



United States  
Department of  
Agriculture

Grain Inspection,  
Packers and  
Stockyards  
Administration

# **1999 Annual Report of the Grain Inspection, Packers and Stockyards Administration**

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over other firms or similar products.

# **Organizational Structure and Functions**

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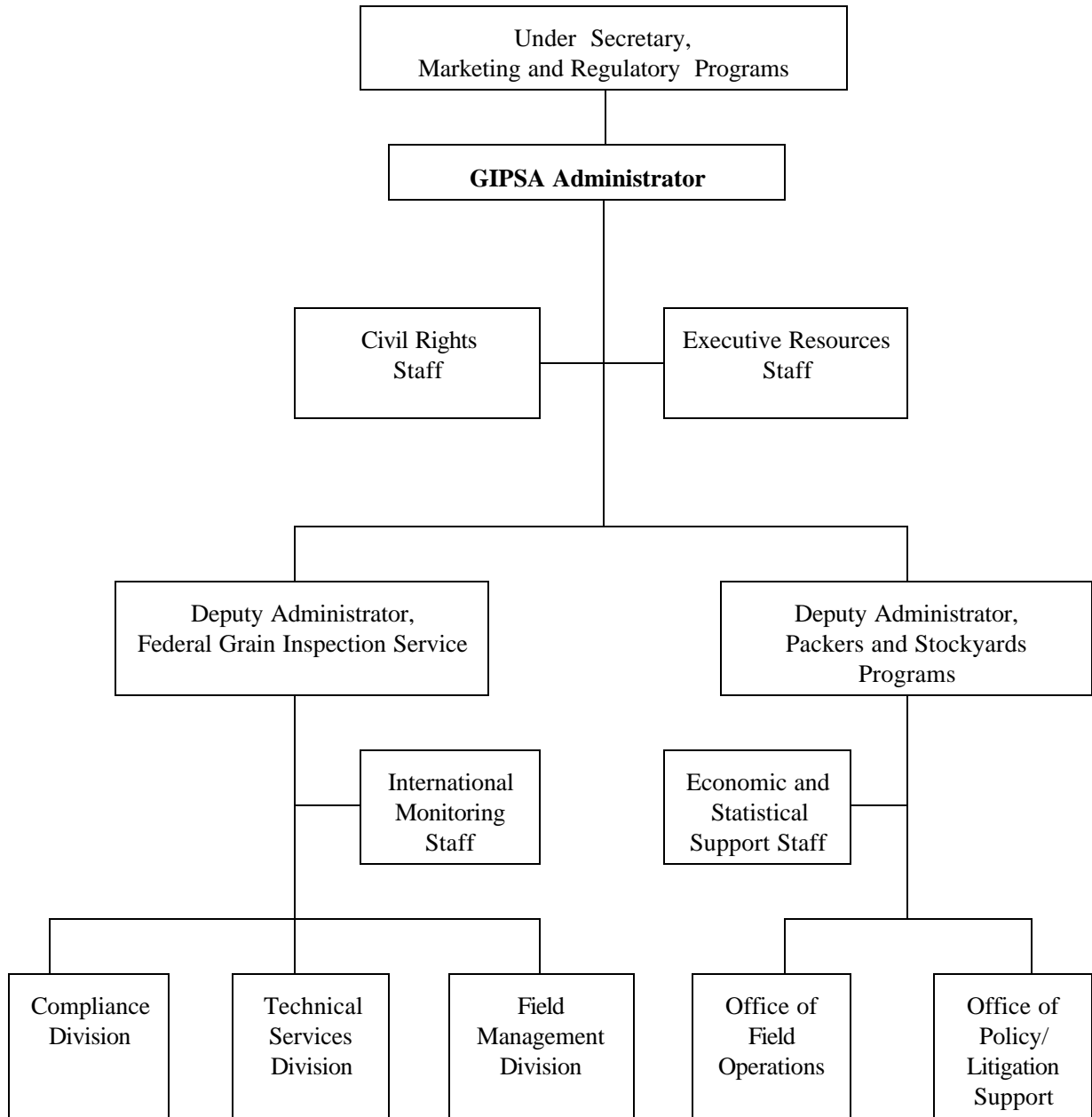
## **Organizational Structure and Functions**

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established in October 1994 as part of the reorganization of the U.S. Department of Agriculture (USDA). The formation of this agency resulted from the joining of two previously independent agencies. GIPSA is part of USDA's Marketing and Regulatory Programs, which is working to ensure a productive and competitive global marketplace for U.S. agricultural products.

One of GIPSA's programs, the Packers and Stockyards Program (P&S), ensures open and competitive markets for livestock, meat, and poultry. P&S is a regulatory program whose roots are in providing financial protection, and ensuring fair and competitive markets. 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 merchandising of livestock, meat, and poultry, and grain and related products.

# GIPSA=s Organizational Structure





## Packers and Stockyards Program

GIPSA's Packers and Stockyards (P&S) Program administers the Packers and Stockyards Act of 1921, as amended, and carries out the Secretary's responsibilities under Section 1324 of the Food Security Act of 1985 covering central filing systems established by States for prenotification of security interests against farm products. The program is responsible for the Truth-in-Lending Act, the Fair Credit Reporting Act, Agriculture Fair Practices Act, and the Freedom of Information Act as each relates to persons and firms subject to the P&S Act.

The principal purpose of GIPSA's P&S Programs is to ensure the integrity of livestock, meat, and poultry markets and the marketplace. This includes fostering fair and open competition, and guarding against deceptive and fraudulent practices affecting the movement and price of meat animals and their products. The Agency's work also aims to protect consumers and members of the livestock, meat, and poultry industries from unfair business practices which can unduly affect meat and poultry distribution and prices.

Under the Food Security Act of 1985, States may establish central filing systems to prenotify buyers, commission merchants, and selling agents of security interests against farm products. GIPSA has been delegated responsibility for administering this section of the statute which is commonly referred to as the "Clear Title" provisions. In fulfilling its responsibility, GIPSA has issued regulations governing prenotification and certifies those State systems that meet the criteria in the statute.

### Activities under the P&S Act

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

- investigating competitive practices of livestock, meat, and poultry firms to guard against anticompetitive behavior such as price manipulation, price fixing, and territorial allocation.
- examining structural changes in the livestock, meat, and poultry industries to assess potential competitive implications.
- investigating trade practices of packers, market agencies, and dealers to detect fraudulent transactions and to guard against unfair trade practices detrimental to producers and the industry.
- investigating packer meat merchandising and chain store buying to maintain prices established by fair and competitive marketing practices.

- investigating the financial conditions and payment practices of market agencies, dealers, and packers subject to the P&S Act to determine whether they are financially sound and capable of meeting their obligations.
- maintaining the integrity of the statutory trust for cash sellers of livestock and poultry growers.
- monitoring marketing practices at public markets and geographical market areas to foster and maintain fair and effective competition and avoid conflicts of interest.
- obtaining adequate surety bonds from auction markets, commission firms, dealers, order buyers, and meat packers (purchasing more than \$500,000 worth of livestock annually) to ensure payment for livestock purchased.
- investigating live poultry procurement practices to identify and correct those that are unfair, deceptive, or unjustly discriminatory to poultry growers and sellers.
- check weighing at auction markets, terminal stockyards, packer/poultry processors, and dealer buying stations to maintain integrity in the weights of subject transactions.

**Toll-Free Number**

GIPSA maintains a toll-free number (1-800-988-3447) to allow livestock producers and the public to report complaints and share concerns. The toll-free number is a voice mail system that allows callers to record complaints confidentially or leave a name, address, and other information so a GIPSA representative can contact them to discuss their concern or complaint.

**P&S Structure**

The headquarters office of the P&S Programs is located in Washington, D.C. Following the consolidation of the field activities into three regions in July 1998, field offices are now located in Atlanta, GA; Denver, CO; and Des Moines, IA. Resident agent positions were established in 33 locations across the Nation to provide core services. Agents work out of their homes or in one of three suboffices located in Fort Worth, TX; Lancaster, PA; or Sacramento, CA. As of September 30, 1999, P&S had 151 full-time employees.

**P&S Regional Offices**

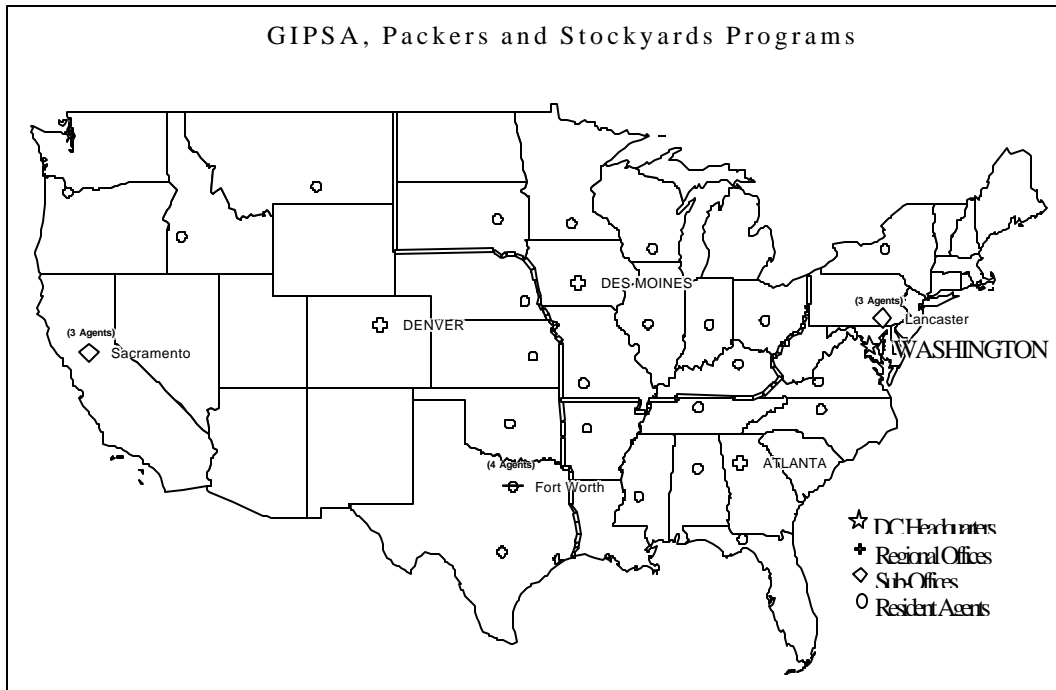
Addresses and phone numbers of the offices are as follows:

Atlanta Regional Office  
Suite 5R10  
100 Alabama Street, SW  
Atlanta, GA 30303-5R10  
Phone: 404-562-5840  
FAX: 404-562-5848  
E-mail:  
Amy\_R.VanSkiver@usda.gov

Denver Regional Office  
1 Gateway Center  
3950 Lewiston, Suite 200  
Denver, CO 80011  
Phone: 303-294-7050  
FAX: 303-294-7054  
E-mail:  
Keith\_M.Kienow@usda.gov

Des Moines Regional Office  
Federal Building  
210 Walnut  
Des Moines, IA 50309  
Phone: 515-323-2579  
FAX: 515-323-2590  
E-mail:  
Jay\_A.Johnson@usda.gov

# P&S Programs Field 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 weighing<sup>1</sup> of grain;

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<sup>1</sup> 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,<sup>2</sup> 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 services<sup>3</sup> of U.S. grain in the United States and at certain export port locations in eastern Canada;
- investigates, in cooperation with the USDA Office of Inspector General, alleged violations of the Act and initiates appropriate corrective action;
- monitors the quality and weight of U.S. grain as received at destination ports, and investigates complaints or discrepancies reported by importers; and
- 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 United States be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required.

