



United States
Department of
Agriculture

Grain Inspection,
Packers and
Stockyards
Administration

FY 2003 Annual Report of the Grain Inspection, Packers and Stockyards Administration

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

Organizational Structure and Functions



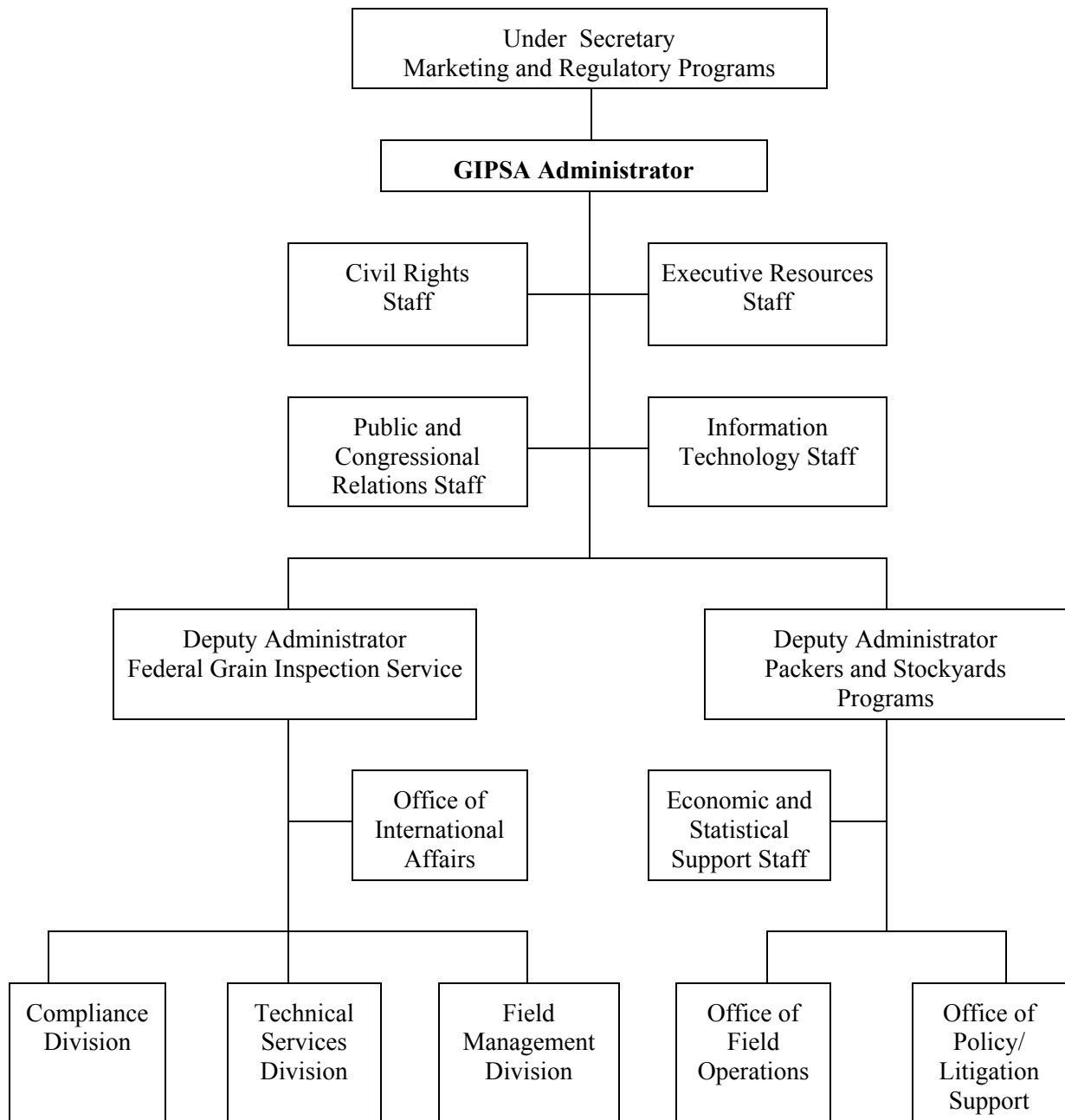
Organizational Structure and Functions

The Grain Inspection, Packers and Stockyards Administration (GIPSA) works to ensure a productive and competitive global marketplace for U.S. agricultural products.

One of GIPSA's programs, the Packers and Stockyards Programs (P&SP), promotes fair and competitive markets for livestock, meat, and poultry by enforcing the Packers and Stockyards Act of 1921. P&SP provides financial protection to livestock producers and poultry growers, and promotes fair and competitive markets within its regulatory framework. The other program, the Federal Grain Inspection Service (FGIS), provides the U.S. grain market with Federal quality standards and a uniform system for applying them. FGIS has both service and regulatory roles, and was founded to provide impartial, accurate quality and quantity measurements to create an environment that promotes fairness and efficiency.

The existence of GIPSA as an impartial, third-party entity helps ensure a fair and competitive marketing system for all involved in the marketing of livestock, meat, and poultry, and grain and related products.

GIPSA's Organizational Structure



Packers and Stockyards Programs

Authorities

GIPSA's Packers and Stockyards Programs (P&SP) administers the P&S Act of 1921 (P&S Act), as amended and supplemented. P&SP also carries out the Secretary's responsibilities under Section 1324 of the Food Security Act of 1985. P&SP is responsible for the Truth-in-Lending Act and the Fair Credit Reporting Act as each relates to persons and firms subject to the P&S Act. Additionally, P&SP responds to inquiries submitted under the Freedom of Information Act.

Responsibilities

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

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

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

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

Activities

The principal activities involved in administering the P&S Act include:

- Registering individuals and firms who operate subject to the P&S Act,
- Ensuring that registrants obtain and maintain the proper level of bond coverage,
- Assisting producers with filing bond and trust claims,
- Analyzing trust and bond claims,
- Conducting Rapid Response Investigations to prevent irreparable harm to the regulated industries,
- Investigating the financial conditions and payment practices of registrants, packers, and live poultry dealers,
- Investigating the procurement practices of registrants and packers,
- Investigating marketing practices at stockyards, auction markets, buying stations, Internet sales, video sales, and terminal markets,
- Investigating use of scales at auction markets, stockyards, buying stations, live poultry dealers, packing plants, and at any location where scales are used to weigh feed, when feed is a factor affecting payment to livestock producers or poultry growers,
- Investigating the competitive practices of registrants, packers, live poultry dealers, and swine contractors, and
- Monitoring structural changes in the livestock, meat, and poultry industries.

Investigations

GIPSA's P&SP investigative and enforcement activities cover the areas of Competition, Trade Practices, and Financial Protection. In FY 2003, these Programs opened 1,744 investigations. Investigations are conducted as the result of complaints or information received alleging that violations of the P&S Act have occurred, and as follow-ups to previous investigations that disclosed violations of the P&S Act to assure that violations have been corrected. Other investigations are initiated by P&SP to assure subject firms are operating in compliance with the P&S Act. In FY 2003, 1,535 investigations were completed and closed by P&SP.

When P&SP determines that a potentially serious situation exists that may cause imminent harm to livestock producers, rapid response teams are immediately deployed to investigate the matter. In FY 2003, 59 rapid response investigations were initiated. These investigations resulted in \$5,974,557 recovered for the benefit of livestock producers and poultry growers at a cost of \$413,010 in salary and travel expenses.

P&SP filed 22 formal administrative complaints in FY 2003 alleging violations of the P&S Act. The following table shows a breakdown of the investigations closed in FY 2003, and the number and percentage of closed investigations that were completed and closed within 1 year of the date the investigation began.

Investigations

| Unit | Number Closed | Number Closed in a Year | Percent Closed in a Year |
|-----------------|----------------------|--------------------------------|---------------------------------|
| Competition | 8 | 6 | 75.0 |
| Financial | 558 | 528 | 94.6 |
| Trade Practices | 956 | 915 | 95.7 |
| Total | 1,522 | 1,449 | 95.2 |

Total recovery to producers as the result of P&SP investigations in FY 2003 was \$27.2 million.

Toll-Free Hotline

GIPSA maintains a toll-free number (1-800-998-3447) to allow members of the livestock and poultry industries and the public to report complaints and share concerns. During FY 2003 GIPSA received 88 hotline complaints from livestock producers, poultry growers, and the public. Each call was referred to the appropriate regional office for review, follow-up, and appropriate action on complaints reporting substantiated violations of the P&S Act. Alternatively, individuals or firms with complaints are encouraged to call the appropriate Regional Office to discuss their complaints.

P&SP Structure

As of September 30, 2003, P&SP had 166 employees. P&SP has a headquarters office in Washington, D.C. and three regional field offices in Atlanta, Georgia; Denver, Colorado; and Des Moines, Iowa. The regional field offices conduct most day-to-day industry monitoring and surveillance, and investigations. Each regional office maintains a high level of expertise in one or more species of livestock. The Atlanta Regional Office has expertise in poultry and takes the lead on all national poultry investigations. The Des Moines office has expertise in hogs and takes the lead on all national hog investigations. The Denver office has expertise in cattle and lambs and takes the lead on all national cattle or lamb investigations.

Thirty resident agents, reporting to regional field offices, are located throughout the country to provide additional coverage across the Nation, with each agent located to provide core services in his or her assigned territory.

P&SP Regional Offices

Poultry:

Atlanta Regional Office
Richard Russell Building
75 Spring Street, Suite 230
Atlanta, GA 30303
Regional Supervisor: Elkin Parker
Phone: 404-562-5840
FAX: 404-562-5848
E-mail: Elkin.W.Parker@usda.gov

Cattle and Lamb

Denver Regional Office
1 Gateway Center
3950 Lewiston Street
Aurora, CO 80011
Regional Supervisor: John Barthel
Phone: 303-375-4240
FAX: 303-371-4609
E-mail: John.D.Barthel@usda.gov

Hogs

Des Moines Regional Office
Federal Building, Suite 317
210 Walnut Street
Des Moines, IA 50309
Regional Supervisor: Jay Johnson
Phone: 515-323-2579
FAX: 515-323-2590
E-mail: Jay.A.Johnson@usda.gov

Packers and Stockyards Programs Regional Structure



Federal Grain Inspection Service

A Federal grain inspection entity was instituted by Congress in 1976 to manage the national grain inspection system, which initially was established in 1916, and to institute a national grain weighing program. The goal of creating a single Federal grain inspection entity was to ensure development and maintenance of uniform U.S. standards, to develop inspection and weighing procedures for grain in domestic and export trade, and to facilitate grain marketing.

Activities Under the U.S. Grain Standards Act

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

In administering and enforcing the Act, GIPSA:

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

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

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

- provides official inspection and weighing services at certain U.S. export port locations,² and official inspection of U.S. grain at certain export port locations in eastern Canada along the St. Lawrence Seaway;
- delegates qualified State agencies to inspect and weigh grain at certain U.S. export port locations;
- designates qualified State and private agencies to inspect and weigh grain at interior locations;
- licenses qualified State and private agency personnel to perform inspection and weighing services;
- provides Federal oversight of the official inspection and weighing of grain by delegated States and designated agencies;
- provides review inspection services³ of U.S. grain in the U.S. and at certain export port locations in eastern Canada;
- investigates, in cooperation with the USDA Office of Inspector General, alleged violations of the Act and initiates appropriate corrective action;
- monitors the quality and weight of U.S. grain as received at destination ports, and investigates complaints or discrepancies reported by importers; and
- assists U.S. trading partners in developing and improving their grain inspection and weighing programs.

Mandatory Services

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

² Export Port Locations. Commonly recognized ports of export in the United States or Canada, as determined by the Secretary, from which grain produced in the United States is shipped to any place outside the United States. Such locations include any coastal or border location, or any site in the United States that contains one or more export elevators and is identified by FGIS as an export port location.

³ Review Inspection Service. A reinspection, appeal inspection, or Board appeal inspection service performed when discrepancies are alleged between the true quality of the grain and the inspection results.

Mandatory inspection and weighing services are provided by GIPSA on a fee basis at 38 export elevators (including 5 floating elevators). Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at seven locations in Canada exporting U.S. grain. Eight delegated States provide official services at an additional 19 export elevators under GIPSA oversight.

Grain exporters shipping less than 15,000 metric tons of grain abroad annually are exempt from mandatory official inspection and weighing requirements. Grain exported by train or truck to Canada or Mexico also is exempt from official inspection and weighing requirements.

Permissive Services

Official inspection and weighing of U.S. grain in domestic commerce are performed upon request and require payment of a fee by the applicant for services. Domestic inspection and weighing services are provided by 58 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions.

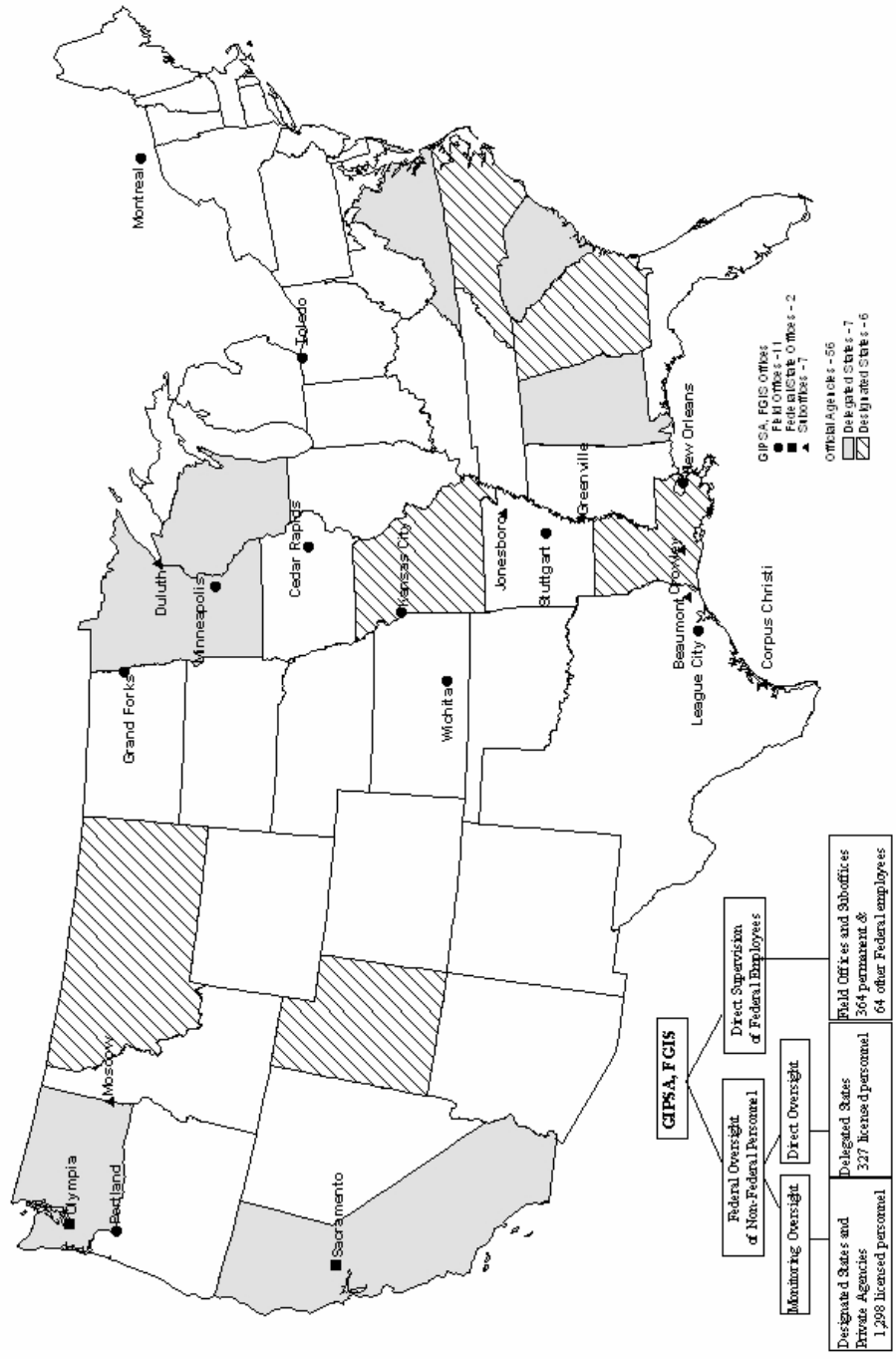
Activities under the Agricultural Marketing Act

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

FGIS Structure

FGIS is comprised of 515 full-time, permanent employees and 68 part-time, intermittent or other employees located at 2 headquarters units, 10 field offices, 2 Federal/State offices and 7 suboffices. FGIS has headquarters units in both Washington, DC, and Kansas City, MO. Field offices are located in Stuttgart, AR; Sacramento, CA; Cedar Rapids, IA; Wichita, KS; New Orleans, LA; Minneapolis, MN; Kansas City, MO; Grand Forks, ND; Portland, OR; League City, TX; Toledo, OH; and Olympia, WA; thus ensuring the availability of official inspection and weighing services anywhere in the United States. FGIS personnel also are located in eastern Canada to provide inspection of U.S. grain at Canadian ports.

