturer.

We are also working with stakeholders to ensure grading standards further facilitate trade. GIPSA is developing national feed pea standards to meet surging production and use of peas for feed. As the global competition in soybean markets intensifies, we are collaborating with the soybean industry to determine whether changes in analytical methods and grading standards would improve the U.S. competitive position. One grading factor under review is test weight per bushel, a factor used to market soybeans in the United States for over a half century, but not used by our major international competitors. We are also working closely with the wheat industry to ensure the wheat standards facilitate the expansion of the new and evolving market for Hard White Wheat. In 2005, we amended the U.S. Standards for Wheat to change the definition of contrasting classes in Hard Red Winter wheat and Hard Red Spring wheat. The new standard and policy will ensure the purity of both the Hard White and the Hard

Red classes, which is essential to promote market growth and meet the needs of those making high-quality wheat products for consumers around the world. All of these activities improve the American agriculture's ability to deliver the specific quality of grain desired by food manufactures and consumers, and strengthen its competitive position in the global market.

In the biotechnology arena, we are improving the reliability and accuracy of testing for the presence of modern biotechnology-derived grains to help U.S. agriculture avoid market disruption as trading partners around the world implement new import requirements. Our Test Kit Evaluation Program validates the performance of commercially available rapid tests for biotechnology-derived grains. Our Proficiency Program improves the performance and reliability of government and private laboratories that test for biotechnology-derived grains in the United States and worldwide. More than 115 organizations participated in the program in FY 2005, compared to 22 in 2002.

In response to the results of the proficiency program, we are working to harmonize international reference materials and biotechnology measurement methods used in commerce to measure the level of biotechnology-derived events in raw agricultural products. The current focus of many laboratories is to assay for the presence or absence of a particular transgenic event, whereas the regulatory requirements evolving for agricultural products usually require reliable methods to measure the quantity of a biotechnology derived event.

Our international outreach goes beyond work in the area of biotechnology. We work cooperatively with other government agencies to support market development and remove obstacles to U.S. grain reaching world markets.

In recent years, we have focused on providing technical support to the Mexican and Asian markets. Last year, GIPSA worked with Mexico's private and public grain sectors to harmonize sampling and analytical methods with the goal of minimizing trade disruptions due to differences between GIPSA-certified quality and an importer's own quality assessment. We conducted seminars at three major grain importing locations in Mexico for personnel from Mexican commercial firms and government agencies to educate buyers on grain contracting, U.S. grain standards, sampling, and inspection procedures. We also spearheaded the establishment of a government-to-government grain industry consultative group as a technical-level forum to address cross-border grain quality issues. Finally, GIPSA led a USDA team that visited key Mexican border inspection offices to facilitate cross-border trade by addressing Mexico's inspection and clearance process for U.S. grain shipments to Mexico.

Since FY 2002, GIPSA has placed a temporary duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in inspection results and to develop face-to-face relationships with customers, USDA cooperators and government officials. During FY 2005, a GIPSA officer served on a 7-month assignment in the region. In FY 2005, this program allowed GIPSA to respond face-to-face to importers in Japan who raised concerns regarding dockage levels in U.S. wheat; to Taiwanese importers about differences in grain weight; and to representatives of Malaysia and Singapore regarding U.S. soybean quality. We also were able to share samples with Japan to allow them to monitor pesticide residue levels in U.S. wheat, rice, and barley, before they implement new domestic residue limits. Finally, GIPSA's

representative participated in several marketing seminars sponsored by USDA cooperator organizations to inform importers and their governments about the role and responsibilities of GIPSA and the national inspection system.

We also provide technical consultative services for international customers. During FY 2005, GIPSA facilitated the reopening of Iraqi grain markets to the United States for the first time since 1999, leading to wheat sales of \$107 million in 2005. We provided technical monitoring and on-site inspection expertise for U.S. wheat shipments from their departure point in the United States to their arrival in Syria and final destination in Baghdad.

Also during the fiscal year, GIPSA installed and check tested laboratory equipment to inspect and grade wheat in Yemen; conducted wheat grading and inspection seminars in El Salvador and Tunisia; worked with Algerian grain buyers to address Karnal bunt concerns; met with Peruvian officials to discuss the effects of their new rice import regulations; developed sample collection procedures for Japan's Ministry of Agriculture, Forestry and Fisheries; participated in several international meetings on implementing the Biosafety Protocol; continued to work with Chinese officials to discuss biotechnology, the Biosafety Protocol, and their impact on trade; helped the USDA/Foreign Agricultural Service and Animal and Plant Health Inspection Service resolve various grain quality issues in other countries that would otherwise have restricted U.S. grain exports; and briefed visiting trade and governmental teams representing 44 countries around the world.

In addition to facilitating the marketing of U.S. grain by developing grain quality assessment methods and carrying out international outreach efforts, GIPSA administers a

national inspection system comprising Federal, State, and private laboratories. These laboratories provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. The world recognizes the certificates issued by these laboratories as the gold standard for grain quality certification. Buyers and sellers around the world have confidence in and rely on the GIPSA certificate to trade grain.