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<sup>2</sup> 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.

<sup>3</sup> 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 37 export elevators. Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at 6 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 59 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions.

**Activities under the Agricultural Marketing Act**

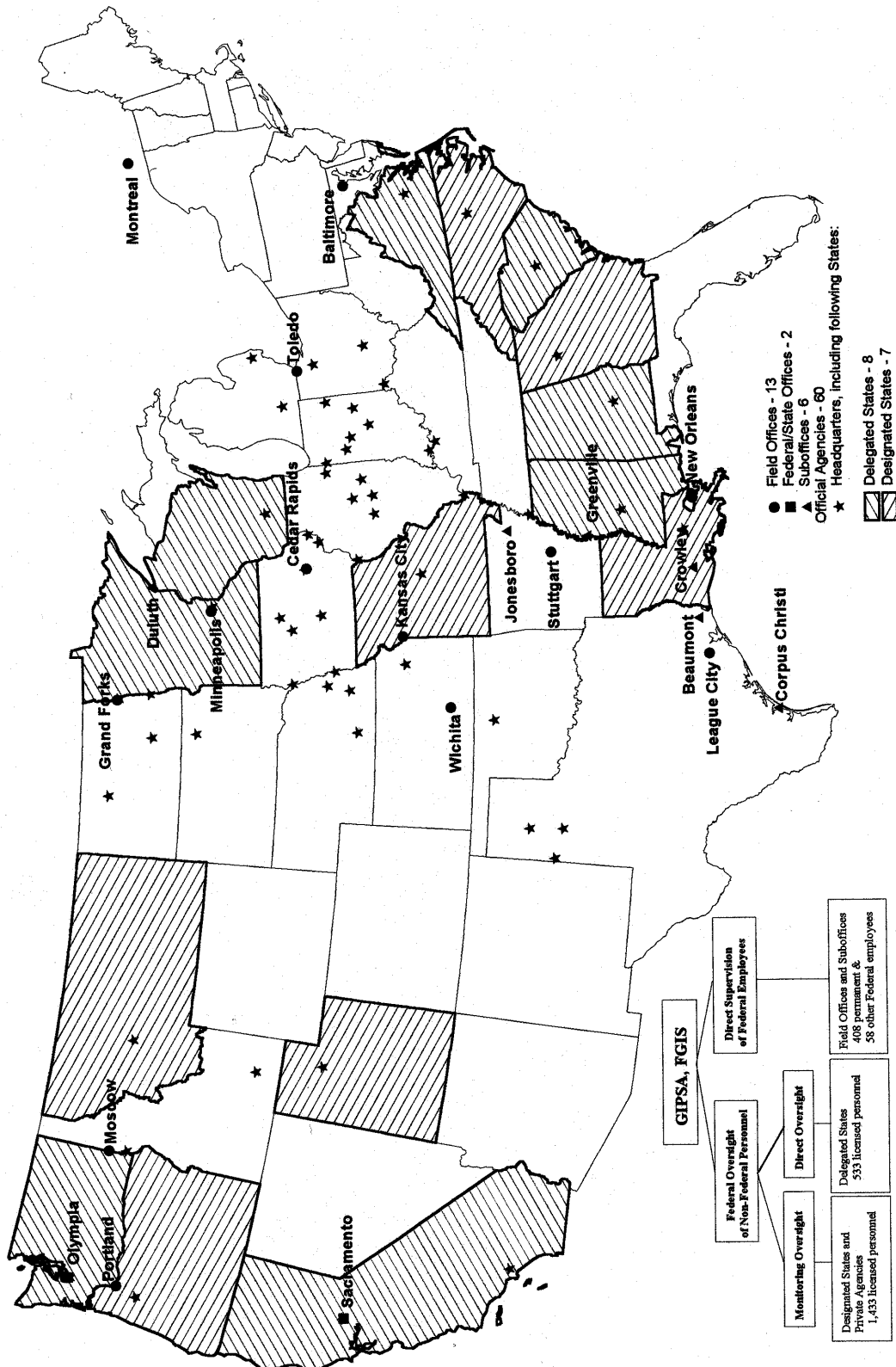
Under the Agricultural Marketing Act of 1946 (hereinafter, the AMA), GIPSA administers and enforces certain inspection and standardization activities related to rice, pulses, lentils, and processed grain products such as flour and corn meal, as well as other agricultural commodities. Services under the 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 555 full-time, permanent employees and 74 part-time, intermittent, or other employees located at 2 headquarters units, 13 field offices, 2 Federal/State offices, and 6 suboffices. FGIS has headquarters units in both Washington, DC, and Kansas City, MO. Field offices are located in Stuttgart, AR; Sacramento, CA; Moscow, ID; Cedar Rapids, IA; Wichita, KS; New Orleans, LA; Baltimore, MD; 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.

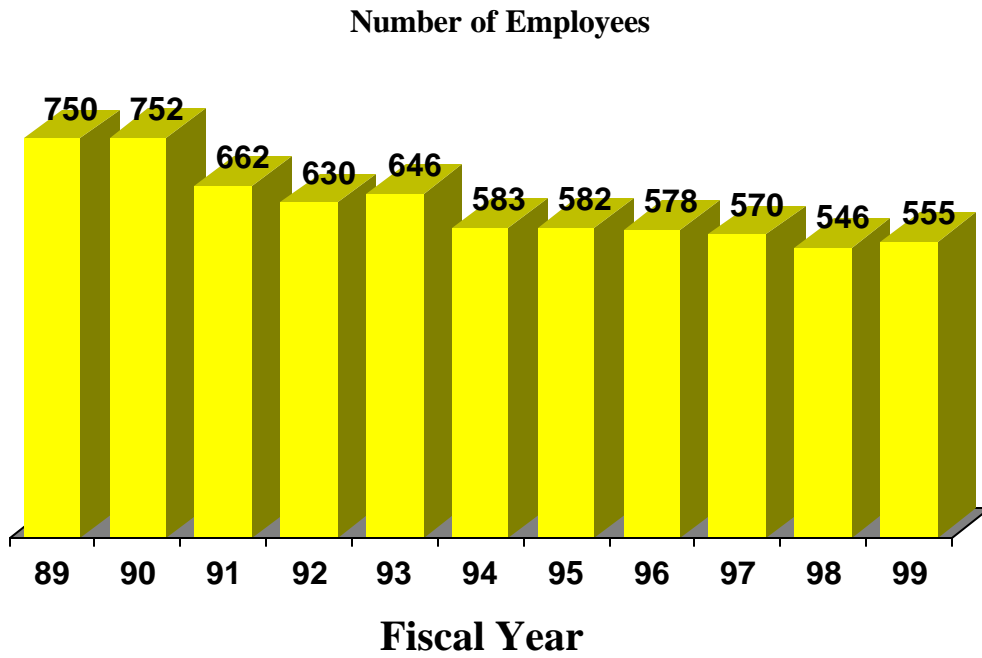
# Official Inspection and Weighing Service Providers

## Official Inspection and Weighing Service Providers





**Federal Grain Inspection Service  
Full-Time Permanent Employment, FY 1989-99**



Source: Executive Resources Staff, SF-113-A

Provision of Inspection and Weighing Services by State

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

\* Federal/State office.

# **Outlook 2000**

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## Outlook 2000

### Year 2000 (Y2K) Initiative

GIPSA is on track for 100 percent Y2K compliance. The Agency has completed its telecommunications inventory and certified as Y2K compliant 100 percent of its mission critical systems, electronic data exchanges, GIPSA-owned buildings, and Agency-leased buildings. Work is continuing on the development of detailed national and local business contingency and continuity plans to ensure that service provision continues uninterrupted at the start of and throughout the year 2000.

### Marketing Outlook

**Livestock, Meat, and Poultry.** Production of beef and pork in the fourth quarter of 1999 are expected to be below the fourth quarter of 1998, but broiler production is expected to show an increase over last year's levels. Fourth quarter live steer prices are projected to be at their highest levels in over 2 years. Hog producers will continue to face price stress until production levels fall. Hog prices are expected to fall in the fourth quarter, although not as far as they did in the fourth quarter of 1998.

Beef, pork, and broiler production all increased in recent years, but beef and pork are expected to decline in 2000. USDA's Economic Research Service projects that pork production will decrease by 3 percent in 2000. Beef production was at a record high in 1999 but is expected to decline sharply, by more than 6 percent, in 2000. Broiler production is expected to grow by over 4 percent. Due to declining production, live animal prices are expected to increase slightly in 2000 for fed cattle and hogs. Hog prices are projected to be in the mid \$30s per cwt. and fed cattle prices are expected to rise to the upper \$60s to low \$70s. Broiler prices are projected to average in the mid \$0.50s per pound. Lower projected beef and pork production in 2000 is expected to lead to lower exports. Broiler exports also are expected to be lower in 2000. Large grain production in 1999 has led to continued low grain prices, thereby lowering feed costs and easing the profit strain on livestock producers.

The livestock industries continue to undergo major structural changes. Vertical production and marketing arrangements are developing relatively quickly, especially in the pork industry, where production and marketing contracts now account for over 50 percent of all slaughter hogs. Concentration levels in meat packing are a major industry concern. Longstanding industry concerns about the competitive implications of concentration and structural changes increase when prices are low. P&S Programs will aggressively address these and other important market issues in 2000.