Official Inspection and Weighing Service Providers



Provision of Inspection and Weighing Services by State

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

* Federal/State office.

Outlook 2004



Outlook 2004

Standards Development

The U.S. grain marketing system is undergoing rapid and profound change. Developments in plant breeding, the use of new marketing strategies such as identity preservation, increasingly complex processing, food manufacturing, and feed formulation, and other factors will continuously challenge GIPSA to develop and modify the official U.S. grain standards to ensure they accurately reflect and support market practices. To ensure that the grain standards remain relevant to the grain industry, from producer to end user, GIPSA plans to: (1) analyze comments received in response to the Agency's FY 2002 proposal to establish subclasses in Hard White wheat based on seed coat color, and to publish a final rule in spring 2003; (2) analyze the role of corn and soybeans in the changing U.S. feed sector and identify any needed changes to the grading standards; and (3) prepare a proposal to solicit comments on amending the oat standards to include new species of oats.

Swine Contract Library

The Livestock Mandatory Reporting Act of 1999 amended the P&S Act to require the Secretary of Agriculture to establish a Swine Contract Library. GIPSA published the final rule on August 11, 2003, to begin implementing the Swine Contract Library. The library provides more transparency about swine contract terms and more access to market information for all market participants. The library uses a web-based system to facilitate secured real-time data input from swine packers and data access by the public. The regulation requires certain packers to file swine marketing or purchase contracts (written and verbal) with GIPSA and monthly reports about the number of swine expected to be delivered, under contract, to packers. The Swine Contract Library includes information from swine packers that purchase at least 100,000 swine per year and slaughter swine at federally inspected swine processing plants that slaughter at least 100,000 swine per year (33 firms that operate 52 plants accounting for approximately 97 percent of the 2002 federally inspected swine slaughter).

The purpose of the Swine Contract Library is to provide useful information to producers and other interested parties. GIPSA receives contracts from packers and extracts payment and other provisions unique to each contract. GIPSA releases unique provisions from submitted contracts, by region, on its web-site. GIPSA provides as much information as possible under the confidentiality requirements of the law.

Producers have the ability to see contract terms, including, but not limited to, carcass merit premium/discount schedules, non-carcass premiums/discounts, and contract lengths.

The public can access the library from GIPSA's homepage at <http://www.usda.gov/gipsa/>.

Improve Annual Assessment of the Cattle and Hog Industries

GIPSA is expanding the scope of a Congressionally mandated annual assessment of the cattle and hog industries by including the poultry industry, and the sheep and lamb industry. The expanded report will be published in FY 2004.

Increase Market Intelligence

P&SP is revising the annual report form that packers file with GIPSA. The revised form will allow GIPSA to collect better information on procurement and pricing methods, purchase volumes, packer processing costs, and plant- and firm-level productivity. This information will enable the Agency to more effectively monitor the industry, identify new business methods, and track trends, including efficiency and productivity trends. The Agency will also use this information to produce and publish more accurate and detailed statistics on captive supply use, packer financial performance, and industry costs than have previously been available.

Streamlining Processes

GIPSA plans to consolidate the collection and processing of packer annual report forms in a single office (Economic and Statistical Support Staff) in Washington, D.C., rather than in each of its regional offices. This will improve the standardization of definitions and procedures; give all firms a single point of contact regarding packer annual report questions; and improve the coordination, effectiveness, and efficiency of collecting, tabulating, and analyzing the data. The Economic and Statistical Support Staff has become more involved in providing guidance on how the form should be completed, and full transfer of processing packer annual reports will coincide with introduction of the revised packer annual report form, which is in development.

Packers and Stockyards Programs



Promoting a fair and competitive marketing environment for the livestock, meat, and poultry industries through administration of the Packers and Stockyards Act.

- *Competition*
- *Trade Practices*
- *Financial Protection*
- *Reports and Research*
- *Other Initiatives and Activities*

Competition

Overview

GIPSA's P&SP Competition Program focuses on enforcing provisions of the P&S Act that prohibit anticompetitive behavior. The provisions that address anticompetitive behavior are contained primarily in Section 202 of the P&S Act.

Enforcement Activities

In addition to initiating independent reviews and market analyses, P&SP's Competition Program investigates all complaints alleging anticompetitive behavior prohibited by the P&S Act. GIPSA receives many complaints about issues such as concentration and mergers that may relate to competition but do not violate the P&S Act and do not result in formal investigations. During FY 2003, P&SP began or continued evaluations of 31 complaints regarding potential anticompetitive practices in violation of the P&S Act. Competition investigations are complex and often require sophisticated economic modeling and analyses. In FY 2003 P&SP's Competition Program evaluated complaints regarding: attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, price discrimination, price manipulation, and predatory pricing. P&SP is conducting investigations and market surveillance to identify possible violations of the P&S Act and to keep abreast of constantly evolving pricing and procurement practices. In FY 2003 P&SP's Competition Program completed evaluations of 8 competition complaints. In one case, the firm went out of business, a second firm was brought into compliance. The other 6 did not reveal violations of the P&S Act. 23 complaints were still pending at the end of the Fiscal Year.

Pricing and procurement practices are becoming increasingly complicated. The shares of cattle and hogs traded on the spot market of all procured cattle and hogs are declining, but most hogs and a large portion of cattle procured out of the spot market are priced based off of prices paid for livestock purchased on the spot market. These pricing practices increase the potential for buyers to unlawfully exercise market power. The Competition Program has a number of enforcement initiatives underway as a result of complaints, or its on-going surveillance of the industries' use of pricing and procurement practices. Examples include the following: an investigation of a packer's use of marketing contracts to exercise market power in a manner prohibited by the P&S Act, an evaluation of possible reciprocal dealing and tying arrangements, and multiple investigations into alleged buyer collusion and alleged attempts to exclude competitors from markets.

GIPSA's competition program works closely with the industries to achieve voluntary compliance with the P&S Act. This approach is more cost effective and provides better protection for producers and the industry. Litigating anticompetitive complaints is very expensive for the Agency in terms of financial and personnel resources, and can take years. As an example, one case filed in April, 1999, remains unresolved with pending appeals.

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

In addition, P&SP's competition program supports many of GIPSA's other programs and initiatives. Competition program staff were instrumental in the development and deployment of the Swine Contract Library described earlier in this report. In addition, resources from the competition program have been directed to the Livestock and Meat Marketing Study, the Congressionally-mandated study of issues surrounding the use of packer feeding and other marketing arrangements in the livestock and meat packing industries that is described in the Research Projects section of this report. Competition program staff develop GIPSA's Packers and Stockyards Statistical Report, perform the analysis behind the report, and audit captive supply data submitted by the top four packers for publication in the report. These activities bear a direct relationship to issues of anticompetitive behavior that the competition program addresses throughout the year.

Competition program staff also aid other agencies when issues arise that bear on the staff's expertise. Competition program staff frequently provide assistance to the Department of Justice in its review of proposed mergers and acquisitions, and actively participate with other law enforcement agencies in investigations of criminal activity in the regulated industries.

Competition program staff collect information on current procurement methods in the cattle, hog, lamb/sheep, and poultry industries, and meet with beef, pork, and lamb/sheep packers and live poultry dealers to stay abreast of current practices and increase the industry's understanding of the P&S Act and regulations.

Trade Practices

Overview

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

Marketing Practices

Posting and Deposting Markets. Firms furnishing stockyards services in commerce are required to post a notice that informs the public that the stockyard meets the definition of a stockyard under the P&S Act. Once posted, the stockyard remains posted until deposed by public notice. Information on stockyards posting/deposting in FY 2003 follows.

| | Number |
|--|--------|
| Stockyards Proposed for Posting | 11 |
| Stockyards Newly Posted | 2 |
| Stockyards Newly Deposed | 77 |
| Posted Stockyards as of September 30, 2003 | 1,429 |

New Market and Feed Mill Orientations. P&SP attempts to meet with new auction market owners and managers as soon as possible after operations begin. These visits ensure that market operators understand their fiduciary responsibilities under the P&S Act, and that they are operating in compliance with the P&S Act and regulations. These visits in the early stages of a market's operations also provide important protection to livestock producers who rely on the market to provide a non-discriminatory and competitive marketplace. Feed mill orientations help ensure that feed mill operators are aware of the regulatory requirements regarding feed weights used in the calculation of producer/grower payments, and thus help ensure that the feed weights are accurate.

| | Number |
|-----------------------------------|--------|
| Number of New Market Orientations | 28 |
| Number of Feed Mill Orientations | 4 |

Registration and Bonding. The P&S Act requires registration of any person or entity engaged in the business of a market agency or dealer. As part of the registration, market agencies and dealers are required to be bonded. Packers, live poultry dealers and swine contractors are not required to register, but packers purchasing more than \$500,000 of livestock per year are required to be bonded.

Registration and Bonding Data

| | FY 2001 | FY 2002 | FY 2003 |
|---------------------------|---------|---------|---------|
| Posted Stockyards | 1,525 | 1,510 | 1,429 |
| Market Agencies/Dealers | 6,250 | 6,024 | 5,287 |
| Packer Buyers | 2,051 | 2,064 | 2,067 |
| Bonded Packers | 339 | 339 | 340 |
| Value of Bonds (millions) | \$560 | \$573 | \$552 |

Reparations. Anyone believing an action of a stockyard, market agency, or dealer has caused personal loss or damage in violation of the P&S Act may file a complaint seeking reparation (damages) with P&SP within 90 days of when the complainant learned of the action that caused damages. Reparation complaints may not be filed against packers, live poultry dealers, or swine contractors.

| | Number | Amount |
|---------------------------------------|--------|--------------|
| New Complaints Docketed | 7 | \$225,603.39 |
| Complaints Investigated | 15 | n/a |
| Complaints Decided by Hearing Officer | 2 | \$1,323.49 |
| Complaint Withdrawn by Complainant | 1 | \$66,564.37 |

Note: An investigation is conducted before a complaint is filed. Due to the time required to investigate and litigate a reparation complaint, the complaint may be filed in a fiscal year subsequent to the investigation.

Weight and Price Manipulation. Any apparent change in the purchase weight caused by a person, whether by adding to the actual weight of the livestock or failing to pass on a shrink allowance, is an unfair and deceptive practice. Any increase to the original purchase price, either in purchases on order or sales based on cost plus an agreed on margin, is also an unfair and deceptive practice.

| | Number |
|--------------------------|--------|
| Complaints Received | 41 |
| Investigations Conducted | 41 |
| Complaints Filed | 0 |
| Decisions Issued | 0 |

Scales and Weighing. Market agencies, dealers, packers, live poultry dealers, and swine contractors are required to maintain their scales in an accurate condition. The P&S Act and regulations require these entities to test their scales at least semi-annually at intervals of approximately 6 months, by competent persons, and file the scale test reports with P&SP. Scales that are inaccurate are taken out of use until they are repaired and pass the scale test.

State and Private Company Scale Tests:

| | Number |
|-----------------------------|--------|
| Tests Received and Reviewed | 3,204 |
| Inaccurate Scales | 153 |

P&SP Scale Test Observations:

| | Number |
|----------------------------|--------|
| Scale Tests Observed | 24 |
| Inaccurate Scales Observed | 2 |

Note: Appropriate action is taken to bring firms into compliance.

The Trade Practices Program conducts checkweigh investigations to determine if scale operators subject to the P&S Act are properly using their scales in the purchase and sale of livestock and poultry.

Livestock and Poultry Checkweighs:

| | Number |
|-----------------------|--------|
| Livestock | |
| Checkweighs Conducted | 62 |
| Inaccurate Weighing | 7 |
| Poultry | |
| Checkweighs Conducted | 86 |
| Inaccurate Weighing | 16 |

Note: Appropriate action is taken to bring firms into compliance.

Feed Mill Checkweighs:

| | Number |
|-----------------------|--------|
| Checkweighs Conducted | 25 |
| Inaccurate Weighing | 5 |

Note: Appropriate action is taken to bring firms into compliance

Procurement Investigations. To determine if unfair or deceptive trade practices in violation of the P&S Act are occurring in the procurement of livestock, meat, and poultry, GIPSA conducts procurement investigations of subject firms. The investigations cover pricing methods; payment practices; weighing of livestock, carcasses, and poultry; carcass grades used for payment; and accountings issued to sellers. Information on the investigations conducted in FY 2003 follows:

| | Number |
|--------------------------|--------|
| Investigations Conducted | 38 |
| Firms Out of Compliance | 9 |

Note: Appropriate action is taken to bring firms into compliance.

Meat Merchandising. These regulatory activities include investigating complaints about unfair selling practices, unfair or illegal advertising and promotion practices, illegal pricing practices, and illegal inducements by packers and meat brokers.

Meat Merchandising Investigations

| | Number |
|--------------------------|--------|
| Complaints Received | 6 |
| Investigations Conducted | 6 |
| Firms Out of Compliance | 0 |

Financial Protection

Overview

The Financial Protection Program supports the financial integrity and stability of the livestock, poultry, and meatpacking industries through administration of the P&S Act and regulations. Financial investigations address solvency issues, payment to livestock sellers and poultry growers, bond claims, trust claims, and maintenance of custodial accounts.

Solvency

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

During FY 2003, regional office personnel reviewed the financial statements and other information in over 6,000 annual reports filed by subject firms. The reports disclosed the following:

| Insolvencies Disclosed by P&SP Annual Reports | | |
|---|-----------------|--------------|
| | Number of Firms | Amount |
| Packers | 15 | \$61,183,000 |
| Dealers/Market Agencies Buying on Commission (Order Buyers) | 96 | \$27,812,518 |
| Market Agencies Selling on Commission (Auction Markets) | 117 | \$8,068,870 |
| Total Insolvencies Reported | 228 | \$97,064,388 |

P&SP requires special reports from firms whose annual reports disclose insolvencies. In addition, P&SP also conducts on-site financial investigations to follow up on reported insolvencies or other financial issues. In FY 2003, P&SP conducted 14 on-site investigations that disclosed the following:

| Insolvencies Disclosed by P&SP On-Site Financial Investigations | | |
|--|-----------------|-------------|
| Type of Entity | Number of Firms | Amount |
| Packers | None | None |
| Dealers/Market Agencies Buying on Commission (Order Buyers) | 1 | \$256,004 |
| Market Agencies Selling on Commission (Auction Markets) | 13 | 4,444,093 |
| Total Insolvencies Disclosed by Investigation | 14 | \$4,700,097 |

| Insolvencies Corrected or Reduced Through the Efforts of P&SP | | |
|--|-----------------|-------------|
| | Number of Firms | Amount |
| Insolvencies Corrected | 51 | \$6,463,672 |
| Insolvencies Reduced | 4 | \$139,349 |
| Total Working Capital Restored | | \$6,603,021 |

Note: P&SP monitors all firms with pending insolvencies; some firms have been notified by certified letter to correct their pending insolvencies. Formal action has been, or will be, initiated against firms when appropriate.