This confidence was earned. The dedicated Federal, State, and private employees of the national grain inspection system work tirelessly to ensure the integrity and reliability of the national inspection system. The dedication and professionalism of GIPSA employees was proven last year in the aftermath of Hurricanes Katrina and Rita. Four GIPSA offices (New Orleans and Lake Charles, Louisiana, and League City, and Beaumont, Texas) were in the paths of these storms. Through the superlative efforts of employees in New Orleans, Louisiana, and League City, Texas, all agency employees were located and inspection personnel were working with industry with 48 hours after the hurricanes passed to get U.S. export port operations in the Gulf online. Within a week, employees in the affected area had set up an alternate field office and were responding to industry service requests. Local GIPSA employees, many of whose homes were lost or destroyed, were on duty. Within 3 weeks, the New Orleans field office was fully operational.

GIPSA's Beaumont, Texas, and Crowley/Lake Charles, Louisiana, offices took direct hits from Hurricane Rita. The Crowley/Lake Charles office suffered moderate damage and was fully functional within a week. The Beaumont suboffice was severely damaged by Rita and closed for a month but is now fully operational.

We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges engendered by the storms. All told, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain during FY 2005.

GIPSA continuously works to improve service delivery by this network of laboratories and meet the needs of a changing market. In FY 2005, we revised the regulations on short-voyage fumigations to facilitate the movement of waterborne grain shipments of 5 days or less duration.

eGovernment Solutions

Our most ambitious undertaking to improve program operations and service to the public is a sweeping, multi-year project to upgrade information management systems and modernize our business functions. Our current information management system consists of several independent systems that have served specific purposes over the years well, but are not integrated. This has limited our ability to meet the growing demand for electronic, or web-based, delivery of our services. It also impedes our efforts to improve the cost effectiveness and efficiency of our internal business practices. The enterprise-wide system currently under development will modernize nearly every aspect of GIPSA operations and provide a great opportunity to improve current business practices and service delivery. The new system includes twenty-seven (27) applications to be built over five (5) years.

New funding provided in FY 2005 and FY 2006 along with the redirection of existing funds has enabled GIPSA to begin development on ten (10) of the twenty-seven (27) GIPSA Application Modernization modules. Currently funded components of the new system will be deployed incrementally in 2006 and 2007 with the first seven applications scheduled for deployment in the spring of 2006. This long term initiative is scheduled to continue through FY 2009. We have requested additional funding in FY 2007 to support this important initiative.

When completed, customers will have online access to the information and applications they need to file complaints with GIPSA via the Internet; receive status reports on a complaint; place claims against bonds required under the P&S Act; register as a grain exporter or livestock dealer; submit required annual reports; request grain inspection services; receive reports on service status; see the status of their user-fee account; and receive final certified results online which will, in turn, allow customers to integrate official inspection data into their own information and document management systems. Private and State inspection agencies interested in being authorized to provide official inspection services will also be able to apply for GIPSA designation and re-designation on-line. Once officially designated, these agencies will have direct access through the web to GIPSA's extensive quality assurance program to ensure their inspection results align with the official standards maintained by GIPSA.

This modernization effort will create synergy across GIPSA programs and data sources, allowing GIPSA to improve internal program efficiencies and effectiveness. This large multi-year initiative will deliver improved performance and reduce costs years into the future.

Protecting the Homeland

In addition, GIPSA has dedicated resources to homeland security efforts. We continue to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In FY 2005, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions, including a major government-wide exercise.

We provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the USDA Homeland Security Working Group; worked with the National Food Laboratory Steering Committee to coordinate and integrate resources to support key components of the Food Emergency Response Network (FERN); and participated on an Federal Bureau of Investigation-led team that conducted a threat assessment of a major export grain elevator.

2007 Budget Request

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for FY 2007 is \$41.5 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. These budgets include additional requests of \$673,000 for employee compensation; \$2,870,000 to continue the modernization of our information management systems and business functions; and \$405,000 for international services; and a decrease of \$500,000 for the corn growers initiative. In addition our request includes a proposal to recover \$19.7 million through user fees to cover the costs of grain standardization activities and Packers and Stockyards program activities.

An increase of \$673,000 for employee compensation will enable GIPSA to meet its objectives 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 projected increased demand.

We are requesting an additional \$2,870,000 for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes \$1.4 million to continue the development of eGov solutions and \$1.5 million for recurring costs associated with the maintenance of these applications.

We are also requesting an additional \$405,000 to establish an ongoing presence in Asia allowing GIPSA to continue and expand upon our successful international services and trade activities currently provided on a temporary basis. GIPSA's hands-on approach of assigning a temporary duty officer in Asia to facilitate trade of U.S. grain has provided a positive impact on existing and potential buyers. These buyers say their concerns related to grain quality are addressed effectively. Continuing and expanding this program is crucial not only to increasing U.S. grain exports and reducing market disruptions due to technical differences in analytical methods and standards, but to increase satisfaction and loyalty among our current customers in an extremely competitive marketplace. The U.S. trade dollars saved upon the resolution of just one grain shipment complaint can far outweigh the costs associated with maintaining a GIPSA presence in Asia.

Part of our appropriation request will be derived from proposed new user fees. The budget proposes collecting \$3.7 million from grain standardization user fees and

\$16.0 million from Packers and Stockyards Program licensing fees after a three month start-up period.

Conclusion

Mr. Chairman, Members of the Committee, thank you for the opportunity to share some of the accomplishments made by our dedicated staff and highlight our future plans to facilitate the marketing of U.S. agricultural products and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.