**Grain.** Despite production cutbacks in all major crops, domestic prices will likely range at or below year-ago levels. Severe pressure is being exerted by a third year of mounting carry-over stocks for wheat and corn and a second for soybeans, with only moderate increases in use. Beginning stocks for all major crops are at least double what they were 2 years ago. Domestically, some buyers, especially of corn and soybeans, have begun to discriminate across grain sources according to the grain's genetic make-up. On the export side, some gains are expected, particularly for wheat and soybeans.

Domestically, falling net incomes for crop farmers, driven by low commodity prices, led to 8 percent and 2.3 percent acreage cutbacks for wheat and corn. Even though acreage increased by 3.4 percent for soybeans, there were lower average yields – lower production was a consistent story for all U.S. crops in 1999. With lower yields, production dropped by 9 percent and 3 percent for wheat and corn, respectively and 1.6 percent for soybeans. Soybean prices are at their lowest levels since the early 1970s, feed grain prices at the lowest levels since the mid 1980s and food grain prices at the lowest levels since the early 1990s. Most of these prices have been a continuous downward trend since 1995/96: wheat prices have slid from \$4.55 per bushel in that year to \$4.30 (96/97), \$3.40 (97/98), \$2.65 (98/99) and are expected to range from \$2.45 to \$2.65 in 1999/00. During the same time, corn prices slid from \$3.24 to \$2.70 to \$2.43 to \$1.95, to an expected range of \$1.65 to \$2.05 in 1999/00. Soybean prices actually peaked in 1996/97 at \$7.35 dropping to \$6.47 (97/98), \$5.02 (98/99), to an expected range of \$4.75 to \$5.25 in 1999/00. Domestic use is expected to increase.

Internationally, lower worldwide production of grains and soybeans should increase trade flow. With its low prices, the United States is expected to increase its market share in world wheat markets (to almost 25 percent, from 24 percent in 1998/99) and soybean markets (to more than 44 percent from 41.1 percent in 1998/99). Expected lower U.S. corn exports should cut the U.S. market share of world corn markets down to just over 50 percent of world trade (down from 52 percent in 1998/99).

In general, the U.S. crop outlook for FY 2000 is cloudy. Most production will be marketed and used as it has been in the past. However, a growing number of grain buyers will treat grain less as a bulk commodity and more like a specialty crop in order to preserve each grain's unique ability to add enhanced value in end products. This change is being accelerated by overseas buyers distinguishing between conventional and genetically modified grains. This trend toward a more segregated market will strain traditional means of determining market prices, handling and amassing huge amounts of grain. Such scenarios could signal major departures in current grain handling systems: GIPSA stands ready to meet these challenges.

**Peer Review of Investigations** USDA has committed to conducting peer reviews of major investigations to ensure that the investigators asked the right questions, collected the right data, and conducted appropriate analyses. Peer reviews by objective, qualified reviewers may potentially contribute to GIPSA's plans to strengthen enforcement of anticompetitive behavior in the livestock, meat, and poultry industries. GIPSA initiated the peer review process for the current Texas fed-cattle investigation. A panel of seven outside peer reviewers was assembled in January 1999, and reported their findings to GIPSA in May 1999. Their comments are being used by the analysts who conducted econometric analyses as part of the Texas investigation as they prepare their final report, which is expected to be completed by the end of calendar year 1999.

**WORC Petition** The Western Organization of Resource Councils (WORC) submitted a petition requesting that GIPSA initiate rulemaking to restrict certain livestock procurement practices regarding forward contracting and packer-fed cattle. To create a forum for discussion, GIPSA published the WORC petition in the *Federal Register* in January 1997 and received over 1,700 comments by the close of the comment period in April 1997. A team of USDA personnel with economic, legal, and industry expertise reviewed and summarized the comments and assessed the petition's economic and legal justifications and the arguments presented in the comments.

The petition continues to stimulate valuable discussion of economic and legal issues relating to forward contracting and packer feeding of cattle, as well as contractual arrangements for production and sale of other species. GIPSA and USDA are committed to continuing a review of and dialogue on the important questions raised in the petition. To foster an ongoing dialogue on the merits of the issues, the review and assessment of the petition is available on GIPSA's Web site for public review (<http://www.usda.gov/gipsa/lateadd/petition.pdf>). The findings of econometric analyses conducted as part of the Texas fed-cattle investigation and the peer reviewers' comments on the investigation will further contribute to the dialogue on the WORC petition.

**Price Reporting** GIPSA has received information that some livestock transactions are conditioned on an agreement that the transaction price not be reported to public or private reporting services. GIPSA is concerned that the non-reporting of price as a condition of the purchase or sale of livestock may result in inaccurate and incomplete price information, thereby adversely affecting the price discovery process.

On September 10, 1998, GIPSA published in the *Federal Register* an Advance Notice of Proposed Rulemaking (ANPRM) concerning the practice of non-reporting of price as a condition of purchase or sale of livestock. The comment period for the ANPRM closed on December 9, 1998. Eighteen comments were received and have been analyzed by GIPSA.

GIPSA is drafting a Notice of Proposed Rulemaking on conditions of non-reporting which will be published in the *Federal Register*.

## **Poultry Regulations**

A large share of the complaints and concerns the Agency received from contract poultry growers falls into three areas: (1) grower payment is based on performance compared with other growers for a specified time period (usually all growers whose birds are slaughtered within a one 1-or 2-week period); (2) accuracy of feed weights, and feed delivery and pickup procedures; and (3) procedures for weighing live birds picked up for slaughter and the accuracy of the weights. The Agency is concerned that contract poultry growers are in an unequal bargaining position with the integrated poultry companies and is considering issuing substantive regulations to provide growers with assurance that their settlements will be equitable.

An Advanced Notice of Proposed Rulemaking (ANPR) was issued on February 10, 1997 (9FR 62 pp. 5935-5937). The Agency solicited comments in the ANPR regarding the need for three substantive regulations. The regulations would:

- require periodic testing of feed scales, mechanical printing of feed tickets, and more complete feed weight and delivery documentation;
- regulate the weighing of live poultry; and
- prohibit poultry grower settlements that base payment on a comparison of other growers' results.

GIPSA received 3,415 responses to the ANPR of which 2,199 (or 64 percent) responded to feed weight, 2,068 (or 61 percent) responded to live poultry weighing and 3,261 (or 95 percent) responded to contract regulation. In April 1999, GIPSA issued a Notice of Proposed Rulemaking (NPRM) promulgating substantive regulations for feed weighing (FR 64, pp. 15,938-15,942). The final feed weighing regulations are currently proceeding through the Departmental clearance process.

## **Reporting on Hog Contracts**

USDA's FY 2000 appropriation mandates, subject to funding, creation of a swine marketing-agreement library and monthly reporting of types of contracts in use, provisions providing for expansion in the number of swine to be delivered in 6 months and 12 months, estimated number of swine committed for delivery to packers in 6 months and 12 months, and the estimated maximum number of swine that could be delivered to packers in 6 months and 12 months. GIPSA is reviewing the legislation.



**Cooperative Agreements**

As part of its responsibility to strengthen investigations and assess competitive implications of structural changes in the livestock, meatpacking, and poultry industries, GIPSA entered into five cooperative research agreements. Two of the projects will examine competitive conditions in beef markets. Two projects will examine competitiveness issues and compensation methods used in broiler production. The final project will examine bidding behavior in a laboratory English auction setting in order to gain insights into expected behavior in actual markets.

**Restructuring P&S Programs**

In 1999, GIPSA completed a major restructuring of its P&S Programs to strengthen its capability to investigate possible unfair and anticompetitive practices, and to provide greater flexibility and efficiency in enforcing the trade practice and payment protection provisions of the P&S Act. Additional economic, statistical, and legal expertise were added to the field offices during FY 1999 to pursue investigations of anticompetitive practices in the livestock, meat, and poultry industries. In FY 2000, GIPSA will continue to add personnel in these areas to further strengthen its investigations of anticompetitive practices. The reorganization provides the infrastructure needed to move GIPSA's P&S Programs into the 21st century.

**Biotechnology**

GIPSA is actively addressing the market needs emerging as a result of today's biotechnological advances. Biotechnology has accelerated the rate of change in agriculture with new varieties meeting both the agronomic needs of the farmer and the specific quality attributes of the end user. Biotechnology has also created new market challenges as a result of increased consumer demand for non-genetically modified (non-GM) foods. The entire infrastructure of agriculture including production, transportation, storage, handling, processing, distribution, and marketing is being influenced.

GIPSA must increase its ability to detect the presence of GM crops and to measure enhanced quality attributes. Furthermore, GIPSA must set uniform testing standards for such conditions and attributes so that producers can bring their grain to market and have confidence that the true value of grain will be determined and reflective in the price.

Analytical tests required to assure the presence or specific content of a value trait is essential to ensure the supplier (i.e., farmer, cooperative, grain facility) receive the financial benefits derived from producing grain with value-added traits. These quality tests, however, may not adapt well to field analysis and may be too costly for frequent verification analysis.

As an alternative to frequent testing for value traits, GIPSA will facilitate the development of value assurance procedures that would ensure the preservation of a specific quality trait from farm to end user. Industry participants adhering to the procedures, based on a GIPSA audit, would be certified as meeting the specified quality attributes.

The emergence of biotech grains and the need for uniform assessments of those products directly impacts the marketing of U.S. grain and producers' bottom lines. Biotechnology is being applied to produce a new generation of disease and pest resistant grains such as Roundup Ready soybeans and Bt corn. In addition, biotech grains are being developed with value-enhanced traits designed to meet specific market needs.

In response to industry needs, in the interest of U.S. producers and grain handlers, and in accordance with the Agency's mission, GIPSA will establish during FY 2000 a biotechnology reference facility to provide standardized methodologies and rapid assessments used to test bioengineered grains. These services will help standardize the testing of bioengineered crops throughout the commercial market and help ensure that all involved in the marketing of U.S. grain, from producer to end user, can obtain uniform information.

### **Aluminum/Magnesium Phosphide Re-Registration**

In FY 1999, the Environmental Protection Agency (EPA) proposed 15 risk mitigation measures for aluminum/magnesium phosphide registration/application/handling. EPA's proposal created considerable concern within the grain industry since the new stringent proposals on the universally used fumigant could jeopardize export grain sales and would, in effect, severely restrict its use due to the resultant cost burden.

Aluminum/magnesium phosphide is the last economically viable means of treating stored or in-transit grain for infestation. In response to the proposal, the U.S. Department of Agriculture (USDA) established a task force of researchers from the USDA's Agricultural Research Service (ARS) and Cooperative State Research, Education, and Extension Service, as well as various universities to carefully review the registration issue. The USDA Phosphine Task Force is supported by a working group comprised of other ARS researchers as well as representatives of GIPSA, the Agricultural Marketing Service, and the Animal and Plant Health Inspection Service. GIPSA is providing historical data and information about the use of phosphine gas for fumigations of export grain and rail cars. This information will help the industry and the Environmental Protection Agency (EPA) assess the market and economic impacts of the proposed mitigation procedures.