Disciplinary Action Initiated for Insolvencies:

(Note: disciplinary action against a firm may include other allegations in addition to insolvency).

- 2 formal complaints issued
- 1 decision filed

| Financial Failure | | |
|---------------------------------------|-----------------|-------------|
| | Number of Firms | Amount Owed |
| Financial Failure – Ceased Operations | 11 | \$2,993,579 |

Payment Practices

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

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

GIPSA's investigations of subject firms' payment practices in FY 2003, and the results of those investigations, are shown in the following table:

| Payment Investigations Conducted | |
|--|--------|
| | Number |
| Packers (including packer buyers) | |
| Payment Investigations Conducted | 41 |
| Firms found in Violation of Payment Requirements | 14 |
| Firms Continuing in Violation after Receiving Notice of Violation | 3 |
| Dealers/Market Agencies Buying on Commission (Order Buyers) | |
| Payment Investigations Conducted | 106 |
| Firms in Violation of Payment Requirements | 23 |
| Firms Continuing in Violation after Receiving Notice of Violation | 3 |
| Market Agencies Selling on Commission (Auction Markets) | |
| Payment Investigations Conducted | 33 |
| Firms in Violation of Payment Requirements | 9 |
| Firms Continuing in Violation after Receiving Notice of Violation | 2 |
| Live Poultry Dealers | |
| Payment Investigations Conducted | 7 |
| Firms in Violation of Payment Requirements | 3 |
| Firms Continuing in Violation after Receiving Notice of Violation | 0 |
| Swine Contractors¹ | |
| Payment Investigations Conducted | 1 |

¹*One swine contractor failed financially in FY 2003. A rapid response investigation was initiated. Appropriate action will be taken if the investigation discloses evidence that the Act was violated.*

Disciplinary Action Initiated for Payment Violations:

Note: disciplinary action against a firm may include other allegations in addition to payment violations.

- 12 formal complaints issued
- 10 decisions issued

Bond Claims

All market agencies, dealers and slaughtering packers purchasing over \$500,000 of livestock annually are required to file and maintain bonds or bond equivalents for the protection of livestock sellers. When a bond claim is filed, P&SP analyzes the claim to determine if the claim appears to be filed timely and is supported by adequate documentation. P&SP provides its analysis to the bond surety or trustee as a courtesy to the industry. P&SP does not pay the bond claim and cannot compel payment by the surety or trustee. Information on bond claims filed with P&SP follows:

| Bond Claims Filed With P&SP FY 2003 | | |
|--|------------------------|--------------------|
| | Number of Claims | Total Amount |
| Packers (Condition Clause 4 Bond) | | |
| Bond Claims Filed | 73 | \$2,600,469 |
| Bond Claims Paid | | \$88,235 |
| Bond Claims Paid by Funds From Packer Trust | | \$0 |
| Bond Claims Paid by Funds From Other Sources | | <u>\$1,224,970</u> |
| Total Funds Restored to Producers | | \$1,313,205 |
| Bonds With Claims Withdrawn and/or Denied* | | \$11,594 |
| Bond Claims in excess of bond coverage | | \$910,927 |
| Bond Claims Pending, End of FY 2003** | | \$364,743 |

*When bond claims are denied by the bonding company, surety, or trustee, it is because the claims failed to meet statutory and/or regulatory requirements.

**Claims may be pending due to ongoing litigation and/or analysis of the claims to determine validity. Due to the uncertainty and unpredictability of future events, which may include further investigation and/or formal action by P&SP, the amount of future recoveries cannot be estimated.

| Bond Claims Filed With P&SP FY 2003 | | |
|--|------------------------|------------------|
| | Number of Claims | Total Amount |
| Dealers/Market Agencies Buying on Commission (Order Buyers) (Condition Clause 2/3 Bond) | | |
| Bond Claims Filed | 90 | \$3,816,666 |
| Bond Claims Paid | | \$301,537 |
| Bond Claims Paid by Funds From Packer Trust | | \$0 |
| Bond Claims Paid by Funds From Other Sources | | <u>\$161,985</u> |
| Total Funds Restored to Producers | | \$463,522 |
| Bond With Claims Denied or Withdrawn* | | \$453,365 |
| Bond Claims in excess of bond coverage | | \$2,677,160 |
| Bond Claims Pending, End of FY 2003** | | \$222,619 |

*When bond claims are denied by the bonding company, surety, or trustee, it is because the claims failed to meet statutory and/or regulatory requirements.

**Claims may be pending due to ongoing litigation and/or analysis of the claims to determine validity. Due to the uncertainty and unpredictability of future events, which may include further investigation and/or formal action by P&SP, the amount of future recoveries cannot be estimated.

| Bond Claims Filed With P&SP FY 2003 | | |
|--|------------------------|-----------------|
| | Number of Claims | Total Amount |
| Market Agencies Selling on Commission (Auction Markets) (Condition Clause 1 Bond) | | |
| Bond Claims Filed | 240 | \$1,359,569 |
| Bond Claims Paid | | \$69,760 |
| Bond Claims Paid by Funds From Packer Trust | | \$0 |
| Bond Claims Paid by Funds From Other Sources | | <u>\$55,101</u> |
| Total Funds Restored to Producers | | \$124,861 |
| Bonds With Claims Withdrawn and/or Denied* | | \$45,466 |
| Bond Claims in excess of bond coverage | | \$761,809 |
| Bond Claims Pending, End of FY 2003** | | \$362,433 |

*When bond claims are denied by the bonding company, surety, or trustee, it is because the claims failed to meet statutory and/or regulatory requirements.

**Claims may be pending due to ongoing litigation and/or analysis of the claims to determine validity. Due to the uncertainty and unpredictability of future events, which may include further investigation and/or formal action by P&SP, the amount of future recoveries cannot be estimated.

Trust Claims

The P&S Act establishes a statutory trust on certain assets of packers and live poultry dealers for the benefit of unpaid cash sellers of livestock and unpaid cash sellers or contract growers of live poultry grown for slaughter. Packers and live poultry dealers are the trustees of the statutory trusts. Packer trust assets consist of all livestock purchased in cash sales, inventories, receivables, proceeds from meat, meat food products, and livestock products derived from the purchase of livestock in cash sales. Poultry trust assets consist of all poultry obtained by live poultry dealers in poultry purchases in cash sales or by poultry growing arrangements, inventories, receivables, or proceeds from poultry or poultry products. When a trust claim is filed, P&SP analyzes the claim to determine if the claim appears to be timely files and supported by adequate documentation. P&SP provides it analysis to the trustee as a courtesy. P&SP does not pay the trust claim and cannot compel payment by the trustee. Information on trust claims filed with P&SP follows:

| Trust Claims Recoveries FY 2003 | | |
|---|------------------------|----------------|
| | Number of Claimants | Amount |
| Packers | | |
| Trust Claims Filed FY 2003 | 85 | \$2,967,482 |
| Trust Claims Paid | | \$1,409,491 |
| Trust Claims Paid by Funds from Packer Bonds | | \$91,733 |
| Trust Claims Paid by Funds From Other Sources | | \$21,633 |
| FY 2002 Trust Claims Paid | | <u>\$6,019</u> |
| Total Funds Restored to Producers | | \$1,528,876 |
| Trust Claims Denied or Withdrawn* | | \$728,780 |
| Trust Claims that Apparently do not Meet the Statutory Requirements | | \$132,403 |
| Trust Claims Pending, End of FY 2003** | | \$583,442 |

*Packer trust claims may be denied by the trustee (packer) or withdrawn because the claims failed to meet statutory and/or regulatory requirements. Packer trust claims may also be withdrawn by the claimant.

**Claims may be pending due to ongoing litigation and/or analysis of the claims to determine validity. Due to the uncertainty and unpredictability of future events, which may include further investigation and/or formal action by P&SP, the amount of future recoveries cannot be estimated. One packer trust from FY 2002 is currently in litigation before a bankruptcy court. Trust claims exceeding \$16,165,000, bond claims exceeding \$7,884,000 and trust agreement claims remain unresolved. The bankruptcy court is expected to issue a ruling on the claims at some future date. Several claimants have filed a separate lawsuit to collect on their claims.

| Trust Claims Filed With P&S and Live Poultry Dealers FY 2003 | | |
|---|------------------------|--------|
| | Number of Claimants | Amount |
| Live Poultry Dealers | | |
| Trust Claims Filed | | NONE |
| Trust Claims Paid | | NONE |
| Trust Claims Paid by Funds From Other Sources | | NONE |
| Total Funds Restored to Producers | | NONE |
| Trust Claims Denied or Withdrawn* | | NONE |
| Trust Claims that Apparently do not Meet the Statutory Requirements | | NONE |
| Trust Claims Pending, End of FY 2003** | | NONE |

*Trust claims may be denied by the trustee (live poultry dealer) or withdrawn because the claims failed to meet statutory and/or regulatory requirements. Live poultry trust claims may also be withdrawn by the claimant.

**Claims may be pending due to ongoing litigation and/or analysis of the claims to determine validity. Due to the uncertainty and unpredictability of future events, which may include further investigation and/or formal action by P&SP, the amount of future recoveries cannot be estimated.

Custodial Accounts

Market agencies selling livestock on commission (auction markets) must establish and maintain a bank account entitled “custodial account for shipper’s proceeds,” commonly referred to as a custodial account, for proceeds from the sale of consigned livestock. Auction markets have a fiduciary responsibility to safeguard the account and make timely distribution from it to livestock sellers. Auction markets are required to maintain this account in balance at all times. The Financial Protection Program monitors custodial accounts through annual reports, special custodial account analysis reports, and on-site audits of the custodial accounts.

During FY 2003, 1,583 annual and special reports filed by subject firms were reviewed for custodial analysis by regional office personnel. P&SP conducted on-site custodial investigations to follow up on reported shortages and to monitor the condition of firms’ custodial accounts. In FY 2003, P&SP conducted 262 on-site custodial investigations. The following shortages were disclosed through P&SP’s compliance efforts:

| Custodial Shortages Disclosed by P&SP Reports and On-Site Investigations | | |
|---|-----------------|--------------------|
| | Number of Firms | Amount |
| Custodial Shortages Disclosed by: | | |
| Annual and Special Reports | 79 | \$2,918,783 |
| On-Site Investigations | <u>92</u> | <u>\$4,984,315</u> |
| Total Shortages | 171 | \$7,903,098 |
| Custodial Shortages Corrected: | | |
| Annual and Special Reports | 12 | \$924,768 |
| On-Site Investigations | <u>33</u> | <u>\$1,346,440</u> |
| Total Shortages Corrected | 45 | \$2,271,208 |
| Custodial Shortages Reduced: | | |
| Annual and Special Reports | 3 | \$208,320 |
| On-Site Investigations | <u>9</u> | <u>\$708,763</u> |
| Total Shortages Reduced | 12 | \$917,083 |
| Total Custodial Funds Restored | 57 | \$3,188,291 |

Note: P&SP monitors all firms with pending custodial shortages; some firms have been notified by certified letter to correct their shortages. Formal action has been, or will be, initiated against firms when appropriate.

Disciplinary Action Initiated for Custodial Shortages:

(Note: disciplinary action against a firm may include other allegations in addition to custodial shortages).

- 5 formal complaints issued

Reports and Research

Assessment Report to Congress

GIPSA's P&SP has released two assessment reports on the cattle and hog industries covering calendar years 2001 and 2002. The reports described the general economic state of the cattle and hog industries, changing business practices in these industries, and areas of concern under the P&S Act.

The reports indicated that substantial changes are occurring in industry structure and the behavior of firms in the livestock and meatpacking industries. Feeding is more concentrated and feeding operations have gotten larger. Market participants at all stages of the live animal and meat production industry are using more sophisticated vertical coordination and more varied pricing arrangements to exchange goods. Technological developments, changes in consumer demand, and other competitive forces drive many of the changes. Many of the changes are healthy for the industries involved, for consumers, and for the Nation as a whole. These changes also bring the potential for packers, dealers, and market agencies to engage in activities that are prohibited under the P&S Act.

Areas of concern reported by the industry include: packers acting in concert to restrict competition, short cattle trading windows, shared agents, changes in formula and grid pricing methods, thin spot markets, use of pricing formulas under Mandatory Price Reporting, use of captive supplies, unfair treatment in contracts, changes in carcass evaluation, e-commerce, retaliation, and auction market stability.

GIPSA's P&SP is preparing an expanded report to include the sheep and lamb, and poultry industries and to provide a more prospective look at actions P&SP plans to take to address industry concerns. In general, P&SP is addressing concerns by monitoring changes in the industry structure and behavior, and investigating practices that may be unlawful under the P&S Act. P&SP may undertake regulatory initiatives to assure more effective enforcement of the P&S Act. In addition, P&SP uses research and analysis, and other tools to assess the economic, competitive, and trade practice implications of structural and behavioral changes.

Statistical Report

GIPSA published a statistical report on the livestock and meatpacking industry covering reporting year 2001. The report provides data on industry concentration, plant size, packer financial performance, and number of animals purchased by packers by source of supply – public and non-public markets. Public markets are terminals and auctions; nonpublic markets include all other sources of livestock. Most of the data are reported by type of animal and/or State or geographic region. The report includes data on slaughtering packers; market agencies buying or selling livestock on commission, including auction markets and selling agencies at terminal stockyards; and livestock dealers buying and selling livestock for their own accounts.

The report shows that the number of meat packers filing an annual report with GIPSA's P&SP (those purchasing more than \$500,000 of livestock for slaughter per year) has fallen over time, from 497 firms operating 623 plants in 1990, to 254 firms operating 337 plants in 2001.

Concentration of the four largest steer and heifer slaughterers rose from about 36 percent in 1980 to a high of 82 percent in 1994 and has remained relatively stable since then. Four-firm concentration in hog slaughter rose from about 34 percent in 1980 to 55 percent in 1996 and has leveled off at about 56 percent since then. Four-firm concentration in sheep and lamb slaughter rose from about 56 percent in 1980 to 73 percent in 1996, and then declined to about 65 percent.

The report includes information concerning the four largest steer and heifer slaughterers' use of forward contracts, marketing agreements, and packer feeding, collectively referred to as captive supplies. The four largest firms' use of forward contracts and marketing agreements rose from 24 percent of their total steer and heifer procurement in 1999 to about 32 percent in 2001. Packer feeding of steers and heifers by the four largest firms increased from about 8 percent of their total slaughter in 1999 to 11 percent in 2001. Overall, the use of all forms of captive supplies by the four largest firms rose about 11 percentage points between 1999 and 2001, to 43 percent, its highest level.

Research Projects

Livestock and Meat Marketing Study. GIPSA's P&SP is conducting a Congressionally-mandated study of issues surrounding the use of packer feeding and other marketing arrangements in the livestock and meat packing industries. The study will examine what types of marketing arrangements are being used to transfer cattle, beef, hogs, pork, sheep and lamb through the production and marketing system, the extent of their use, the terms and availability of various arrangements, why market participants use the arrangements, what effects different arrangements have on costs, efficiency, livestock and meat quality, risk levels, and prices, what implications the arrangements have for price discovery, structure of the livestock and meatpacking industries, competitiveness among meats, and competitiveness in export markets. The study will give producers better information on which to base their decisions about whether to participate in non-traditional marketing arrangements; contribute to better public understanding of the role and implications of alternative marketing arrangements; help identify emerging marketing information needs of livestock producers and other market participants; make an important contribution to USDA and Congress in deciding whether restrictions on use of captive supplies are warranted; and assist GIPSA in enforcing the P&S Act by contributing to the Agency's understanding of changing marketing practices and by identifying areas that the Agency may need to include in its investigations.