### **Standardizing Commercial Inspections**

GIPSA is expanding its capability to educate members of the domestic and foreign grain markets on quality analysis and inspection processes. Further, GIPSA plans to provide, on a fee basis, standardization services and information to promote greater consistency and accuracy in the non-USDA quality analysis and inspection of grains and oilseeds. While the official inspection system is available to all buyers and sellers, many transactions rely on commercial quality determinations performed by non-GIPSA approved entities. Improving the accuracy and consistency of such analyses through educational outreach and standardization services benefits the entire market, from farmer to exporter and processor.

**Fees**

GIPSA will propose fee increases for the grain inspection program during FY 2000 to recover additional costs incurred due to increases to Federal salaries enacted under Public Law 106-58, Section 646, September 29, 1999. Depending on overall program performance and the projected outlook, the actual fee increase will vary by program area. The fee increases are needed to cover the projected operating costs and to generate sufficient revenues to maintain an appropriate operating reserve.



## **Packers and Stockyards Programs**

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*Ensuring a fair, open, and competitive  
marketing environment for  
livestock, meat, and poultry.*

- *Competition*
- *Fair Trade Practices*
- *Financial Protection*



## **FY 1999 Highlights**

### **Market Highlights**

Fiscal year 1999 was an eventful one in the livestock and poultry industries. The industries have been stressed by record production levels. Beef production was at a record level, up almost 2 percent due to record animal weights. The overall number of cattle slaughtered actually decreased slightly in 1999. Pork and poultry production also set records. Hog production and slaughter began the year at record levels. Pork packers had closed several older plants in 1997-98 and lacked sufficient capacity to process all of the hogs produced in December 1998 and January 1999. Contributing to the shortage, one of the Nation's largest hog slaughterers, Thorn Apple Valley, closed its doors in July 1998, and filed for bankruptcy. Packers ran plants at or above normal full capacity. Weekly hog slaughter was above 2 million head for each week between the beginning of October 1998, and the end of January 1999, except holiday weeks. Hog prices fell precipitously during the period, dropping below \$10/cwt at times, levels not seen since the 1940s. Record steer and heifer weights in 1999 pushed beef production to an all-time high. This, combined with record pork and poultry production, continued to put downward pressure on live cattle prices, although strong consumer demand and increased exports provided a balancing force. Fed cattle prices rose slowly much of the year, and the normal summer slump in prices was much smaller than usual. U.S. poultry production continued to grow to record levels. Broiler production was 7 percent above 1998, and turkey production was up marginally.

Responding to concerns of livestock producers, several midwestern States, including South Dakota, Nebraska, and Missouri, enacted laws designed to prevent livestock purchasers from using discriminatory pricing methods in their procurement of slaughter animals. The South Dakota law had the unforeseen effect of nearly shutting down live spot market purchases. As a result of a lawsuit, a U.S. District Court ruled that the portion of South Dakota's law regarding pricing restrictions was unenforceable.

In international markets, despite a World Trade Organization order to lift its ban, the European Union continued to ban imports of U.S. hormone-treated beef. The United States retaliated with tariffs on a wide range of European goods. In February 1999, the U.S. International Trade Commission ruled that an increase in imported lamb meat since 1997 posed a threat of serious injury to all segments of the domestic lamb industry. In July 1999, the President imposed a 3-year tariff-rate quota program and monetary assistance for the industry. Poultry exports were hit hard by the devaluation of the Russian ruble, and declined about 15 percent in 1999 compared to 1998.

**P&S Programs Restructured** High concentration, forward sales agreements, production contracts, and vertical integration have raised major concerns about competition and trade practices in livestock and procurement by meat packers and poultry processors. Concentration in the meat packing industry is relatively high and has been growing. The four leading packers' share of steer and heifer slaughter increased from 36 percent in 1980 to 81 percent in 1998. Concentration in hog slaughter is not as high but also is on the rise, increasing from 34 percent in 1980 to 56 percent in 1998. In addition, both the slaughter and production of livestock have become more concentrated into relatively narrow geographic regions.

As the industry structure has changed, the lines between Title II and Title III enforcement activities under the P&S Act have become increasingly blurred. Accordingly, GIPSA's Packers and Stockyards Program was restructured to focus on its core responsibilities under the Act – competition, trade practices, and payment protection.

At headquarters, P&S streamlined from two divisions and six branches that focused on Title II and Title III provisions of the Act into a single Office of Policy and Litigation Support with three branches that focus on the core responsibilities of competition, fair trade practices, and payment protection. The headquarters structure also includes an Office of Field Operations to manage delivery of all P&S activities and functions at the field level; and the Economic and Statistical Support Staff, which provides economic advice on broad policy issues, economic modeling and other technical support for investigations, and coordinates supporting research.

Eleven field offices were consolidated into three regional offices in Denver, CO; Des Moines, IA; and Atlanta, GA. This resulted in the location of significantly larger staffs near the concentrations of beef, pork, and poultry production and slaughter. Each regional office is responsible for all trade practice and financial protection issues within its assigned region. The Denver office has access to the concentrated fed-cattle production and slaughter areas of Colorado, Kansas, Oklahoma, Nebraska, and Texas, and has nationwide responsibility for major industry and competitive issues relating to cattle and sheep. The Des Moines, IA, office is located in the center of the largest pork production and slaughter area and has nationwide responsibility for major industry and competitive issues relating to hogs. Atlanta's regional office is responsible for major industry and competitive issues nationwide relating to poultry.

Basic services, such as jurisdiction and bond activities, custodial account audits, weighing investigations, and routine trade practice investigations, are provided to outlying geographic areas by resident agents who work out of their homes or one of three suboffices in Sacramento, CA, Fort Worth, TX, and Lancaster, PA.



**Recruitment**

The transition from 11 field offices to 3 regional offices created a major challenge for the P&S Programs to fulfill its staffing needs. Approximately 35 employees chose to retire or resign rather than relocate. GIPSA actively sought the expertise necessary to conduct investigations of anticompetitive practices. Recruiting staff with economic and legal expertise was a high priority in FY 1999. A recruiting team was established to help meet hiring goals and to ensure that those hired reflect the diverse cultures represented in the United States. As a result of these efforts, economists and legal specialists have been hired in each regional office and Washington headquarters to help with investigations of anticompetitive behavior. Recruitment to meet additional staffing needs will continue to be a high priority in FY 2000.

**Strengthened Investigations of Anticompetitive Practices**

As part of its restructuring plan, P&S incorporated economic, statistical, and legal expertise into investigations at the field office level, thereby increasing the program's efficiency and effectiveness in investigating anticompetitive practices and in enforcing trade practice and payment protection provisions of the P&S Act. In FY 1999, P&S continued to recruit economists and legal specialists for its field staff, with 12 economists and 3 attorneys hired during the year. Additional funding continues to be sought to investigate competitive behavior in meat packing and to address concerns in the poultry industry.

**Issued Orders and Assessed Penalties**

Over the past 4 years, 133 decisions and orders have been issued against 205 individuals and firms for violating the P&S Act. The orders included more than \$444,435 in civil penalties and 332 cease and desist provisions involving unfair trade practices or anticompetitive activities. Small farms are among the principal beneficiaries of these enforcement actions.

**Overview of Livestock Industry**

The following table provides an overview of the livestock industry during fiscal year (FY) 1999 and GIPSA's involvement in it.

<b>Fiscal Year 1999</b>	
Investigations	1,218
Market Agencies/Dealers Registered	6,434
Stockyards Posted	1,287
Slaughtering and Processing Packers Subject to the P&S Act (estimated)	6,000
Distributors, Brokers, and Dealers Subject to the P&S Act (estimated)	6,800
Poultry Operations Subject to the P&S Act	205

The wholesale value of livestock, meat, and poultry products produced by firms subject to the P&S Act was approximately \$109 billion in FY 1999.

## Statistical Report

GIPSA prepared a statistical report on the meatpacking industry covering reporting year 1997. The report is a comprehensive source for data on industry concentration, plant size, volume of packer feeding, packer financial performance, number of animals purchased by source of supply (public market versus direct), and method of procurement. 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 livestock packers reporting to GIPSA (those purchasing more than \$500,000 of livestock for slaughter per year) has fallen over time. In 1990, 497 firms operating 623 plants reported to GIPSA. In 1997, the number of reporting firms had fallen to 331 and the number of plants had fallen to 443. The following table shows this trend in more detail.

<b>Number of reporting packers, all species</b>				
<b>Year</b>	<b>Single plant firms</b>	<b>Multi-plant firms</b>	<b>Total firms</b>	<b>Total plants</b>
1990	454	43	497	623
1991	428	40	468	587
1992	388	49	437	569
1993	355	50	405	534
1994	323	49	372	500
1995	315	45	360	487
1996	311	37	348	478
1997	291	40	331	443

The report details packers' use of public and nonpublic markets. Public markets include terminals and auctions; nonpublic markets include all other sources of livestock. Overall, beef packers obtained less than 15 percent of slaughter cattle, and less than 5 percent of steers and heifers, in public markets. The four largest beef packers procured a smaller percentage of their slaughter requirements through public markets than any other group of purchasers. Use of public markets varies regionally. Only 0.2 percent of steers and heifers were bought in public markets in Texas and Oklahoma, while more than 70 percent were bought in public markets in the southern Atlantic coast States. The majority of non-fed cattle (cows and bulls) were purchased in public markets.

Hog packers use public markets even less than cattle packers. The top 20 packers use public markets for less than 2 percent of their procurement and, overall, packers purchased less than 4 percent of their needs through public markets. There also is much less regional variation in use of public markets for hog procurement. Use of public markets ranged from less than 2 percent in the South Plains and Mountain States to about 10 percent in the northern Atlantic coast States.

<b>Packer use of public markets, 1997</b>		
	Percent of total slaughter	
	<u>Cattle</u>	<u>Hogs</u>
4 largest packers	4.1	1.7
20 largest packers	7.8	1.4
All packers	14.5	3.8

The report also provides details about livestock sold through public markets. Livestock sold through public markets may be used for slaughter, further feeding, for dairy production, or for other purposes. The total number of cattle and calves sold through public markets for all purposes declined from 42 million head in 1990 to 39 million head in 1997. The number of hogs and pigs sold through public markets declined from about 19 million in 1990 to 9 million in 1997. The total number of public markets (terminal and auction markets) in the United States declined from 1,618 in 1990 to 1,298 in 1998.

### **Corrective Actions**

**Voluntary.** Most violations of the P&S Act found in investigations initiated by GIPSA are corrected voluntarily by the individuals or firms when the violation is brought to their attention. Except for the most serious cases, taking disciplinary action to correct a violation is the last resort after substantial effort has been made to obtain voluntary compliance.

During FY 1999, dealers and market agencies found to be insolvent voluntarily corrected or reduced their insolvency by \$4.5 million. Upon finding shortages in the custodial account of market agencies that sell livestock on a commission basis, 30 market agencies voluntarily restored \$2.7 million to their custodial accounts. Livestock producers and poultry growers often ask GIPSA's help in settling disputes that arise in marketing their products. In such transactions, the Agency often acts as an intermediary by bringing the parties together to solve the disputes informally.

**Disciplinary.** Formal disciplinary action is necessary when GIPSA is unable to obtain voluntary compliance. During FY 1999, 14 administrative or justice complaints were issued in order to bring subject firms into compliance with the P&S Act. In addition, USDA issued 29 decisions and orders against 41 individuals and firms for violating the Act. The following is a list of violations of the P&S Act alleged in complaints issued and/or in decisions rendered in FY 1999:

- misrepresenting the weight and price of livestock;
- accounting to and paying livestock sellers on the basis of false and inaccurate carcass weights;
- failure to pay for livestock;
- failure to pay promptly for livestock;
- failure to notify sellers of a change in method used to calculate payment basis;
- shortage in custodial or trust account;
- obtaining a right of first refusal wherein the buyer only has to match a competitor's bid;
- insolvency (current liabilities exceeded current assets);
- operating without adequate bond;
- false records;
- unfair or unjustly discriminatory practices; and
- unfair or unreasonable prejudice or disadvantage.

**Clear Title**

Nineteen States have central filing systems that have been certified by the U.S. Department of Agriculture as meeting the requirements of Section 1324 of the Food Security Act of 1985. Fifteen of those States received certification in 1986 and 1987. Minnesota was the most recent State to receive certification--in 1993. A few States request that additional products be added to their list of approved farm products from time to time. States establish central filing systems to enable buyers to learn about lien notices against farm products.

## Competition

### Competition

One of GIPSA's major responsibilities under the P&S Act is to ensure open, competitive marketing conditions for livestock and meat. Various producer organizations have voiced concerns about enforcement in this area. To maintain a competitive and fair marketing system, buyers of livestock must actively compete in the procurement of livestock. GIPSA continually monitors the livestock industry for anticompetitive practices through various investigative activities and other tools.

### Anticompetitive Arrangements

GIPSA places a high priority on investigating all complaints and further developing information received about the failure of livestock dealers, market agencies, or packers to compete for the purchase of livestock. During FY 1999, GIPSA conducted investigations involving livestock dealers, market agencies, packer buyers, and slaughtering packers regarding potential anticompetitive practices in the purchase of livestock.

GIPSA is conducting a broad investigation of fed steer and heifer procurement in the Texas Panhandle. Descriptive and graphical analyses have been completed and portions were reported to the public in February 1998. Purchase and slaughter patterns were examined to identify potential occurrences of aberrant or unusual procurement practices. USDA's publicly reported Market News prices have been assessed to examine whether they accurately reflect packer procurement transactions.

Researchers at Iowa State University and the University of Nebraska have been conducting econometric and statistical analyses of the Texas Panhandle data to identify relationships between spot market prices and non-spot purchases. Preliminary analysis was completed in the fall of 1998, and a peer review of the investigation was conducted. The researchers are incorporating the suggestions of the peer reviewers into their final report, which is expected in November 1999.

### Concentration and Industry Structure

GIPSA entered into cooperative research agreements with Texas A&M University and the University of California at Davis (U.C.-Davis) to examine the effects of meatpacking concentration on prices paid for fed cattle. Final research results for the U.C.-Davis research were presented at the American Economics Association's annual meeting in January 1999, and at a conference "Consolidation in the Meat Sector," cosponsored by GIPSA, USDA's Economic Research Service, and the NE-165 Research Project "Private Strategies, Public Policies, and Food System Performance," in February 1999. Preliminary results of the Texas A&M research were presented at the "Consolidation in the Meat Sector" conference, and final results are expected by the end of 1999.

Concentration in cattle and hog slaughter has increased a great deal since 1985. For steers and heifers, four-firm concentration rose 31 percentage points to 81 percent in 1998. Concentration has remained fairly constant since 1994. Four-firm concentration in hog procurement has risen more than 24 percentage points since 1985, to 56 percent in 1998, increasing steadily over the period. Four-firm concentration in sheep and lamb slaughter rose rapidly in the mid 1980s, from 51 percent in 1985 to 77 percent in 1988, but has fallen over the last decade to 68 percent in 1998. The number of plants and number of head slaughtered by the top four firms, both in absolute number and as a percentage of total slaughter, has fallen between 1988 and 1998.

Trends in four-firm concentration are shown in the following table.

**Four-Firm Concentration in Meat Packing  
Reporting Years 1980-98**

Year	Cattle <sup>1</sup>	Steers & heifers	Cows & bulls	Hogs	Sheep & Lambs
<u>Percent of total commercial slaughter</u>					
1980	28	36	10	34	56
1981	31	40	10	33	53
1982	32	41	9	36	44
1983	36	47	10	29	44
1984	37	50	11	35	49
1985	39	50	17	32	51
1986	42	55	18	33	54
1987	54	67	20	37	75
1988	57	70	18	34	77
1989	57	70	18	34	74
1990	59	72	20	40	70
1991	61	75	20	44	72
1992	64	78	24	44	71
1993	67	81	25	43	73
1994	69	82	25	45	73
1995	69	81	28	46	72
1996	66	79	29	55	73
1997	68	80	31	54	70
1998	70	81	33	56	68

<sup>1</sup> Includes steers, heifers, cows, and bulls.

Note: Figures for years 1980-90 are based on firms' fiscal years as reported to GIPSA. Figures for 1991-98 are based on calendar year federally inspected slaughter.

## **Livestock Procurement Practices**

A major case alleging that IBP, inc., entered into a marketing agreement and paid preferential prices to an exclusive group of feedlots in Kansas was dismissed by the Chief Administrative Law Judge (ALJ) in September 1997. The Agency filed an appeal in November 1997, with USDA's Judicial Officer, who has been delegated authority to issue the final decision for USDA in cases arising under the P&S Act. The Judicial Officer upheld most of the Chief ALJ's initial decision dismissing the complaint, but disagreed with the Chief ALJ's conclusion that IBP did not violate the Act. He ruled that one of the terms of the agreement, the right of first refusal, has the effect or potential effect of reducing competition. In August 1998, IBP appealed the Judicial Officer's decision to the Eighth Circuit Court of Appeals (Docket Number 98-3104) in St. Louis, MO. IBP also filed a motion for a stay of the Judicial Officer's decision pending the outcome of its appeal. In August 1999, the Court reversed the Judicial Officer's cease and desist order. It ruled that it was not a violation of the P&S Act for IBP to employ a right of first refusal in that case as long as the seller could return to the processor's competitors and offer the competitors the opportunity to increase their bids for the livestock.

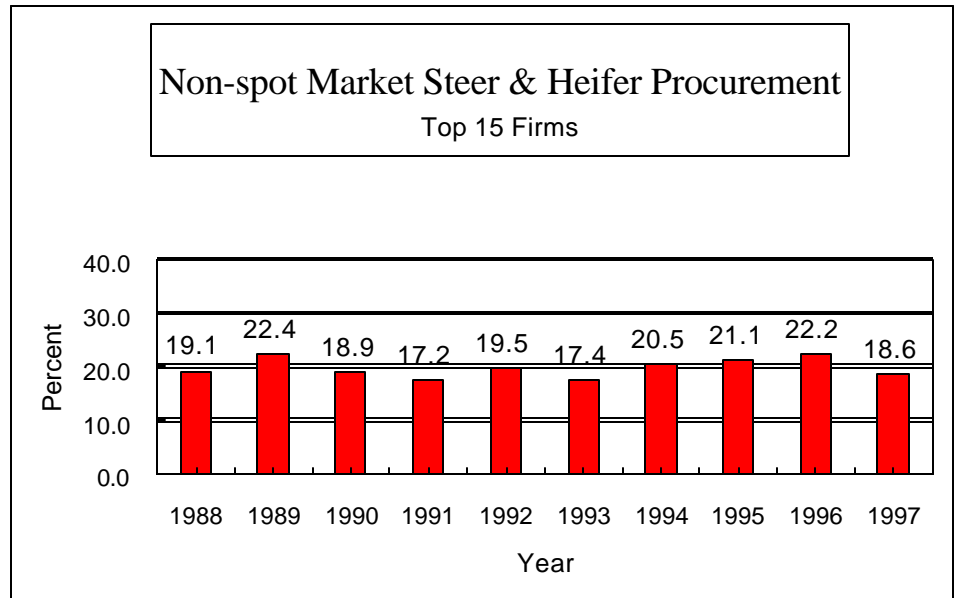
## **Procurement Data**

GIPSA obtains special procurement information from the Nation's top 15 steer and heifer slaughter firms annually. This information concerns livestock purchased through contracts, packer feeding arrangements, or marketing agreement/formula-priced type transactions on a monthly basis. The Agency closely monitors the overall percentage and use of these cattle by the Nation's meat packers.

Procurement of cattle through forward contracts, marketing agreements, and from packer feeding has held steady through the 1990s. Use of these methods by the top 4 and top 15 beef packers accounted for about 20 percent of their total procurement in 1997. Use of forward contracts and marketing agreements by the top 15 packers increased from 14 percent in 1990 to 19 percent in 1996, and fell to 15 percent in 1997. Use of forward contracts and marketing agreements by the top 4 packers followed a similar pattern. Packer feeding declined as a percentage of cattle slaughtered for the top 4 and top 15 beef packers over the 1990-97 period, and accounted for 3.5 percent of total steer and heifer slaughter by all packers in 1997.

Trends in the 15 largest beef packers' use of forward contracts, marketing agreements, and packer feeding are shown below. Figures show the percentage of cattle obtained through forward contracts, marketing agreements/formula pricing arrangements and packer-owned and/or fed.