P&SP also participates in a small number of cooperative agreement research projects that have the potential to contribute knowledge and understanding relevant to the P&SP's mission. The findings of the studies reflect the views of the authors and are not necessarily those of the Agency.

Three cooperative research agreements with universities were completed during FY 2003. One of the projects (North Carolina State University) examined the economic effects on poultry contract growers and integrators of alternative compensation methods, different layout times between flocks, and different asset requirements imposed on growers. The researchers released some of the findings in the *American Journal of Agricultural Economics* and the *European Review of Agricultural Economics*. Additional findings are forthcoming in the *Journal of Labor Economics*.

The second project completed in 2003 (Texas A&M University) examined relevant geographic markets for broiler grower services, and estimated potential use of market power by integrators. The researchers have not published any findings.

The third project (Texas A&M University) evaluated whether a new analytical tool can contribute to understanding relationships between use of captive supplies and fed cattle prices. GIPSA is reviewing the report, much of which pertains to individual plants and firms.

Another project (University of California-Davis and USDA's Economic Research Service) is examining how distance, transportation costs, use of captive supplies, and bidding methods affect prices paid for fed cattle procurement. Preliminary findings were presented at the annual meeting of the American Agricultural Economics Association in August 2002.

Other Initiatives and Activities

Trade Practices Program Initiatives

Development of Industry Standards. Electronic evaluation devices are used in determining purchase price for livestock purchased in the United States. Some slaughtering packers also use the information developed by evaluating devices to establish their live weight price. Currently there are no established, verifiable and traceable standards in use to determine the accuracy of carcass evaluating devices. GIPSA's P&SP is working with stakeholders to develop industry standards for the use and accuracy of electronic evaluating devices. In early FY 2004, two standards under development will be ready for approval by an industry-recognized organization that provides publication of voluntary consensus standards for materials, products, systems, and services. These two standards will standardize the requirements for the design of electronic evaluation devices and user requirements. P&SP will then focus on the development of tolerances for each type of technology in use today and the procedure that will be required to validate the prediction equation(s) or model(s) used to determine the characteristics being measured.

Joint P&SP and FBI Investigation. P&SP and the Federal Bureau of Investigation (FBI) jointly investigated the case of George Young and Kathleen McConnell. Young and McConnell allegedly engaged in a scheme to defraud cattle feeders and bankers. On November 7, 2002, the Office of the U.S. Attorney in Kansas City, Missouri, announced a five-count indictment of Young and McConnell related to a phantom cattle scheme. At the close of FY 2003, the case is still pending. On October 24, 2003, Young and McConnell pled guilty to the charges. Sentencing is expected in the spring of 2004.

Recruitment and Training

P&SP has been taking several steps to strengthen its capacity to efficiently and effectively monitor and investigate behavior in the livestock, meat, and poultry industries. P&SP recruited at annual conferences of the American Agricultural Economics Association and the Allied Social Science Associations. P&SP has participated in job fairs throughout the country and has made several trips to universities to recruit employees. P&SP also has actively participated in summer intern programs, including programs for minority and disadvantaged persons.

P&SP undertook a number of training initiatives in FY 2003. For example, members of Senior Management, Branch Chiefs, Regional Office Management Representatives, EEOC Representatives, Legal Specialists, and Program Management representatives attended Marketing and Regulatory Programs Recruiters' Resources Workshop training in Riverdale, Maryland. Nearly all P&SP managers participated in management training in FY 2003, with most attending "Executive Communications Training" presented by the Office of Personnel Management.

Stakeholder and Industry-Related Initiatives

P&SP personnel regularly attend and participate in meetings of industry associations at the local, State, and national levels to remain abreast of problems and concerns in the livestock, meat packing, and poultry industries, and to promote a better understanding of marketing options and constraints facing the industry. An increased presence at public meetings has enabled P&SP personnel to stay fully informed and has provided industry participants with more information on P&SP's activities, more access to P&SP officials, and additional perspective about P&SP policy. Although P&SP's interactions with industry members cover a broad range of topics of interest, competition issues and changing business practices in the livestock, meat, and poultry industries are emphasized at most of the meetings.

Examples of P&SP participation in meetings and other interaction with stakeholders include:

- Resident Agents, in addition to maintaining direct contact with producers and growers, develop and maintain mutually beneficial relationships with State officials, to discuss areas of mutual concern, particularly in areas of overlapping jurisdiction.

- P&SP works with the Council on Food, Agricultural, and Resource Economics (C-FARE). C-FARE is a non-profit organization that focuses on economic dimensions of public policy issues and organizes symposiums on emerging issues.
- P&SP is represented on the Technical Advisory Committee of the Livestock Marketing Information Center (LMIC). The LMIC is a cooperative effort between university extension specialists, USDA economists, and industry cooperators. LMIC provides data and economic analyses and projections about issues and conditions concerning the livestock industry, contributes to economic education, and supports applied research projects and policy evaluation.
- P&SP participates in the National Pork Producers Council, Pork Industry Ad Hoc committee of government, academic, and U.S. and Canadian industry representatives, formed to work on initiatives to combat and mitigate the low price of hogs. The committee encourages cooperative organizational action between members of the pork industry. Involvement exemplifies P&SP commitment to anticipate and prepare for production trends.
- In FY 2003, GIPSA maintained its departmental lead of the AIHEC Initiative. The AIHEC Initiative includes the administration of a national advisory board (USDA/AIHEC Leadership Group) and a 1994 Land-Grant Institutions' Liaison program. GIPSA administers and staffs the AIHEC Initiative through an AIHEC National Coordinator, currently serving under an Intergovernmental Personnel Arrangement between AIHEC and GIPSA. The goals of the AIHEC Initiative include supporting USDA programs and activities that enhance the capability of American Indians to attain educational excellence and to contribute positively to the fulfillment of USDA's missions.

The USDA/AIHEC Leadership Group met twice and conducted several conference calls in FY 2003. The Leadership Group addressed strategic priority areas by implementing a faculty development initiative. The Leadership Group also proposed the further development of a 1994 Land-Grant Institutions' Liaison Program. Consultations were conducted with USDA officials, 1994 Land-Grant Institution Presidents, and the AIHEC Board of Directors regarding the implementation of the Liaison Program.

The AIHEC Initiative participated in six national conferences or workshops and eleven tribal college site visits. Student recruitment activities included attendance at career fairs and the coordination of internship programs. Public relations efforts included the publication of brochures, submission of journal articles, and video production. The AIHEC Initiative participated on two USDA councils, and provided technical assistance to four USDA agencies.

Homeland Security

GIPSA's Packers and Stockyards Programs participates with other USDA agencies in planning to address issues relating to homeland security in the livestock and meat industries.

Federal Grain Inspection Service



*Facilitating the marketing of U.S. grain
for the benefit of American agriculture.*

- *Harnessing Technology*
- *Promoting Standardization*
- *Providing Official Inspection
and Weighing Services*
- *Protecting Integrity*

Harnessing Technology

Automation Initiatives

Grain Inspection Automation at Export Elevators. During FY 2003, GIPSA completed the first phase of accuracy testing for a prototype automated grain inspection system in Destrehan, Louisiana. The prototype was developed by GIPSA, working with the North American Export Grain Association (NAEGA). The system provides updated grain inspection information five times faster than present manual methods, and may reduce costs to the industry and enhance GIPSA's efficiency. Currently, GIPSA is in the second phase of testing which involves a side-by-side comparison with established inspection operations. Initial testing indicates the automated prototype provides results comparable to those obtained via official manual inspection procedures. GIPSA will carry out further second phase testing during FY 2004 to ensure the reliability of the process under various scenarios. Depending on testing results, full implementation of the system in Destrehan, Louisiana, may occur in 2004. GIPSA also plans to develop system documentation and specifications during 2004 and to approve commercial deployment of the system at other locations.

Artificial Neural Network Calibration

In FY 2003, in accordance with a resolution passed by the GIPSA Grain Inspection Advisory Committee, the Agency conducted a pilot test to evaluate the accuracy of Artificial Neural Network (ANN) calibrations for wheat protein. The goal of the pilot was to compare wheat protein results obtained using the current Partial Least Squares (PLS) calibrations and the ANN; and PLS and ANN results to the standard reference method of testing. The pilot included current market samples of Hard Red Winter wheat (HRW), Hard Red Spring wheat (HRS), Hard White wheat (HDWH), Soft White wheat (SWH), Soft Red Winter wheat (SRW), and Durum wheat (DU) from major production / handling locations.

GIPSA also assessed the potential economic impact on the U.S. wheat market of changing the protein calibrations from PLS to ANN. (The economic impact was calculated as the net change in the value of total stocks of HRW, HRS, HDWH, SRW, and DU (as of May 2003).) GIPSA found that implementation of ANN technology would likely have no serious impact on grain markets.

Digital Imaging

Rice Inspection. Digital imaging has the potential to improve the accuracy, consistency, objectivity, and speed of grain inspection and grading. Digital imaging is a process of recording images, e.g., of grain, in electronic digital format and then transferring the image to a computer for review and analysis. GIPSA developed Foss GrainCheck 2312 calibrations for determining total broken kernels (TBK) in medium grain milled rice and long grain rough rice; and procedures for monitoring the performance of field instruments in California and Louisiana. In FY 2003, GIPSA also developed additional GrainCheck 2312 rice inspection

applications, including measuring TBK in short grain milled rice and brown rice. GIPSA also arranged to obtain the newly developed Foss Cervetec imaging instrument. In FY 2004, GIPSA will investigate the equivalence of TBK results provided by the GrainCheck and Cervetec instruments; and expand calibration applications to include stain and heat damage determinations using both imaging instrument models.

Wheat Inspection. GIPSA and the USDA Agricultural Research Service (ARS) are jointly researching the use of GrainCheck and Cervetec technology for subclass measurements in Durum wheat and Hard Red Spring wheat. In FY 2003, ARS developed a calibration for subclass measurements in Durum wheat using the Cervetec imaging instrument, and identified modifications to the Cervetec rice imaging instrument that would allow improved wheat subclass determination. GIPSA investigated the use of flatbed scanner technology to differentiate white and red wheat kernels and determine wheat subclasses. Scanner technology appears promising for color applications, but pursuing this technology would require significant software development. In FY 2004, GIPSA will investigate additional applications for the Cervetec instrument, including measuring Hard Red Spring wheat subclasses and differentiating white and red wheat kernels.

Functional Quality Assessment

GIPSA investigated the use of near-infrared transmittance (NIRT) measurements to provide a rapid means of predicting dough strength and other characteristics for flour made from whole wheat kernels. GIPSA used grain samples from export, domestic, and pure varieties in the study. GIPSA also collected data on a near-infrared reflectance research instrument to help identify kernel characteristics affecting NIRT predictions of dough strength. Preliminary calibrations indicate some correlations but none consistent enough to support practical field applications. In FY 2003, GIPSA and ARS, through a cooperative research agreement, developed and initiated an expanded study to include additional near-infrared instrument models and a wider range of end-use quality measurements. In FY 2004, GIPSA will complete the assembly of the Hard Red Winter and Hard Red Spring wheat sample sets needed to support the joint GIPSA and ARS project, collect instrument and chemical data for these samples, and complete data analyses.

Mycotoxin Methods Development and Test Kit Approvals

In FY 2003, GIPSA performed six mycotoxin test kit evaluations and approved one new test kit for use in the official inspection system. One aflatoxin test kit is expected to receive approval and one was rejected; two deoxynivalenol test kits were rejected, and two fumonisin test kits were rejected. GIPSA completed revising criteria for zearalenone and aflatoxin test kits to simplify the documents and to reflect new, more sensitive test kit technology.

In FY 2003, GIPSA initiated a program to evaluate qualitative mycotoxin test kits. Qualitative kits have the potential of providing more rapid and less costly mycotoxin screening at first points of sale. In FY 2004, GIPSA will continue to evaluate all submitted qualitative and quantitative mycotoxin test kits for use in the official inspection system.

Pesticide Residue Method Development and Testing

GIPSA continued to participate in the Pesticide Data Program, a cooperative effort involving USDA, the Environmental Protection Agency, and ten participating States to monitor pesticide residue levels in fruits, vegetables, grain, and milk. GIPSA tests all grain and grain-related products and develops new methods of analysis, as needed. In FY 2003, GIPSA developed and validated two new methods for wheat flour, and analyzed 199 rice, 680 barley, and 440 wheat flour samples. In FY 2004, GIPSA will develop and validate two new methods for soybeans, and analyze an estimated 150 barley, 650 wheat flour, and 500 soybean samples.

E-Publishing

In response to feedback from shareholders and partners, GIPSA began e-publishing new and revised GIPSA issuances. Since July 1, 2003, all GIPSA program notices, directives, and handbooks have been issued as electronic-only issuances. GIPSA posts these e-publications on the Agency's website in its Reference Library. E-mails are sent to GIPSA offices, official agencies, and other interested persons/groups announcing the publication and its availability for downloading from a specified GIPSA web address.

Promoting Standardization

Biotechnology

Proficiency Program. In FY 2001, a GIPSA study found that the capabilities of government and private laboratories in the U.S. and Europe that tested for biotechnology-derived grains varied widely. In FY 2002, GIPSA initiated the USDA/GIPSA Proficiency Program to improve the performance and reliability of those laboratories. Participation in the program is voluntary; no methodologies are specified; and participants are evaluated based on their testing of samples of all commercially available corn and soybean biotechnology events. Results are posted on the GIPSA Biotechnology web page, and program participants are either identified by name or by a unique Participant Identification Number. More than 88 organizations participated in the program in FY 2003, compared to 22 in February 2002. Thirty percent of the participants are from the U.S.; the remainder are from Argentina, Australia, Austria, Brazil, Canada, France, Germany, Ireland, Italy, Japan, Netherlands, Slovenia, Spain, Switzerland, Taiwan, Thailand, United Kingdom, and Zimbabwe.

The program originally provided samples for qualitative analysis only, i.e., organizations tested for the absence or presence of a biotechnology-derived grain or oilseed. In FY 2003, GIPSA expanded the program to offer samples for quantitative analysis, i.e., samples were fortified at varying concentrations and the organizations reported the amount of a particular biotechnology-derived grain or oil seed present in the sample. Program results show that organizations can correctly identify the presence or absence of biotechnology-derived grains and oilseeds, but cannot always determine the actual amount of a biotechnology-derived grain or oilseed in a sample. Lack of internationally recognized methods and reference materials for biotechnology-derived grains and oil seeds contributes to this difficulty. GIPSA is working with various organizations such as CODEX, AOAC International, the American Association of Cereal Chemists, the Institute for Reference Materials and Measurements, and NIST to develop official methods and reference materials that will be recognized on a global basis (see “Research Collaboration with NIST” below).

In FY 2004, GIPSA will further expand the USDA/GIPSA Proficiency Program to include two new corn biotechnology events commercialized in FY 2003: Herculex™ produced by Dupont/AgroSciences and YieldGard Rootworm produced by Monsanto.

Research Collaboration with NIST. In FY 2002, GIPSA established formal research collaboration with NIST to investigate DNA-based testing for biotechnology-derived grains and oilseeds and to investigate the development of reference materials and methods for DNA-based testing. Using information obtained through confidentiality agreements with life science organizations, GIPSA and NIST produced event-

specific plasmids for evaluation as reference materials and potentially to be in the development of reference methods. In FY 2003, GIPSA and NIST collaboratively evaluated sample preparation and DNA isolation procedures, which led to the publication of a scientific paper, "Evaluation of Extraction Methodologies for Corn Kernel (*Zea mays*) DNA for Detection of Trace Amounts of Biotechnology-Derived DNA" in the Journal of Agricultural and Food Chemistry, Vol. 51, No. 9, pages 2468-2474 (2003).