### **Electronic Filing**

GIPSA, in line with the Paperwork Reduction Act, was given an increase in its budget to allow for electronic submission of reports by packers. With increased concern over concentration in the meat packing industry, electronic submission of data on packer use of forward contracts, marketing agreements, formula pricing, and other procurement initiatives require P&S Programs to collect extensive data over extended periods of time. Providing for the electronic submission of this type of data would reduce the cost to packers, improve the timeliness of reporting, and create a better understanding of the data on a real-time basis. The electronic submission of data will include data submitted on an annual basis and allow for larger amounts of data to be accessed on an “as needed” basis. The electronic submission will provide for facsimile input and future Internet capabilities. The pilot project for electronic filing, slated to begin in FY 2000, is the collection of packer procurement data.

### **Dialogue With Industry**

GIPSA maintains an active dialogue with industry participants to sustain current knowledge of issues of concern. Lines of communication are open from the grassroots to the industry association and policy-making levels. During the course of investigations, GIPSA personnel make formal and informal contacts with people in all segments of the livestock, poultry and meat industries. This allows for a sharing of perspectives about specific complaints as well as general concerns. GIPSA has a toll-free number (1-800-988-3447) as another avenue for producers and the public to voice their concerns and record their complaints about competitive, trade practice, or financial issues that may warrant investigation. GIPSA personnel regularly attend and participate in meetings of industry associations, at both the national and State levels.

These forums provide an opportunity for GIPSA to inform the public about its programs and for the Agency to keep abreast of changes in the industry. When appropriate, GIPSA also seeks comment from interested parties through requests for comments published in the *Federal Register*. For example, comments were sought on a petition submitted by the Western Organization of Resource Councils (WORC) requesting that GIPSA initiate rulemaking to restrict certain fed cattle procurement practices. The petition has stimulated valuable discussion of economic and legal issues related to forward contracting and packer feeding of cattle and contractual arrangements for production and sale of other species as well.

**Peer Review of Investigations** GIPSA has committed to conducting peer reviews of major investigations to evaluate whether GIPSA asked the right questions, collected the right data, and conducted sound analyses using appropriate models. The goal is to improve and enhance (1) procedures for conducting investigations of competitive practices in slaughter livestock and poultry markets, (2) procedures for internal quality control to use in future investigations of competitive issues, and (3) identification and development of staff who work on competition investigations. Reviewers from outside USDA will be selected who have the credentials needed to conduct sound, objective, and constructive reviews. The professional peer reviews will provide information that will assist in developing operating procedures and staff capabilities for designing, implementing, and reviewing future major competitive investigations.

The first investigation to be peer reviewed was GIPSA's investigation of fed cattle procurement in the Texas Panhandle. A panel of seven distinguished outside peer reviewers was assembled in January 1999, and reported their findings to GIPSA in May 1999. Their comments are being used by the analysts in the preparation of their final report, which is expected in November 1999.

**Rapid Response Teams** Rapid response teams from the Department were in South Dakota in July 1999, and in Missouri in September 1999, to respond to growing concerns of cattle and hog producers that packers were allegedly violating the P&S Act since enactment of new mandatory livestock price reporting laws in those states. The teams were designed to deal with high-priority investigations that required expeditious examination and analysis to prevent or minimize major competitive or financial harm caused by ongoing violations of the P&S Act. The teams were comprised of both GIPSA officials and attorneys from USDA's Office of the General Counsel.

**Failure to Notify  
Hog Producers**

GIPSA filed a complaint against Excel Corp., Wichita, Kansas, alleging that Excel violated section 202 of the P&S Act which prohibits, among other things, unfair and deceptive practices by packers. It is alleged that Excel failed to disclose to producers a change in the calculation of lean percent to hogs purchased on a carcass merit basis. The complaint further alleges that as a result of this change in formula, Excel paid lower prices for the majority of hogs purchased on a carcass merit basis.

The alleged actions by Excel resulted in farmers being paid \$1.8 million less in transactions involving more than 19,900 lots of hogs that were slaughtered at Excel's three hog plants. An administrative hearing has been scheduled for February 29, 2000, in Wichita, Kansas.

**Failure to Bid on or Purchase Cattle**

GIPSA filed a complaint against Farmland National Beef Packing Company, L.P., Liberal, Kansas, alleging that the company changed its bidding and buying practices at Callicrate Cattle Company Feedyard, St. Francis, Kansas. The complaint says Farmland failed to make bids on or purchase cattle from Callicrate Feedyard after an article critical of Farmland written by Callicrate Feedyard's sales manager was published in a livestock journal. According to the complaint, Farmland failed to make bids on or purchase cattle from Callicrate Feedyard, while routinely making bids on and purchasing cattle from other similarly situated feedyards located in the same geographic area as Callicrate Feedyard.

**Mandatory Domestic Price Reporting Pilot Investigation**

GIPSA prepared to conduct a Congressionally mandated 12-month price reporting investigation. The investigation would encompass mandatory reporting of information relating to prices of cattle and muscle cuts of beef as well as sheep and muscle cuts of lamb. No information obtained under the investigation would be disclosed until GIPSA submitted a report to Congress that would be due within 6 months after completion of the pilot investigation. A framework for conducting the pilot investigation was developed. The program was eliminated by USDA's FY 2000 appropriation, which instead mandated a full-scale mandatory price reporting program to be carried out by USDA's Agricultural Marketing Service.

**Great Nebraska Formula/ Grid Out Investigation**

The Great Nebraska Formula/Grid Out was organized by cattle feeders in Nebraska concerned about competitiveness in fed cattle markets. It was held from August 31, 1998, to September 16, 1998. To participate, cattle feeders were asked to sign a petition agreeing to sell cattle on a cash basis only during that time. GIPSA's Denver office launched an investigation in November 1998, to determine the effect of the Grid Out on the industry. The investigation focused on three major areas: (1) analysis of market data around the time period of the grid out, (2) review of industry monitoring and analysis reports, and (3) interviews of industry participants. The investigation showed that the percentage of cattle procured on a non-cash basis declined in the region in the weeks following the Grid Out. Interviews with producers and packers revealed that the Grid Out raised awareness of industry participants about the concerns of the Grid Out organizers. Producers, packers, and industry analysts identified many factors that affect fed cattle prices, highlighting the difficulty of determining the potential effects of the Grid Out on prices.

**Advanced Notice of Proposed Rulemaking**

On September 10, 1998, GIPSA published in the *Federal Register* an Advanced Notice of Proposed Rulemaking (ANPR) concerning the practice of non-reporting of price as a condition of the purchase or sale of livestock. The comment period for this ANPR closed on December 9, 1998. A notice of proposed rulemaking is being prepared by GIPSA.

**Hog Investigation Briefings**

Hog Investigation Briefings Meetings to communicate the results of a major

Western Cornbelt Hog Investigation, and to provide information about changes in the Agricultural Marketing Service's price reports and how producers can better use price reporting information were conducted by personnel from GIPSA, the Agricultural Marketing Service, and Rural Business-Cooperative Services. In all, more than 3,000 participants attended 26 meetings held between December 1998 and March 1999.

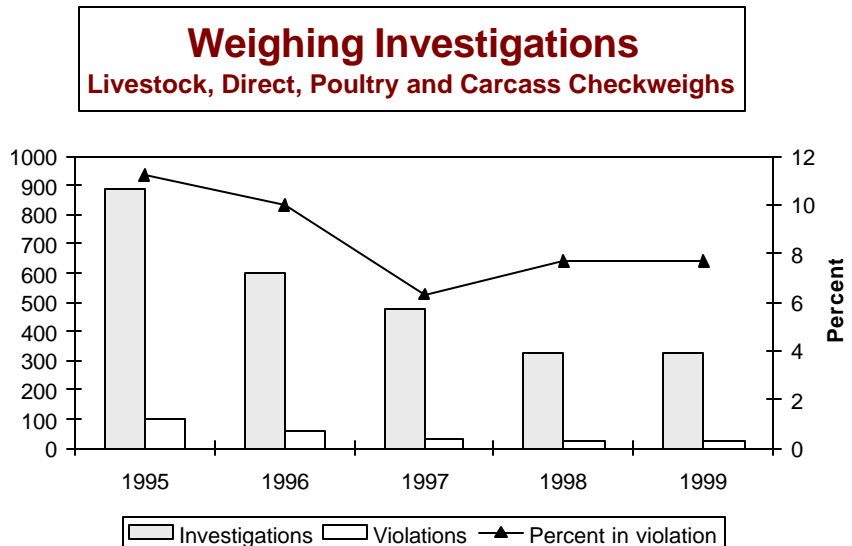
# Fair Trade Practices

## Unfair Practices

One of GIPSA’s major objectives under the P&S Act is to maintain fair business practices in the marketing and procurement of livestock, meat, and poultry. To ensure fair business practices and determine if unfair or deceptive practices are occurring, P&S continually conducts trade practice investigations of auction markets, livestock dealers and order buyers, slaughtering packers, poultry processors and dealers, and dealers, brokers, and distributors.

GIPSA’s enforcement efforts in this area are directed at monitoring scale tests, and detecting improper and fraudulent use of subject’s scales. In most cases, the scales are tested by State and private testing agencies following standards developed in cooperation with the National Conference on Weights and Measures (NCWM). GIPSA conducts training schools for test agencies with NCWM National Training Program-certified instructors.

Test reports are analyzed and tests are periodically supervised to ensure that they accurately reflect the performance of the scales under normal use conditions. Since 1988, 25 training schools provided technical instruction to 428 officials from 43 States and the Navajo Nation. Informal instruction is routinely provided upon request to State and private test agencies. Of the scales tested, 93.7 percent complied with performance requirements. Equipment not found in compliance was adjusted, repaired, replaced, or removed from service.



Weighing investigations are a critical component of the program to assure accurate weights. In FY 1999, 276 checkweighing investigations were conducted at livestock auction markets, dealer buying stations, meat packing and poultry processing plants. Approximately 8 percent of the investigations disclosed false or incorrect weighing which resulted in corrective action being taken.

### **False Weighing**

USDA regulations require that livestock purchased on a weight basis be accurately weighed and that payment be made on accurate weight. False weights have an immediate and measurable impact on livestock producers' paychecks. During FY 1999, an administrative order was issued against three firms for allegedly purchasing livestock from sellers at less than their true and correct weight.

### **Contract Poultry Arrangements**

During FY 1999, GIPSA investigated the operations of 99 live poultry dealers. Nearly 45 percent of these investigations were the result of complaints received from contract growers. GIPSA is conducting investigations of the various payment terms incorporated into poultry growing arrangements. These investigations are designed to determine whether the contract settlement terms of several live poultry dealers throughout the United States are deceptive or unfair to the growers who grow poultry under these agreements.

Continuing investigations of large tare weight variations have prompted procedural changes by several poultry firms to ensure accurate tare weights of poultry live haul vehicles. Weighing practices were investigated through unannounced checkweighings at 182 poultry complexes in FY 1999.

### **Livestock Marketing**

Fraudulent marketing practices, such as weight and price manipulation, and misrepresentation of livestock's origin and health continue to be concerns within the industry. Emphasis is given to investigating these practices when complaints are received or when such practices are identified during other investigations. During FY 1999, GIPSA issued an administrative complaint alleging a dealer falsified records concerning disposition of livestock that he resold at an auction market and falsified the weights and price of livestock. During FY 1999, GIPSA issued an administrative complaint alleging a dealer falsified records concerning the disposition of livestock which he resold at an auction market and falsified the weights and prices of livestock. During FY 1999, three administrative orders were issued against firms or individuals for buying back their own livestock to fill orders and arbitrarily increasing the prices on livestock sold to customers. Those charged were ordered to cease and desist from such practices.

**Livestock Procurement Practices**

To determine if unfair or deceptive practices in violation of the P&S Act are occurring in the procurement of livestock, GIPSA continues to conduct livestock procurement investigations of slaughtering packers, dealers, and order buyers. These investigations include examining firms' entire operations for possible violations of the P&S Act, including: price manipulation; weight manipulation of livestock or carcasses; manipulation of carcass grades; commercial bribery; misrepresentation of source, condition, or quality; or other unfair and deceptive practices.

Many hog slaughterers in the United States are using electronic carcass evaluation devices to purchase hogs on a carcass merit basis. GIPSA conducts semiannual investigations at hog slaughtering plants that use these devices to ensure the accuracy of the devices, proper formula application and accounting, and the proper application of the devices.

**Fraud**

Fraudulent transactions in the livestock, meat, and poultry industries are a major concern. Such transactions involve various types of fraudulent activity, including collusion between or among dealers, order buyers, market agencies, or packer employees engaging in payoffs and kickback schemes; and defrauding purchasers of livestock by causing paper transactions in which the livestock purportedly changes ownership several times with markups in price and/or weight each time before sale to the ultimate buyer. These practices are among the most serious violations of the P&S Act and have the ultimate effect of lowering prices paid to the livestock producer or raising prices paid by the consumer. During FY 1999, GIPSA issued an administrative complaint alleging that a livestock dealer had engaged in fraudulent transactions involving false purchase prices, false weights, and falsification of records concerning disposition of livestock which had been sold at an auction market rather than sold to a packer on a grade and yield basis as was accounted to the customer.

**Reparations**

Any person harmed when a market agency or dealer violates the P&S Act may file a complaint seeking monetary damages. At the beginning of FY 1999, there were 25 docketed reparation actions pending in which the complainants were seeking reparations in the amount of \$361,086. During FY 1999, 3 additional actions were docketed or re-opened in which the complainants sought reparation in the amount of \$320,858. Eight dockets were closed, in which 8 complainants received or were awarded \$6,313. At the end of FY 1999, 20 dockets, in which complainants are seeking \$498,694 in reparations, were pending.

## **Financial Protection**

### **Getting Paid**

Financial integrity is a major concern and responsibility of GIPSA to ensure a stable and competitive market for livestock, poultry, and meat. Prompt and full payment for livestock and poultry purchases are a statutory requirement. It is essential if producers are to maintain the cycle of production necessary for a viable market.

Livestock buyers are required to maintain a surety bond to cover their livestock purchase operations. Livestock auction markets must establish and maintain a custodial (trust) account for payment to consignors. A packer and poultry trust is established under the Packers and Stockyards Act that gives livestock and poultry sellers first claim to trust assets in the event of nonpayment.

### **Financial Investigations**

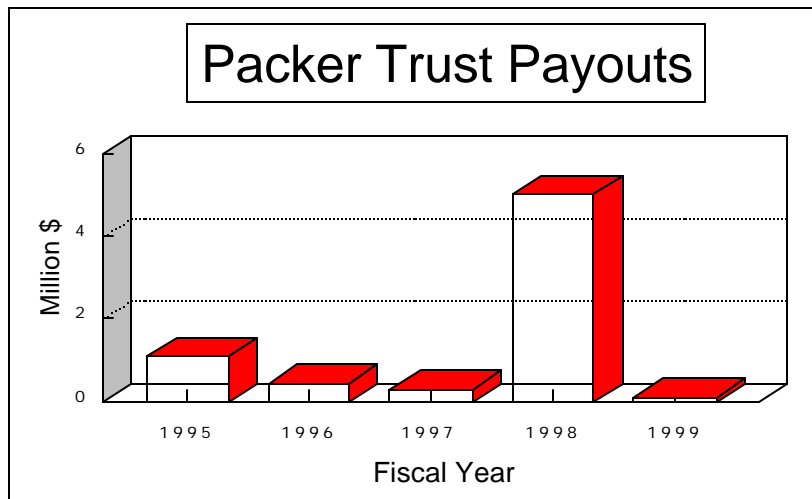
Financial investigations during the year resulted in \$2.7 million being restored to custodial accounts established and maintained by livestock auction markets for the benefit of livestock sellers. Over \$94,000 was recovered by livestock sellers under the packer trust provisions of the Act.

Livestock dealers, market agencies, and packers are required to meet solvency requirements, a critical component of payment protection under the provisions of the Act. During FY 1999, 43 insolvent dealers and market agencies corrected or reduced their insolvency by \$4.5 million. Insolvent packers corrected or reduced their insolvency by \$4.6 million.

### **Packer Trust**

It is important that producers receive timely and full payment for the livestock they market. Payment protection is provided by statutory requirements of full and prompt payment, packer bonding, and packer trust. Packers also are required to file annual reports of their operations with GIPSA and to maintain a solvent financial condition. The prompt payment provision is a significant element of the financial protection afforded producers under the P&S Act and is an integral part of the packer trust which provides protection to producers who fail to receive payment from meat packers. Since the 1976 amendments to the P&S Act, livestock sellers have been paid \$53.8 million under the statutory trust provisions.





### Live Poultry Trust

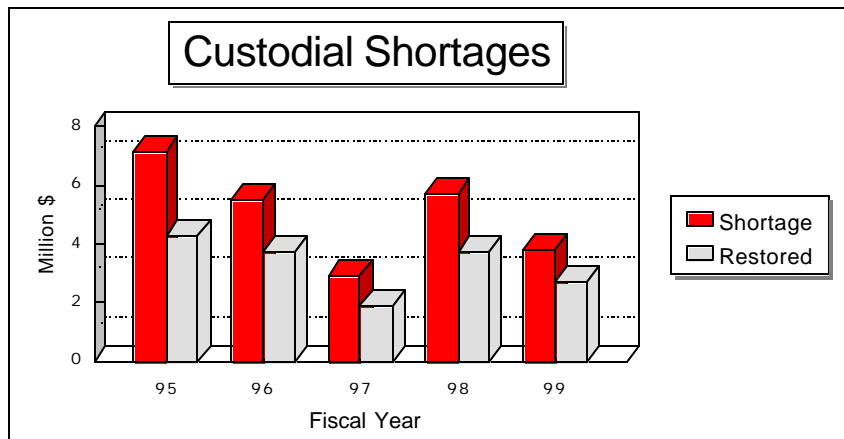
In February 1988, the P&S Act was amended to include a statutory trust provision similar to the packer trust giving payment protection to live poultry growers and sellers. Since the 1988 amendments, live poultry producers have been paid \$7.3 million under the statutory trust provisions.

The poultry trust payouts reflect claims for unpaid purchases of all types of poultry, including broilers, turkeys, and spent fowl. It primarily shows the failure of small regional firms that have ceased operations and failed to pay growers or poultry sellers. It does not accurately portray an economic trend for the industry as a whole but only reflects a sum of the failures of small marginal operations. The national firms are large, completely integrated operations that are relatively stable financially. Any changes that occur are the results of mergers or sales of the total operation and do not usually result in losses to poultry growers or sellers. In 1998 and 1999, no poultry trust complaints were received by GIPSA, and no trust payouts for prior pending cases were made.

### Custodial

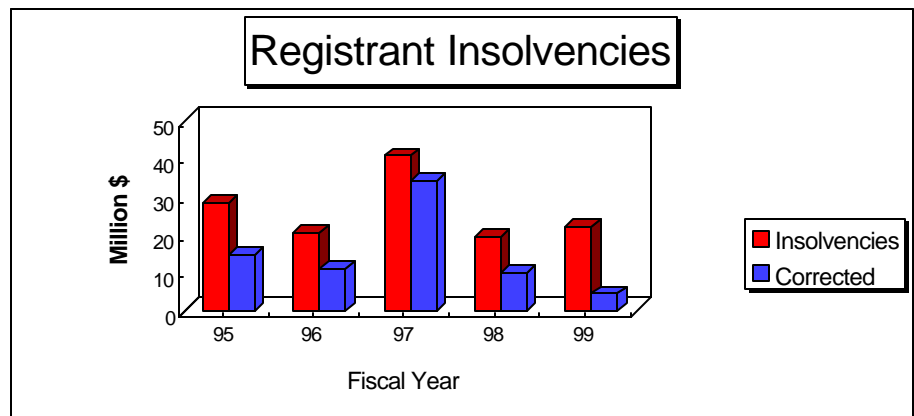
Payment protection for the sellers of livestock is an integral part of the P&S Act and extremely important to GIPSA. To ensure compliance with the financial and payment protection provisions of the Act, GIPSA routinely reviews financial reports and conducts payment practice audits and investigations.

Market agencies that sell livestock on a commission basis are required to establish and maintain a separate bank account for the benefit of livestock sellers called a Custodial Account for Shipper's Proceeds. GIPSA has an ongoing compliance surveillance program designed to regularly audit each of these accounts. During FY 1999, the compliance audits conducted on 233 custodial accounts disclosed that 69 markets had shortages totaling \$3.8 million in their accounts. The audit program resulted in restoring \$2.7 million for the benefit of livestock sellers.



### Solvency

Livestock dealers, market agencies, and packers are required to meet solvency requirements, a critical component of payment protection under the P&S Act. In the past 5 fiscal years, 1,276 dealers and market agencies found to be insolvent either corrected or reduced their insolvency, in the aggregate, over \$75.2 million as a result of GIPSA compliance activities. Of the 1,276 dealers and market agencies, 665 completely corrected their insolvency. During FY 1999, 169 insolvent dealers and market agencies corrected or reduced their insolvency by \$4.5 million. During FY 1999, insolvent packers corrected or reduced their insolvency by \$4.6 million.