In FY 2004, GIPSA will continue to collaborate with NIST to investigate challenges associated with Polymerase Chain Reaction (PCR) technology and develop reference materials to improve the reliability and accuracy of DNA-based testing and to harmonize testing on a global basis.

Standard Reference Materials. Biotechnology has become an important way to develop crops that are insect resistant, herbicide tolerant, disease resistant, and beneficial for both human and animal health. While the advantages of biotechnology continue to be debated, these crops are becoming more common both in domestic and global commerce. Concurrently, many countries are working to establish labeling regulations for biotechnology events. This legislation has increased the complexity in global markets, creating challenges for exporting and importing countries, and increasing demands for testing to comply with regulations and contract specifications.

In FY 2003, GIPSA and NIST hosted a workshop entitled "Standard Reference Materials for Biotechnology Crops." Thirty-six representatives from the life science organizations, testing laboratories, test kit manufacturers, food processors, Canada, European Union, and Japan attended. Workshop participants concluded that protein and DNA reference materials are needed to develop and validate methods and harmonize testing on a global basis. These reference materials should be in the target matrix and address both protein and DNA needs. Research was recognized as a critical component in developing reference materials. For example, developing reference materials that satisfy both DNA and protein testing needs will require investigating the relationship among a number of factors including protein expression, genetics (zygosity, copy number, seed vs. grain, etc.) and environmental influences. Research is also needed on testing parameters, including DNA isolation, inhibition, endogenous genes, stability, and instrumentation. Attendees also concluded that a globally recognized convention for reporting test results must be defined and accepted on an international basis. Government entities, including GIPSA, NIST, the EU's Institute for Reference Materials and Measurements; and Canada's National Research Council were identified as the appropriate organizations to lead the development of reference materials.

In FY 2004 GIPSA will continue to work with NIST to establish global agreement on the development of reference materials for biotechnology-derived grains and oilseeds.

Rapid Test Performance Evaluation Program. The grain industry needs fast, reliable tests to detect the presence of biotechnology-derived grains and oilseeds. In FY 2003, GIPSA continued to verify the performance of rapid tests for biotechnology-derived grains and oilseeds, including tests for NK603, Herculex™, and YieldGard Rootworm, the latter two of which were new biotechnology events in corn that were commercially introduced in FY 2003. In FY 2004, GIPSA will continue to evaluate the performance of rapid tests to detect biotechnology-derived grains and oilseeds, and work with the test manufacturers and life science organizations to ensure that rapid tests are commercially available when new biotechnology-derived grain and oil seeds are introduced.

ISO Certification

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

In FY 2003, GIPSA successfully converted the registration of programs under the ISO 9002:1994 Standards to the ISO 9001:2000 Standards; and received an updated registration certificate for its moisture, protein, oil, mycotoxin, and pesticide reference laboratories; and registered its pesticide analysis program.

In FY 2004, GIPSA will complete the conversion of the Pesticide Data Program from the ISO 9001:2000 Standards to the ISO 17025:1999 Standards; and will continue efforts to qualify the Biotechnology Test Kit Evaluation Program for ISO 17025 certification, which are standards dedicated exclusively to increasing and maintaining overall laboratory quality.

Moisture Measurement

GIPSA conducted basic grain moisture research in fiscal years 1999 through 2001 to measure and characterize dielectric response over a 1 to 501 MHz frequency range for 15 major U.S. cereal grains and oilseeds. The data were used to develop a Unified Moisture Algorithm, a single calibration that can be used for all grain types, that provides prediction accuracy equal to that of individual grain calibrations available on current moisture meter designs. Data collection has been extended to include 47 minor grains, beans, pulses, and oilseeds. This research responds to a continuing technological need for greater standardization in grain moisture measurement using different models of dielectric moisture meters. This standardization could lead to multiple technologies measuring grain moisture consistently and accurately throughout the world.

GIPSA is working with manufacturers to assess their interest in developing prototype meter designs that will use the moisture algorithm, and identify how best to support and encourage manufacturer efforts. In FY 2003, GIPSA supported research to define test cell design and

performance parameters needed to support manufacturer development of prototype meters capable of using the moisture algorithm, and to develop prototype meter designs. In FY 2004, GIPSA will continue to support research efforts and prototype meter development, and will continue to expand the calibration database as part of a long-term effort to develop and implement this new technology.

NIRT Standardization

GIPSA continues cooperative efforts with groups from Canada, Australia, and several European countries to develop and evaluate global artificial neural network (ANN) near-infrared transmittance (NIRT) calibrations for wheat and barley protein. As mentioned above, GIPSA conducted a field study on current partial least squares (PLS) wheat protein calibrations and the global ANN calibration. GIPSA also evaluated the field performance of the ANN barley protein calibration. In FY 2004, GIPSA will finalize individual instrument standardization procedures to support implementation of an ANN calibration for wheat and barley protein.

Process Verification

To meet changing consumer demands, the market continues to adopt a variety of new marketing mechanisms, such as process verification, to augment traditional marketing approaches. In FY 2003, GIPSA continued developing a process verification service for grains in response to market demand. The proposed service will be voluntary and modeled on the Agricultural Marketing Service's (AMS) existing programs that are used for breed identification, branded products, and origin of livestock.

GIPSA also entered into cooperative agreements with the Iowa, Illinois, and Missouri Corn Growers Associations, as directed in the FY 2003 Federal budget, to develop production protocols to market grain under the voluntary process verification program being developed by GIPSA. The protocols are being designed to help producers market specialty crops and to document processes used to produce commodity corn to meet the increasing requirements of various outlets using quality management systems.

Reference Method Analyses

GIPSA maintains reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins that are used to develop new rapid field methods, and to maintain the accuracy of current testing in the official inspection system. The protein, moisture, oil, and fatty acid reference analyses support the NIRT (protein), moisture meter, and NMR (oil) instruments; the mycotoxin reference analyses support the evaluation and standardization of test kits used at official testing locations. In FY 2003, GIPSA performed 4,692 reference moisture analyses, 3,087 reference protein analyses, and 901 reference oil analyses on grains and oilseeds. GIPSA also implemented a new reference method for the analysis of fatty acid composition and analyzed approximately 73 samples; and performed 289 mycotoxin reference analyses on grains and processed-grain commodities. In FY 2004, GIPSA will continue to provide quality reference method analyses to support the development of new testing methods and the maintenance of accurate field testing for the official inspection system.

Rice Cooperative Research Agreement

In FY 2003, GIPSA negotiated a research agreement with the University of Arkansas to evaluate optional operational parameters of alternative rice sheller technologies and, based on preliminary tests, to establish an appropriate range of settings with which to conduct performance evaluations against the official standard, the McGill. The testing protocol includes various comparison sheller indices such as percent paddy (unshelled rice) and brown rice brokens, and also includes milling yield assessments, an important economic measure of rice quality. The University completed all shelling, milling, and performance evaluation measurements in FY 03. The final step, the statistical analyses of data, is underway and expected to be completed by with a final report issued this fall. GIPSA will continue evaluating alternative rice milling/shelling equipment in FY 2004 as part of its overall effort to improve the rice inspection program and interest in better serving the rice industry.

Roundup Ready Wheat

On December 19, 2002, the Monsanto Company petitioned the USDA's Animal and Plant Health Inspection Service (APHIS) to deregulate Roundup Ready wheat (RRW) which contains an herbicide tolerance trait. In keeping with its commitment to the wheat industry, Monsanto also is working to achieve six specific milestones before commercializing, or making RRW varieties available to farmers. Monsanto may complete the necessary U.S. regulatory process for RRW before achieving all milestones, thus resulting in a period of time when RRW will be deregulated but not commercialized.

In 1999, wheat importers and exporters asked GIPSA to declare that the U.S. does not produce transgenic wheat. In September 1999, GIPSA began, in accordance with the authority provided under the U.S. Grain Standards Act (7 U.S.C. 79), issuing the following letterhead statement upon an applicant's request: *"There are no transgenic wheat varieties for sale or in commercial production in the United States."* This statement is currently issued based on the fact that RRW is a regulated article under APHIS regulations and not available for commercialization. GIPSA estimates that countries representing nearly 50 percent of U.S. wheat exports request this statement, including some of the largest importers of U.S. wheat -- Japan, Mexico, the Philippines, South Korea,

Taiwan, and Italy.

Wheat industry representatives anticipate that international customers will continue to request the current certification statement, even after RRW is deregulated. In their estimation, GIPSA's continued issuance of the current statement will be essential to ensure the continued marketing of U.S. wheat. To facilitate the marketing of U.S. wheat if deregulation occurs, GIPSA has agreed to continue issuing the non-transgenic wheat statement, upon request, provided that Monsanto meets several requirements verifying that seed has not been sold for commercial production.

Tolerances for Automatic Bulk Weighing Scales

GIPSA continues to contribute to discussions about any proposed changes that would affect grain weighing equipment at the interim and annual meetings of the National Conference of Weights and Measures (NCWM). GIPSA continuously monitors new proposals that arise from the weighing sector groups throughout the country to ensure that weighing equipment, procedures, and tolerances are standardized throughout the grain industry. GIPSA and the National Grain and Feed Association jointly addressed a new proposal arising from the North East sector of the country to change the existing tolerance structure for automatic bulk weighing systems for grain that might negatively affect the accuracy of automatic bulk weighing systems. GIPSA is working through the National Institute for Standards and Technology and directly with the North East weighing sector to maintain the existing tolerance structure for grain scales and ensure that the tolerances remain standardized. GIPSA also works with the NCWM to ensure actions are taken to clarify and enhance current standards to better serve the grain industry.

U.S. Standards for Barley

Sprouting occurred in barley in the U.S. Northern Plains region during 2002, which prevented malting barley production contracts from being honored. Barley producers' insurance claims also were denied because official procedures to assess barley sprout damage differ from those used by the malting industry. GIPSA, working closely with barley producers, the barley malting industry, and the official inspection system, is developing new official criteria called "Injured-by-Sprout" in malting barley. GIPSA's rapid response is facilitating the marketing of malting barley by enabling USDA's Risk Management Agency to implement the new procedure for the 2004 barley crop year.

U.S. Standards for Rice

On September 30, 2002, GIPSA published in the *Federal Register* (67 FR 61249) a direct final rule to amend the U.S. Standards for Rice to establish and add "hard milled" rice as a new milling degree level and to eliminate the reference "lightly milled" Federal Register on the milling requirement of U.S. Standards for Milled Rice. These changes facilitate the marketing of rice by better aligning the standards with current processing and marketing practices. The standard changes became effective on December 1, 2002.

U.S. Standards for Wheat

On June 4, 2003, GIPSA published a proposed rule in the *Federal Register* (68 FR 33408) inviting comments and suggestions from all interested persons on how GIPSA can further enhance and best facilitate the marketing of Hard White wheat. Specifically, GIPSA proposed the creation of two subclasses in the class Hard White wheat, which would differ based on seed coat color. Seed coat color can be an important quality factor depending on the target flour product and the miller's flour extraction goal. The 60-day public comment period generated four comments. GIPSA will prepare a final rule for publication in FY 2004.

| | |
|--|--|
| Visual Reference Material | In FY 2003, GIPSA converted the visual reference aids for wheat, barley, canola, flaxseed, oats, rye, rapeseed, and sunflower seed from 35mm slides to digital color prints. The visual reference aids for corn, rice, soybeans, and sorghum were converted in FY 2002. In FY 2004, GIPSA will begin converting visual reference aids for edible beans, peas, and lentils. |
| Wheat Functionality Tests | In April 2003, GIPSA convened a meeting of leading North American wheat researchers to generate new avenues of research that would lead to rapid tests for wheat end-use functional characteristics, applicable at the time of inspection and at other points in the value chain. Participants developed a list of quality factors and possible technical approaches for measuring them, with the overarching goal of having a market applicable test ready for use by May 2006. To help keep researchers focused on the task, GIPSA will establish a virtual discussion room for researchers to further collaboration on and support for this effort, and to help researchers find extramural grant sources. |
| Weighing Standards | To ensure GIPSA weighing guidelines are comparable to State weights and measures organizations' laws and regulations, GIPSA incorporated into its regulations, by reference, the applicable requirements of the National Institute of Standards and Technology (NIST) Handbook 44, "Specifications, Tolerances, and Other Technical Requirements for Weighing and Measuring Devices," 2002 edition (Handbook 44). This action was published in the <i>Federal Register</i> (68 FR 34519) on June 10, 2003, as a direct final rule and became effective on September 8, 2003. Previously, the 1994 Edition of Handbook 44 was incorporated into 7 CFR Part 802. Updating these requirements helps weighing equipment manufacturers and grain elevators avoid fabricating, installing, and maintaining equipment to meet two sets of design and performance requirements for commercial and official weighing. |
| Standardizing Commercial Grain Inspection Equipment | <p>In FY 2003, GIPSA participated in an ongoing cooperative effort with NCWM Inc. and NIST to standardize commercial inspection equipment by serving as the sole evaluation laboratory for grain inspection equipment under the NCWM Inc.'s National Type Evaluation Program (NTEP). In FY 2003, GIPSA initiated evaluation testing of near-infrared protein and oil analyzers. One NIR instrument model was submitted for testing. GIPSA collected grain moisture meter calibration data for five instrument models as part of the NTEP on-going calibration program.</p> <p>In FY 2004, GIPSA will again collect grain moisture meter calibration data for five NTEP models, will continue NTEP testing for additional near-infrared protein and oil analyzer models, and expects to initiate NTEP testing of test weight features on current NTEP grain moisture meter models.</p> |

Multimedia Educational Materials

In FY 2003, GIPSA continued to develop new multimedia educational CDs to educate and train official inspection offices, grain handling and processing firms, producers, foreign grain buyers, government agencies, and educational institutions. More than 5,000 copies were distributed to these various audiences during the fiscal year. GIPSA also developed an internal training CD on the quality assurance database program and began developing a sorghum grading CD. The Agency also produced Spanish versions of the corn, soybean, and wheat grading CDs for distribution at grain grading schools held in Mexico.

Briefings with Visiting Trade and Governmental Teams

GIPSA personnel frequently meet with delegations visiting from other countries to brief them on the U.S. grain marketing system, our national inspection and weighing system, U.S. grain standards, and GIPSA's mission. Many of these delegations are sponsored by USDA Cooperator organizations like U.S. Wheat Associates and U.S. Grains Council, which arrange visits to grain production areas, GIPSA field offices, onsite laboratories at export grain elevators, and the Agency's Technical Center in Kansas City, Missouri. At the Technical Center, delegations sometimes receive technical training on analytical testing procedures and grain inspection methods and procedures.

Briefings are tailored to address each group's interests and concerns. Presentation topics include the various services available from GIPSA, the Agency's use of the latest technology to provide grain traders with accurate and reliable inspection and weighing information and, for importers or potential importers new to the U.S. grain market, information on contracting for the quality they desire.

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

**Summary of Briefings with
Visiting Trade and
Governmental Teams in
Fiscal Year 2003**

| | |
|------------|----------------|
| Algeria | Montenegro |
| Argentina | Morocco |
| Brazil | Netherlands |
| Canada | Nigeria |
| Chile | Norway |
| China | Oman |
| Costa Rica | Philippines |
| Croatia | Romania |
| Ecuador | Serbia |
| Egypt | Singapore |
| Hong Kong | South Africa |
| India | Taiwan |
| Indonesia | Thailand |
| Japan | Tunisia |
| Kazakhstan | Turkey |
| Korea | United Kingdom |
| Malaysia | Vietnam |
| Mexico | Yemen |

International Outreach

In FY 2003, GIPSA continued to respond to customers' needs for technical assistance overseas. Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments, frequently ask GIPSA personnel to travel overseas. 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. This year, GIPSA received 17 requests for technical assistance overseas.

Such activities typically have been funded through various programs administered by the Foreign Agricultural Service, Farm Service Agency, directly by USDA Cooperators, or by GIPSA. The 1995 amendment to the U.S. Grain Standards Act extended the authority to GIPSA to charge and be reimbursed for travel, salary, and related expenses when a customer requests that we provide consultative expertise. Our authority to recover costs for providing consultative services has enhanced our ability to facilitate marketing of U.S. grains, oilseeds, and related commodities.

During FY 2003, we helped conduct assessments for USAID-funded activities related to agricultural standards, harmonization, and transportation management in South Africa, Botswana, Namibia, and Mozambique; initiated a 3-month regional assignment in Asia and a 3-month regional assignment in Mexico to address immediate and long-term issues in the regions relating to GIPSA; participated in several international biotech conferences and meetings concerning implementation of the Biosafety Protocol; worked with Mexican officials to establish a bilateral agreement concerning the implementation of the Biosafety Protocol; continued to work with Chinese officials to address trade issues concerning the importation of U.S. soybeans; and helped the Foreign Agricultural Service and Animal and Plant Health Inspection Service resolve several grain quality issues in other countries that would have restricted U.S. grain exports.

**Summary of Activities
Involving International
Travel in Fiscal Year 2003**

| <i>Purpose</i> | <i>Number of Travelers</i> | <i>Country Visited</i> | <i>Dates of Visit</i> |
|--|----------------------------|-----------------------------|-----------------------|
| 1. To evaluate the condition of containers of Great Northern beans at the request of the Commodity Credit Corporation. | 1 | Bulgaria | 10/06 - 10/17/02 |
| 2. To participate in the 2002 Annual American Association of Cereal Chemist Meetings. | 3 | Canada | 10/13 - 10/16/02 |
| 3. To conduct grain purchasing and export inspection seminars. | 4 | Mexico | 10/13-10/18/02 |
| 4. To participate in the Organization of American States workshops on the implementation of the Biosafety Protocol. | 1 | Chile, Peru, Colombia | 10/19 – 10/30/03 |
| 5. To participate in the NAEGA/APPAMEX Forum 2002. | 1 | Mexico | 11/07 - 11/10/02 |
| 6. To participate in training at the Joint Research Centre of the European Commission and Food Safety Programme. | 1 | Italy | 11/16 - 11/23/02 |
| 7. To attend a CODEX meeting as a member of the U.S. Delegation. | 1 | Hungary | 11/16 - 11/23/02 |
| 8. To meet with Mexican Government officials to discuss the Biosafety Protocol. | 1 | Mexico | 1/15 - 1/17/03 |
| 9. To participate in the second GIPSA 3-month regional assignment to address immediate and long term issues. | 1 | Malaysia | 1/27 - 4/10/03 |

continued

| <i>Purpose</i> | <i>Number of Travelers</i> | <i>Country Visited</i> | <i>Dates of Visit</i> |
|--|----------------------------|------------------------|-----------------------|
| 10. To meet with Turkish Government officials to discuss newly established import regulations. | 1 | Turkey | 2/03 – 2/09/03 |
| 11. To meet with Japanese Government officials regarding biotechnology regulations. | 1 | Japan | 2/12 – 2/19/03 |
| 12. To meet with Canadian Government officials to discuss implementation of the Biosafety Protocol. | 1 | Canada | 2/24-25/25/03 |
| 13. To assist U.S. Grains Council in a project to establish sampling, inspection, and quality control benchmarks for corn importers. | 1 | Mexico | 3/23 – 4/11/03 |
| 14. To meet with Argentinean Government officials to discuss the Biosafety Protocol. | 1 | Argentina | 3/26 – 3/31/03 |
| 15. To provide export services on a shipment of U.S. wheat. | 1 | Canada | 4/13 – 4/17/03 |
| 16. To participate in a soybean marketing seminar at the request of the American Soybean Association. | 1 | Mexico | 4/28 – 5/09/03 |
| 17. To provide export services on shipments of U.S. grain. | 1 | Canada | 5/05 – 5/16/03 |
| 18. To meet with USDA Cooperators to discuss grain quality issues and plan for future projects. | 1 | Mexico | 5/18 – 5/23/03 |
| 19. To assist U.S. Wheat Associates with cross-border grain issues. | 1 | Mexico | 6/02 – 6/13/03 |
| 20. To meet with Argentinean Government officials to discuss the Biosafety Protocol. | 1 | Argentina | 6/10 – 6/14/03 |

Continued

| <i>Purpose</i> | <i>Number of Travelers</i> | <i>Country Visited</i> | <i>Dates of Visit</i> |
|--|----------------------------|------------------------|-----------------------|
| 21. To participate in the U.S. Wheat Associates' South Asia Technical Conference and Buyers Conference. | 1 | Thailand | 6/20 – 6/29/03 |
| 22. To attend meeting of the American Agricultural Economics Association. | 1 | Canada | 7/26 - 7/30/03 |
| 23. To discuss the Biosafety Protocol with USDA's Mexican Government counterparts. | 1 | Mexico | 8/06 – 8/08/03 |
| 24. To serve as a team member for the technical workshops on harmonization of standards and transportation management. | 1 | South Africa, Namibia | 8/22 – 9/05/03 |
| 25. To attend meetings with Korea Government officials to discuss implementation of the Cartagena Protocol on Biosafety. | 1 | Korea | 9/28 – 10/01/03 |

Providing Official Inspection and Weighing Services

Efficient Review Inspections In October 2003, GIPSA revised the regulations on reinspections and appeal inspections under the U.S. Grain Standards Act to better reflect market needs and to remove an inefficient, costly, and unnecessary regulatory requirement. Previously, reinspections and appeal inspections for grade included a review of all official factors that may determine the grade, are reported on the original certificate, or are required to be shown. The revised regulations allow interested parties to specify which official factor(s) should be redetermined during the reinspection or appeal inspection service. To safeguard against inadvertent misgrading, official personnel may determine other factors, when deemed necessary.

In FY 2004, GIPSA plans to publish a notice with opportunity to comment in the *Federal Register* on a similar action for rice and pulses and other commodities that are inspected for quality factors under the authority of the Agricultural Marketing Act of 1946.

Quality Documentation for Wheat and Barley to the EU In April 2003, GIPSA developed procedures for documenting specific quality factors for high quality wheat and malting barley destined for the European Union (EU). This action was needed because the EU issued new grain import regulations that require “certificates of origin” and establish tariff rates for high, medium, and low quality wheat and malting barley imports based on these certificates. At GIPSA's suggestion, the Foreign Agricultural Service and the Office of the U.S. Trade Representative persuaded EU officials to accept GIPSA's Export Grain Inspection Certificate as proof of origin and base their tariffs on GIPSA certificates. This action further facilitates the marketing of U.S. wheat and malting barley to the EU.

Web-Based Inspection System GIPSA has completed a comprehensive review of our enterprise architecture for information technology – the first critical step toward developing a web-based inspection system. The system will streamline the entire official inspection process and improve customer service. Every inspector in the field will have access to the system to do their jobs better and more efficiently. And, every customer will have access to request service and receive real-time final results.

Wheat Inspection Procedures An export wheat shipment was denied entry into an importing country due to the presence of Canada thistle seed, which was on the importing country's list of prohibited seeds. To support the issuance of an Animal and Plant Health Inspection Service (APHIS) phytosanitary inspection certificate, GIPSA developed, and in January 2003, published, procedures to inspect export wheat shipments for Canada thistle seed and relay our findings to APHIS to facilitate issuance of the phytosanitary inspection certificate.

**Inspection Program Data
Fiscal Years 2001-2003**

| Item | Fiscal Years | | |
|--|------------------|------------------|------------------|
| | 2001 | 2002 | 2003 |
| Quantity of Grain Produced ¹ (Mmt) ² | 417.8 | 402.3 | |
| Quantity of Grain Officially Inspected (Mmt) | | | |
| Domestic | 128.7 | 131.0 | 125.8 |
| Export by GIPSA | 78.8 | 81.5 | 71.6 |
| by Delegated States/Official | <u>27.1</u> | <u>24.4</u> | <u>24.9</u> |
| Total | 234.6 | 236.9 | 222.3 |
| Delegated States/Official Agencies | | | |
| Delegated and Designated States | 8 | 8 | 7 |
| Designated States | 7 | 7 | 6 |
| Private Agencies | <u>44</u> | <u>43</u> | <u>43</u> |
| Total | 59 | 58 | 56 |
| State/Private Agency AMA Agreements | 14 | 19 | 20 |
| Number of Official Original Inspections and Reinspections | | | |
| GIPSA | 111,802 | 101,568 | 93,795 |
| Delegated States/Official Agencies | <u>1,798,906</u> | <u>1,728,016</u> | <u>1,713,364</u> |
| Total | 1,910,708 | 1,829,584 | 1,807,159 |

continued

¹ Source: USDA Crop Production Reports.

² Million metric tons.

| Item | Fiscal Years | | |
|--|----------------|----------------|----------------|
| | 2001 | 2002 | 2003 |
| Number of Grain Inspection Appeals | | | |
| Field Offices | 3,105 | 3,700 | 3,781 |
| Board of Appeals and Review | 431 | 530 | 528 |
| Number of Commercial Inspections | | | |
| GIPSA | 0 | 36 | 8 |
| Delegated States/Official Agencies | <u>629,802</u> | <u>677,849</u> | <u>713,375</u> |
| Total | 629,802 | 677,885 | 713,383 |
| Number of Wheat Protein Inspections | | | |
| GIPSA | 33,046 | 20,246 | 20,025 |
| Delegated States/Official Agencies | <u>436,161</u> | <u>387,610</u> | <u>424,854</u> |
| Total | 469,207 | 407,856 | 444,879 |
| Number of Soybean Protein and Oil Inspections | | | |
| GIPSA | 17,320 | 16,425 | 16,232 |
| Delegated States/Official Agencies | <u>8,706</u> | <u>19,910</u> | <u>20,345</u> |
| Total | 26,026 | 36,335 | 36,577 |
| Number of Aflatoxin Inspections | 61,234 | 66,062 | 111,055 |
| Number of DON Inspections | 41,134 | 50,017 | 47,500 |
| Number of StarLink™ Tests | 142,380 | 75,700 | 39,648 |
| Quantity of Rice Inspected (Mmt) (milled basis) | 3.1 | 2.8 | 3.7 |

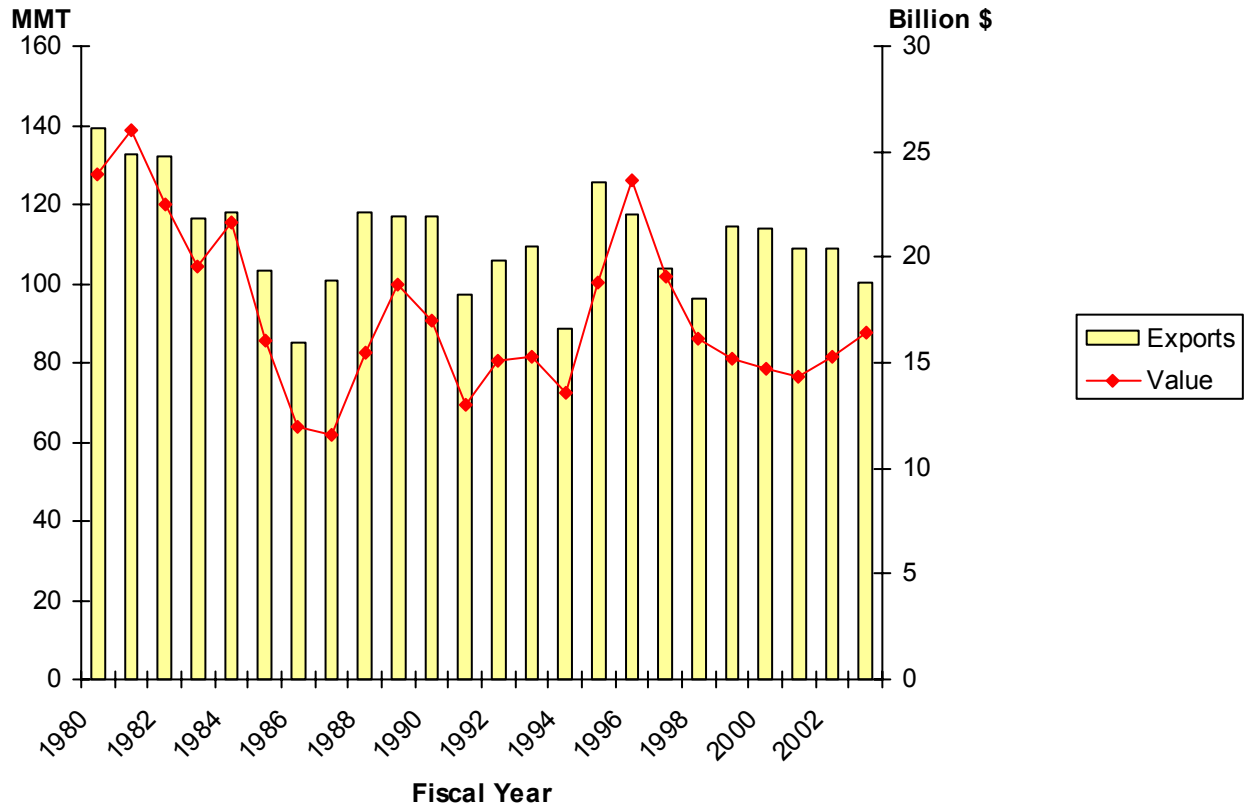
**Weighing Program Data
Fiscal Years 2001-2003**

| Item | Fiscal Years | | |
|---------------------------------------|----------------|----------------|----------------|
| | 2001 | 2002 | 2003 |
| Official Weight Certificates Issued | | | |
| GIPSA | | | |
| Class X ¹ | 73,420 | 72,131 | 79,061 |
| Class Y ² | <u>15,916</u> | <u>5,974</u> | <u>5,153</u> |
| Total | 89,336 | 78,105 | 84,214 |
| Delegated States/Official Agencies | | | |
| Class X ¹ | 30,471 | 24,313 | 19,075 |
| Class Y ² | <u>110,016</u> | <u>101,191</u> | <u>110,272</u> |
| Total | 140,487 | 125,504 | 130,247 |
| Exported Grain Weighed (Mmt) | | | |
| GIPSA | 78.8 | 81.5 | 71.6 |
| Delegated States | <u>21.7</u> | <u>19.1</u> | <u>19.9</u> |
| Total | 100.5 | 100.6 | 91.5 |
| Number of Certified Scales in Service | | | |
| Export Elevators | 250 | 250 | 240 |
| Number of Scales Tested | | | |
| Railroad Track Scales | 250 | 250 | 240 |
| Hopper Scales | 821 | 729 | 763 |
| Vehicle Scales | 83 | 78 | 70 |

¹ Class X weighing involves 100 percent supervision.

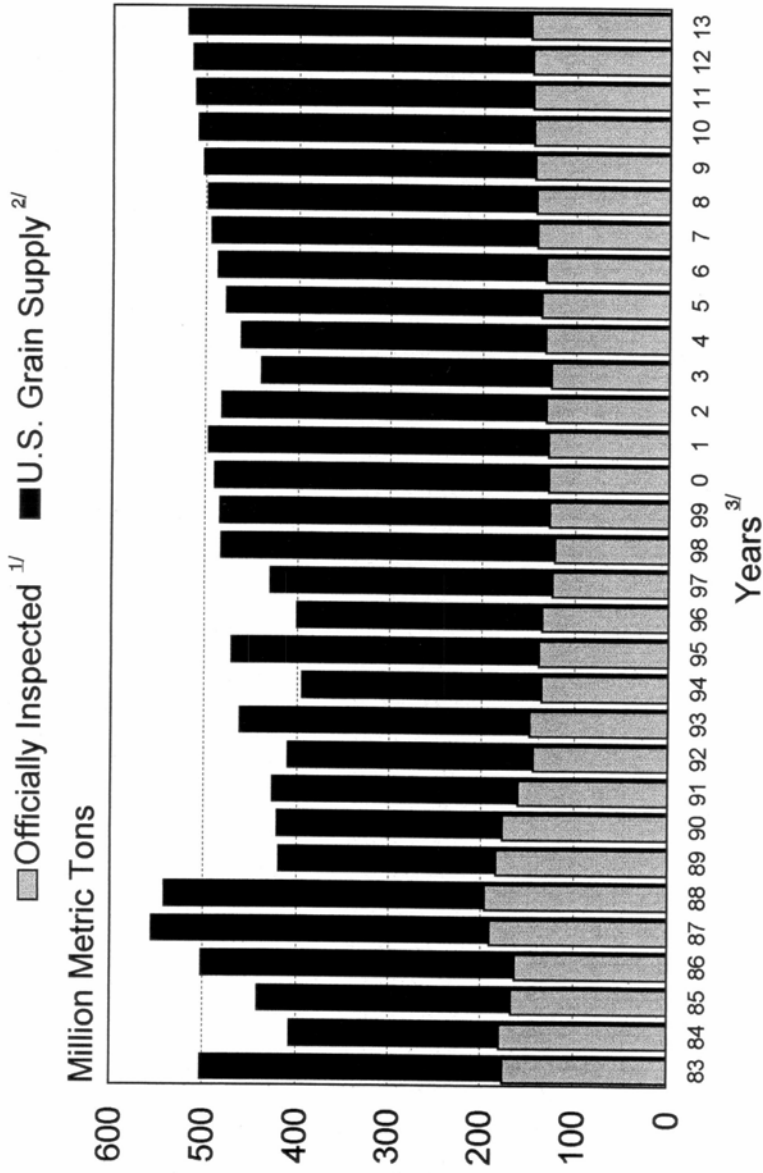
² Class Y weighing involves a minimum of 25 percent supervision.

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



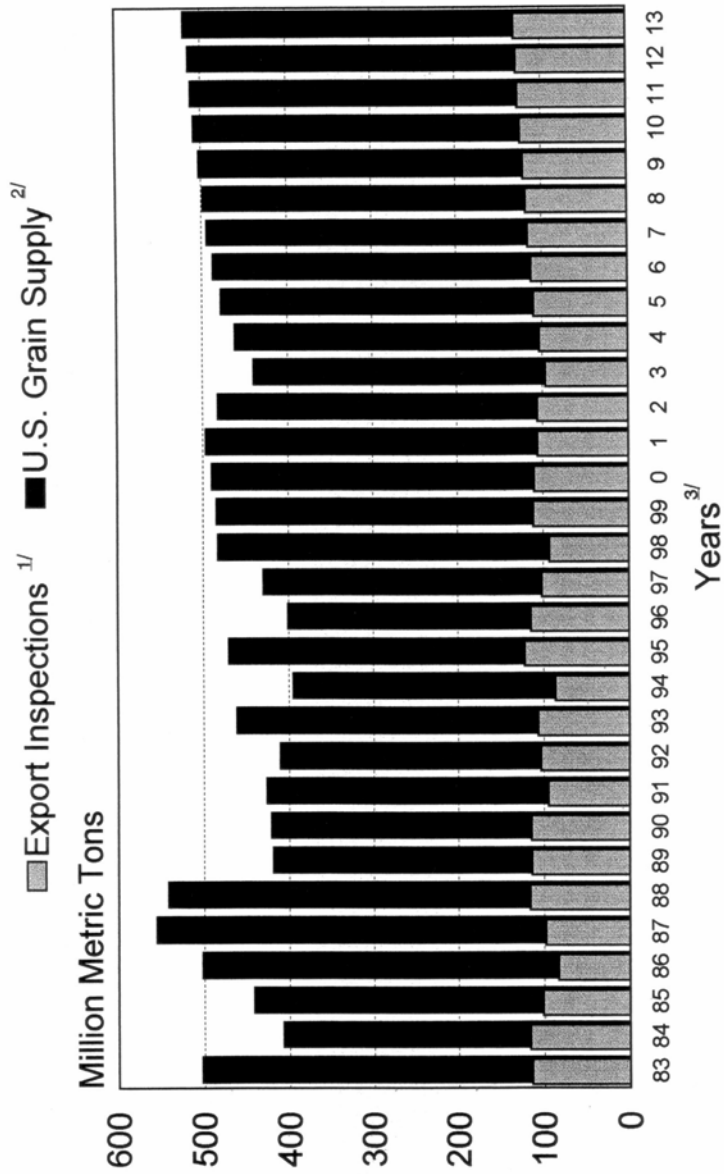
Sources: FGIS Export Grain Inspection System and the USDA Economic Research Service

U.S. DOMESTIC GRAIN INSPECTIONS



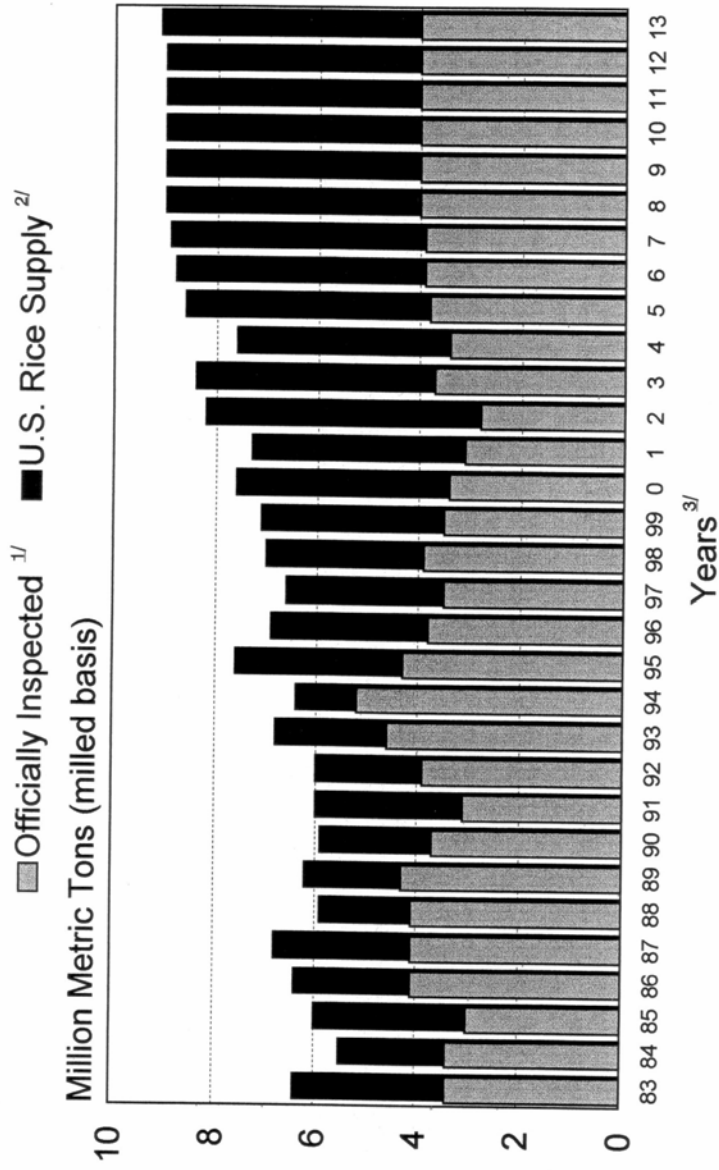
Source:
 1/ GIPSA, GIVIS for 1983 - 03 and 2003 inspection rate (28.6%) applied to estimated supplies for 2004 - 2013.
 2/ USDA, ERS market year figures for 1983 -2001, WASDE (Oct. 10, 2003) for 2002-2004 and WAOB baseline projections for 2005-2013.
 3/ Domestic inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

U.S. EXPORT GRAIN INSPECTIONS



Source:
 1/ GIPSA, EGIS for 1983 - 03, WASDE (Oct 10, 2003) for 2004, and WAOB baseline projections for 2005-2013.
 2/ USDA, ERS market year figures for 1983 - 01, WASDE (Oct. 10, 2003) for 2002-2004, and WAOB baseline projections for 2005-2013.
 3/ Export inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

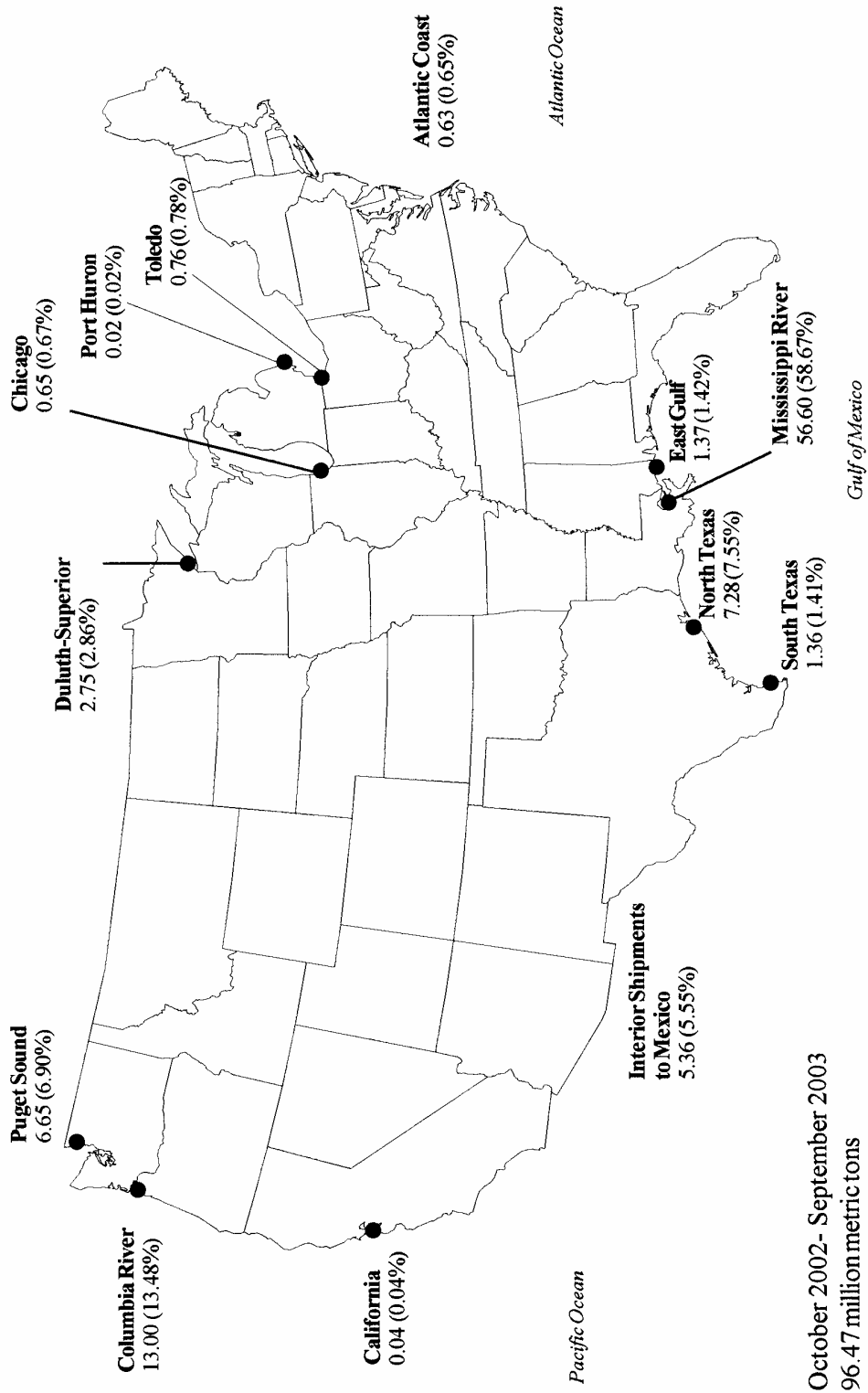
U.S. RICE INSPECTIONS



Source:
 1/ GIPSA, AMA Output Reports for 1983 - 03 and 2003 inspection rate (44.1%) applied to estimated supplies for 2004-2013.
 2/ USDA, ERS market year figures for 1983 - 2001, WASDE (Oct. 10, 2003) for 2002 - 2004, and WAOB baseline projections for 2005-2013.
 3/ Inspections are reported by fiscal years and U.S. rice supplies are by marketing years.

Volume of U.S. Grain Inspected for Export by Area Fiscal Year 2003

Million Metric Tons



Protecting Integrity

Alleged Violations

At the beginning of FY 2003, 11 cases involving alleged violations of the USGSA and the AMA were pending further action. During FY 2003, GIPSA personnel opened 9 cases relating to the following alleged violations: fraud, improper procedures, deceptive or prohibited grain handling practices, inter-market quality discrepancies (domestic), intimidation of official personnel, and violating export grain requirements. GIPSA referred one case to another USDA agency for review, and another to USDA's Office of Inspector General (OIG) where the investigation continues. GIPSA took administrative actions to close 10 cases during FY 2003, leaving 10 cases pending at the end of the fiscal year. The actions included informational letters to 2 official agency managers, 1 GIPSA manager, and 3 GIPSA personnel. Moreover, following several investigations, GIPSA sent company officials 6 informational letters, 4 cautionary letters, and 1 warning letter. In one case involving an alleged deceptive loading incident, the company involved was assessed a \$500 civil penalty.

During FY 2003, criminal action was completed in an investigation involving issuance of false grain weight certificates. The subject in the final action was sentenced to serve 28 months imprisonment and 3 years supervised release, and was ordered to pay \$214,501.15 in restitution. Five other subjects in this case were sentenced during FY 2002.

Compliance Reviews

Compliance reviews are independent third-party reviews of GIPSA's grain inspection and weighing field operations, which includes Federal field offices and suboffices, and State and private agencies (official agencies). During FY 2003, GIPSA conducted onsite compliance reviews of 1 GIPSA field office and 1 suboffice, and 16 official agencies. Review teams evaluated customer satisfaction (including potential service delivery discrimination), management effectiveness and efficiency, and procedural compliance. During the onsite reviews, GIPSA found no instances of service delivery discrimination, or of actions that appear to have affected the overall integrity of GIPSA's mission or programs, or the national inspection system. The field office and suboffice, and 15 of the 16 official agencies evaluated are performing satisfactorily. One official agency was not performing satisfactorily, and their designation was not renewed.

Delegation/Designation Programs

GIPSA currently oversees 56 official agencies that are designated under the USGSA to provide permissive official inspection and/or weighing services at domestic locations. Of these, 7 are States that also are delegated to provide mandatory official inspection and weighing services at export locations. Delegations are permanent unless GIPSA or the State decides to terminate the agreement.

During FY 2003, the State of Mississippi voluntarily canceled its delegation because there was no longer a need for export services within the State. This same State also cancelled its designation. Through a competitive process, GIPSA selected an existing private official agency to provide domestic services within the State.

The State of Oregon voluntarily canceled its designation. Again, through a competitive process, GIPSA selected an existing private official agency to provide domestic services within the State.

Under the triennial renewal process, 20 official agency designations automatically terminated in FY 2003. GIPSA renewed 18 of the 20 for full 3-year terms after reviewing their performance. One was renewed for an 18-month period due to marginal performance. One official agency designation was not renewed this year because of poor performance; most of its geographic area was assigned to a new agency, and parts of the area were assigned to three existing official agencies that had been performing satisfactorily.

Pilot and Exception Programs

At the beginning of FY 2003, GIPSA operated three exception programs to provide the Agency with information on the effect of allowing more than one designated official agency to inspect or weigh grain in a single geographic area. On April 18, 2003, GIPSA published a final rule to amend the regulations under the Act to include these exceptions.

The timeliness of service exception program allows official agencies to provide service to facilities located outside of their assigned geographic area on a case-by-case basis when official service cannot be provided within established timeframes. During FY 2003, there were no reports of the timely service exception being used.

The nonuse of service exception program allows official agencies to offer their service to facilities outside their assigned area if no official service has been provided during the previous 3 months. During FY 2003, 90 facilities received 45,945 inspections under this program. This included 694 for barges, 45,124 for railcars, and 127 other (trucks, containers, etc.).

The barge exception program allows customers shipping grain in barges to select any official agency to probe-sample and inspect the grain. During FY 2003, 1 facility received 31 barge inspections under this program.

GIPSA established a policy under the exceptions programs when the incumbent official agency's designation is not renewed. Basically, GIPSA lifted restrictions and will allow applicants for service to receive official services from any official agency under this scenario.

| | |
|--|--|
| Registration | During calendar year 2003, GIPSA issued 91 Certificates of Registration to individuals and firms involved in foreign commerce grain business. |
| Conflicts of Interest | At the beginning of FY 2002, three designated official agencies were operating with discretionary conflict-of-interest waivers. All three agencies remain designated with conflict waivers. During FY 2003, GIPSA cautioned one agency during about interference from the parent corporation. GIPSA determined that their response to this concern was satisfactory. |
| Drug-Free Workplace | As each designated official agency becomes eligible for designation renewal, it must certify to GIPSA that it provides a drug-free workplace. All 19 agencies renewed in FY 2003 and the new agency that was designated in FY 2003 provided this certification. |
| Summary of Complaints Reported by Importers | <p>GIPSA administers a program to evaluate importers' complaints about a quality or weight discrepancy on U.S. grain shipments. Under this program, GIPSA analyzes samples retained on file from the original inspection and samples submitted from destination (if the buyer chooses to submit them) to evaluate whether the discrepancy was due to differences in samples, procedures, or an actual change in quality from the time of the original inspection. The process verifies whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. Once GIPSA identifies the source of the discrepancy, the Agency issues a report outlining its findings and providing suggestions to avoid similar discrepancies in the future.</p> <p>Occasionally, a particular buyer or importing country reports repeated discrepancies which cannot be resolved by a shipment-by-shipment review under this process. In such cases, GIPSA may conduct collaborative sample studies or joint monitoring activities to address the discrepancy in a more comprehensive manner.</p> <p>In FY 2003, GIPSA received 13 quality and no weight complaints from importers on grains inspected under the USGSA. These complaints involved 229,587 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year. This compares to the 10 quality and weight complaints, also representing about 0.2 percent of grain exports by weight, in FY 2002.</p> |

Summary of Complaints

Reported by Importers on
Inspection and Weighing
Fiscal Year 2003

| <i>Complainant</i> | <i>Grain</i> | <i>Number of Complaints</i> | <i>Nature of Complaint</i> |
|-------------------------------|--------------|---------------------------------|--|
| Africa and Middle East | | | |
| Algeria | Corn | 2 | Broken corn and foreign material; wet, damaged kernels |
| Mozambique | Wheat | 1 | Infestation |
| Syria | Soybeans | 1 | Quality |
| Zambia | Sorghum | 1 | Broken and foreign material |
| Asia | | | |
| Hong Kong | Wheat | 1 | Contrasting class |
| Japan | Wheat | 1 | Dockage, foreign material, shrunken and broken kernels |
| Latin America | | | |
| Colombia | Wheat | 1 | Infestation, damaged kernels |
| Costa Rica | Corn | 1 | Odor |
| Ecuador | Wheat | 2 | Quality |
| Honduras | Corn | 1 | Damaged kernels, broken corn and foreign materials |
| Mexico | Soybeans | 1 | Damaged kernels |
| TOTAL | | 13 | |

Management Initiatives



Management Initiatives

Homeland Security

Crisis Planning. GIPSA continues 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 2003, GIPSA's COOP and CAT representatives participated in numerous USDA and Marketing and Regulatory Program-sponsored disaster-related exercises and training sessions. They also completed the GIPSA Supplement to the USDA Headquarters COOP Plan, which provides guidance for the continuation/ reestablishment of GIPSA's COOP essential functions, including identifying GIPSA's emergency relocation facilities where these functions will be performed and GIPSA personnel who will be required to perform them. The provisions of the GIPSA Supplement, which mirrors the USDA Headquarters COOP Plan, applies only to GIPSA headquarters offices in Washington, D.C.

Industry/Government Support. GIPSA provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the National Grain and Feed Association Safety Committee, the Security Analysis System for U.S. Agriculture (SAS-USA) Technical Advisory Committee, the Interagency Food Working Group, and the USDA Homeland Security Working Group. The Agency is currently working with the National Food Laboratory Steering Committee to coordinate and integrate resources to support the key components of the Food Emergency Response Network (FERN).

Employee Preparedness. GIPSA held a series of all-employee, emergency preparedness meetings in Washington, D.C., to discuss the Agency's headquarters evacuation plans, COOP plans, emergency relocation plans, special plans for responding to localized biological or radioactive material attacks, personnel protection measures, and other pertinent issues.

GIPSA safety and health personnel conducted site visits at key GIPSA regional and field offices, and the Agency's Technical Center in Kansas City, to review local emergency preparedness plans and physical security measures, and to participate in information sharing sessions with office supervisors and employees.

Environmental Management On December 12, 2002, the GIPSA Administrator issued the Agency's policy on environmental management. The policy underscores GIPSA's commitment to managing environmental matters as an integral part of our mission; challenges GIPSA employees to seek opportunities in the environmental arena beyond regulatory compliance; and mandates the use of management systems to prevent activities or conditions that pose a threat to the environment.

Railcar Safety CD GIPSA published and distributed over 200 copies of a new Safety "Rail Sampling Safety" training CDs to FGIS field offices, official agencies, and industry groups. The CD, which was developed by several GIPSA offices, demonstrates how samplers can avoid back strains, trips, falls, cuts, and other injuries when probe sampling grain and rice in railcars. It covers a wide range of topics, including the use of blue flags and derrails, sampling at night, and dealing with railcars loaded with fumigated grain.

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

**Summary of Reported
Agricultural Dust Explosions
Fiscal Years 2001 –2003**

| | 2001 | 2002 | 2003 |
|----------------------|------|------|------|
| Number of Explosions | 8 | 9 | 6 |
| Number of Injuries | 7 | 11 | 8 |
| Number of Deaths | 1 | 1 | 1 |

**Summary of Reported
Agricultural Dust Explosions
FY 2003**

| Facility | Location | Date | Injuries | Fatalities |
|--------------------------------------|-------------------|----------|----------|------------|
| 1. Tomen Grain Company | Pekin, IL | 02/20/03 | 0 | 0 |
| 2. Glenville Hatchery | Glenville, GA | 01/16/03 | 0 | 0 |
| 3. Dakota Mill & Grain | Belle Fourche, SD | 01/02/03 | 0 | 0 |
| 4. Michigan Agricultural Commodities | Blissfield, MI | 07/02/03 | 1 | 0 |
| 5. ConAgra Flour Milling | Columbus, OH | 08/10/03 | 4 | 1 |
| 6. Auglaise Farmers Coop | New Bremen, OH | 08/14/03 | 3 | 0 |
| | | | 8 | 1 |

Equal Opportunity and Civil Rights

GIPSA's goal is to continue to strive for fairness, acceptance, inclusion, and respect in relations with our customers and employees. Civil Rights program objectives are included in all managers' performance standards and as new performance standards are developed for new position descriptions, we are ensuring that they contain civil rights elements. GIPSA continues to ensure that the Secretary's civil rights goals and objectives are reflected in the GIPSA Strategic Plan and are implemented in the daily operations of all offices. The Administrator reaffirmed expectations to all employees by signing the Agency's policy statement on August 12, 2002. This document was provided to all employees and posted in all work locations in GIPSA. The Administrator also continues to support the guidance of the GIPSA EEO Advisory Committee and Special Emphasis Program Managers comprised of a cross-section of Agency employees.

Dispute Resolution. GIPSA has made significant progress in using Alternative Dispute Resolution techniques to resolve disputes and conflicts in the Agency. Mediation was used as a means to resolve numerous workplace disputes.

Complaints prevention continues to be a major initiative for the Civil Rights Staff and Agency managers and supervisors. GIPSA continues to monitor EEO complaints on a monthly basis to assess trends and causes of complaints and actions taken to address employee concern. GIPSA has been successful in resolving 30 percent of all informal complaints, and continues to work with employees and managers for early resolutions concerns in the pre-complaint process.

During FY 2003, the Agency has made steady progress in reducing the number of formal complaints. As a result, GIPSA resolved 10 of 40 total formal EEO complaints. The Agency continues to have no findings of discrimination regarding complaints filed by employees.

Outreach. GIPSA has increased participation to underserved groups for FY 2003. Significant increases were made in funding in support to Hispanic Association of Colleges and Universities, Tribal Colleges, 1890 Land Grant Institutions, and other minority institutions. GIPSA fully cooperates and assists other USDA agencies in implementing and conducting outreach programs to inform the public concerning USDA programs and services. The outreach programs are targeted to reach limited-resource and underserved groups.

GIPSA continues to have responsibility for and is the lead Agency for the American Indian Higher Education Consortium (AIHEC). The purpose of this initiative is to carry out the mandate of the Federal Agriculture Improvement Act of 1996. It established a program to ensure that tribal colleges and universities and American Indian communities equitably participate in USDA employment program, services, and resources.

Recruitment. GIPSA continues to address the President's Initiative to hire more employees with disabilities. To date, GIPSA has hired a total of 4 employees with reported disabilities. GIPSA continues to make the commitment to increase the number of new hires of persons with disabilities.

The employment of Summer Interns remains at a high level for FY 2003. The Agency hired 17 interns from a variety of programs (WINS, HACU, Regulatory Science and 1890 Land Grant Universities). This is a long-term program designed to address identified workforce diversity needs in the future.

GIPSA continues to develop recruitment and hiring strategies that will increase the representation of women and minorities in the GIPSA workforce. GIPSA ensures that all vacancy announcements are advertised government-wide and to all sources in order to broaden the area of consideration to obtain a diverse, highly skilled pool of applicants for positions.

Financial Overview



Financial Overview

Fee Structure Adjustment Proposal

During FY 2002, GIPSA conducted a thorough review of its major fee-for-services program. This evaluation indicated a need to restructure those fees.

In FY 2003, GIPSA proposed increasing the fee rates and adjusting the fee schedule for official inspection and weighing services performed in the United States, under the U.S. Grain Standards Act, as amended. The proposal was published November 19, 2003. The proposal eliminates short-term contract rates, creates new regional tonnage rates to cover local overhead, and establish a single national tonnage rate to cover headquarters overhead expenses. Specifically, the proposal would:

- Increase 1-year contract hourly fees to recover the increase in salary and benefits, and recover non-billed time.
- Eliminate the 3- and 6-month contracts because they have proven to be ineffective.
- Increase the hourly fee rates for services not performed at an applicant's facility. These hourly rates include, but are not limited to, grain grading seminars, prototype evaluation, and fees for services not listed. The increases are needed to recover the full cost of labor, supplies, materials, and a portion for administrative overhead.
- Increase unit fees to recover the full cost of labor, supplies, materials, and a portion for administrative overhead.
- Establish a regional administrative tonnage fee designed to recover local overhead costs plus an equal share of national overhead costs. The regional fee would be applied to every ton exported from a specific field office. The full impact of this proposed fee increase would vary based on the number of tons exported and the region in which each facility is located.

Reprogramming

During FY 2003, GIPSA reprogrammed \$2 million of its appropriated funds into the user fee supported grain trust account when cash reserves became low. This action was taken using the Secretary's authority to reprogram up to 7 percent of an appropriation with congressional notification.

GIPSA has implemented many cost-cutting measures to reduce obligations. The agency has reduced employment levels, closed offices, streamlined support staffs and introduced new technology to improve program efficiency. Agency-wide cost containment activities on all grain trust and appropriated accounts were instituted. In addition, GIPSA is pursuing several options to preclude future funding difficulties, including implementing a new fee schedule and program efficiencies, such as streamlining the official inspection process using a web-based technology and re-engineering program delivery.

Fee Increases

On June 9, 2003, GIPSA increased by approximately 4.1 percent its hourly rates and certain unit rates on tests performed at other than an applicant's facility for user fees charged for official inspection and weighing of grain (68 FR 32623, published June 2, 2003). Also, effective July 3, 2003, GIPSA increased by approximately 4.1 percent its hourly rates and certain unit rates on tests performed at other than an applicant's facility for rice inspection (68 FR 24859, published May 9, 2003). These increases were designed to generate revenue required to recover operational costs created by mandated cost-of-living increases to Federal salaries.

Status of GIPSA Fee-Supported Accounts Fiscal Year 2003

| Trust Fund Program | Revenue 09/30/03 | Obligations 09/30/03 | Profit/(Loss) 09/30/03 | Trust Fund ¹ 09/30/03 |
|-----------------------------------|---------------------|-------------------------|---------------------------|-------------------------------------|
| US Grain Standards Act | | | | |
| Canadian Operations | 348,469 | 259,078 | 89,391 | (150,964.78) |
| Inspection & Weighing | 25,218,848 | 25,924,655 | (705,807) | (1,944,939.81) |
| Official Agencies | 1,484,737 | 2,669,988 | (1,185,251) | 2,696,303.89 |
| Registration | <u>16,170</u> | <u>4,627</u> | <u>11,543</u> | <u>86,635.84</u> |
| USGSA Subtotal | 27,068,224 | 28,858,348 | (1,790,124) | 687,035.14 |
| Agricultural Marketing Act | | | | |
| Rice Inspection | 4,524,524 | 4,465,696 | 58,827 | 875,280.11 |
| Commodity Inspection | <u>2,382,023</u> | <u>2,591,478</u> | <u>(209,455)</u> | <u>2,206,845.90</u> |
| AMA Subtotal | 6,906,547 | 7,057,174 | (150,628) | 3,082,126.01 |
| Total Fiscal Year 2003 | 33,974,772 | 35,915,523 | (1,940,751) | 3,769,161.15 |

(Totals may not add due to rounding.)

^{1/} Includes \$2 million that was reprogrammed to the FGIS Inspection and Weighing user fee account.

GIPSA's Appropriated Budget Authority

Fiscal Years 1998-2003

Dollars in thousands

| Description | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
|----------------------------------|---------|---------|---------------------|---------------------|---------------------|-----------------------|
| Appropriated Funds | | | | | | |
| Budget Authority | | | | | | |
| Packers & Stockyards Programs | 13,165 | 16,062 | 15,128 ¹ | 17,355 ² | 17,873 | 23,426 |
| Federal Grain Inspection Service | 10,725 | 10,725 | 11,505 | 14,195 | 15,244 | 16,524 |
| Total Budget Authority | 23,890 | 26,787 | 26,633 | 31,550 | 33,117 ³ | 39,950 ^{4/5} |

^{1/} Includes a \$200,000 transfer from the Office of the Secretary for Swine Contract Library activities.

^{2/} Includes a \$199,560 permanent supplemental appropriation for Swine Contract Library activities included in Public Law 106-554.

^{3/} Reduced by a 1-year-only rescission of \$51,071.

^{4/} Reduced by a rescission of \$259,675.

^{5/} Includes \$2 million that was reprogrammed to the FGIS Inspection and Weighing user fee account.

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To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410 or call (202) 720-5964 (voice and TDD). USDA is an equal opportunity provider and employer.