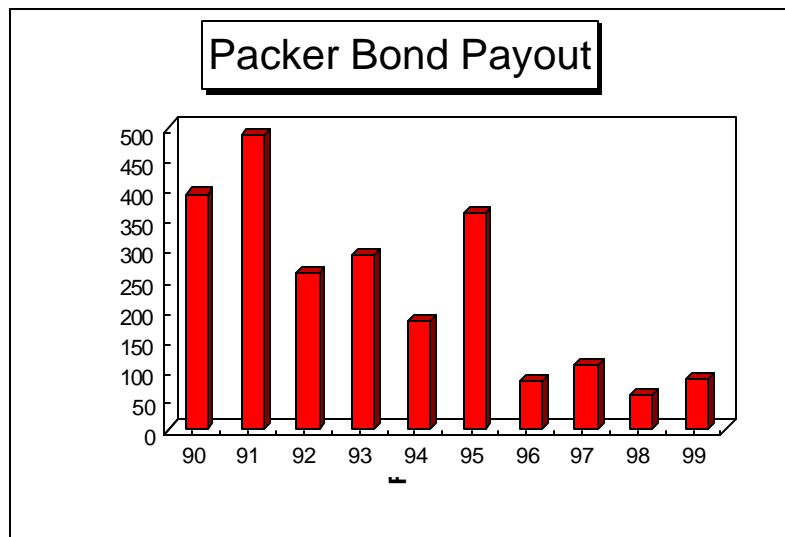
### Bonding

The P&S Act and regulations require that each market agency and dealer operating in commerce be registered. To comply, a firm must file an application simultaneously with a surety bond or its equivalent. The following table shows the number of registrants and value of their bonds for the past 3 fiscal years.

	<b>FY 99</b>	<b>FY 98</b>	<b>FY 97</b>
Posted Stockyards	1,287	1,298	1,333
Market Agencies/Dealers	6,434	6,391	6,904
Packer Buyers	2,045	1,988	2,133
Value of Bonds (millions)	\$250	\$249	\$244

In FY 1999, 269 claimants recovered \$.5 million out of \$4.4 million in claims filed during the fiscal year against bonds maintained by dealers and market agencies that failed financially. Claims totaling approximately \$.8 million are pending and are expected to be paid to claimants.

The 1976 amendment to the P&S Act made provisions for packer bonding as an additional means of payment protection to livestock sellers. All packers purchasing more than \$500,00 worth of livestock annually must be bonded to provide payment protection for unpaid livestock purchased not otherwise recovered through the packer trust. The percentage of bond payout to total bond value is consistently less than 1 percent.





## **Federal Grain Inspection Service**

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*Promoting and protecting the integrity  
of the domestic and global marketing of  
U.S. grain for the benefit of American agriculture.*

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



## **FY 1999 Highlights**

### **Administrative Claim**

During FY 1999, a Senior Judge, U.S. District Court for the District of Montana, ruled on the final two outstanding claims of two elevator operators in the wheat protein lawsuit filed by farmers and elevator operators from Montana, South Dakota, and North Dakota (Gollenhon Farming et al. V. United States). The suit alleged that the plaintiffs sustained damages in merchandising wheat between May 2, 1993, and January 24, 1994, due to USDA's alleged negligence in developing, adopting, and retaining skewed and miscalibrated technology for determining protein in wheat. In FY 1998, the judge dismissed all claims of the farmers in their entirety. In FY 1999, the judge dismissed the remaining claims of two elevator operators, which were brought under the Federal Tort Claims Act and were not resolved by a court order issued June 1998. Later in 1999, the plaintiffs in the case filed an appeal concerning whether the district court: (1) correctly dismissed plaintiffs' tort claims as barred by sovereign immunity; (2) properly denied plaintiffs' motion for class action; and (3) correctly dismissed plaintiffs' Little Tucker Act claim. In July 1999, the Department of Justice responded to the appeal asking that the appellant court affirm the decisions of the district court.

### **Customer Outreach**

GIPSA is committed to providing market-oriented inspection and weighing services. Last year, a nationwide program was initiated to encourage GIPSA field office managers, and State and private official agency managers to contact local industry groups and individual customers, identify local industry needs, and work to address these needs. Since initiating the outreach program, official agencies have seen a 4.26-percent increase in business--2,498 customers are now routinely receiving official services from these agencies. These customers include groups from all segments of the grain distribution system--from the farm gate to end users.

### **Deoxynivalenol**

During the 1998/1999 marketing year, barley producers voiced concerns about the analysis of deoxynivalenol (DON) and discounts based on this analysis. In response, GIPSA quickly initiated a multifaceted program. Hands-on training was provided to the technicians who perform official DON testing in North Dakota to ensure that official testing is consistent and accurate within the limits of the current technology. GIPSA representatives participated in several meetings with producers and industry to provide information on the DON testing technology used by GIPSA and sources of variability in test results.

The Agency also coordinated a comprehensive study on the effects of sample collection procedures and sample size on the accuracy of DON test results in barley in cooperation with the North Dakota Barley Council, North Dakota State University, and test kit manufacturers. The study found that increasing the sample size does not appear to significantly decrease sampling variability and recommended continued use of the sample size required by GIPSA directive, which is a minimum of 200 grams and preferably larger. Sample selection methods were not found to generally cause greater variability among DON measurements; however, good sampling practices provide representative samples, regardless of the uniformity of the lot and the constituent being measured.

Overall, no single source of variation was identified that would significantly reduce variability of DON measurements easily and cost-effectively. The observed variability could be generally attributed to the general state of the limited DON testing technology which is continually being improved. The market demands for highly repeatable results may not be achievable with the current technology. As with any measurement system, adherence to correct and consistent operating procedures will likely decrease the variability of a system. To minimize variability in DON testing, GIPSA implemented a comprehensive training program for official inspection personnel, and offers the same training to the commercial market.

#### **Technical Services Division Restructured**

GIPSA's Technical Services Division (TSD), the hub of the Agency's grain-related research and development activities, was restructured to better utilize resources, improve decision-making, and prepare the organization to meet future customer needs. The changes were made based on a review of past performance as well as strategies for meeting future internal and external customer needs. At TSD, all near-infrared transmittance programs were consolidated into one unit, as were nuclear magnetic resonance oil testing programs, mycotoxin programs, and Falling Number determinations. All computer-related positions were consolidated into a single group, and staff resources were dedicated to coordinating and improving official and commercial technical training, marketing of standardization services, and customer education.



## Harnessing Technology

### Automation Initiatives

Over the past several years, GIPSA has been pursuing initiatives to automate inspection and weighing operations and to enhance information management systems and capabilities. These initiatives, outlined below, are improving the quality and delivery of our service, enhancing exporters' efficiency, and lowering costs for the Agency and our customers.

**Cu-Sum Plan.** Export facilities are installing and utilizing computer technologies to control grain handling activities within the elevator. Further, export grain companies rely on electronic transfer of information and data to monitor grain quality and to facilitate their inventory control. GIPSA identified a need to integrate our export inspection process with the export industry's technological advances. For this reason, GIPSA is automating the export inspection statistical shiploading plan, also known as Cu-Sum Plan.

The system, which is still being developed, has been installed at nine export elevators in the New Orleans Field Office circuit. GIPSA plans to install similar equipment at the export facilities in League City Field Office and the Portland Field Office circuit during the first quarter of FY 2000.

Implementing the automated Cu-Sum system benefits both our export grain customers and GIPSA. Our customers will receive information regarding the quality of sublots loaded through direct data sharing. This information can be merged into the local grain company's database and/or transferred to their off-site database at a main office. Consequently, the grain elevator will not have to manually enter grain quality and ship loading information into their database. This will improve their efficiency and reduce their administrative costs. GIPSA will eliminate hand-written inspection logs and improve the efficiency and accuracy of certificated results. The automated Cu-Sum system will also provide GIPSA the basis for further automating the Export Grain Information System because data could be downloaded into the database instead of the current manual entry process.

**Laboratory Management Information Systems.** In FY 1999, GIPSA implemented a Laboratory Information Management System (LIMS) to collect and manage objective data generated by GIPSA's Technical Center for instrument calibrations and to support monitoring of instrument performance throughout the official inspection system. The LIMS provides capabilities for integrating data from various groups within GIPSA and replaces a system that was not Y2K compliant. In FY 2000, GIPSA will further refine the LIMS and expand the system to make the commodity testing program system fully operational.

**Official Agency Network.** GIPSA established an electronic Official Agency (OA) telecommunication network that links all of the Federal, State,

and private partners that comprise the official grain inspection and weighing system. The network will enhance communication within the official grain inspection and weighing system by allowing electronic mail, bulletin board functions, and bi-weekly data sharing between the official agencies and GIPSA through the Internet. Official agencies are required to use a local service provider to allow them to access a GIPSA-provided Intranet or FTP file server for the e-mail, bulletin board, and file transfer functions. The FTP file service is functional and is used on a daily basis. The FTP file service is implemented, and official agencies are currently accessing the FGIS mail system. The e-mail system was set up to allow mail to and from the official agencies to reside on the same FGIS file server, thus guaranteeing instant delivery.

**National Quality Database (NQDB) Pilot.** GIPSA has successfully completed a pilot with representatives of the official agencies to electronically obtain bi-weekly official sample lot and submitted sample lot certificate data using the Internet. This data will be combined with GIPSA's data to provide a comprehensive database that will serve as a basis for such functions as countrywide dynamic trend analysis of particular grains and maintaining and improving statistical baseline ratios used in other GIPSA statistical applications. The NQDB will improve the official inspection system's ability to maintain the accuracy and consistency of results between markets by enabling the matching and comparison of origin and destination inspection results across offices, agencies, and marketing areas. Supervising field offices will use statistical algorithms to review far less but more challenging samples from the official agencies which will allow faster responses to potential problems.

The foundation of the data transfer is in a standard formatted file (described in FGIS Directive 9290.16, promulgated in March 1997). At the present time, over 50 percent of official agencies are sending in data. The thrust of the project now is to make sure the data is correct and accurate. GIPSA hopes to have all official agencies sending in data by the beginning of 2000.

**Automated Grain Weighing and Material Handling Systems.** GIPSA continues to work closely with export elevators that are automating their scales and material systems to official requirements. Upon approval, and after a 6-month test, these elevators can reduce official oversight personnel, which produces a considerable cost savings. Five export elevators have been approved, two elevators are in process of completing their 6-month test, three elevators have completed installation and are being tested, and one elevator is under installation. These automated systems provide superior supervision and greatly improved efficiency.

**Grain Inspection Automation at Export Elevator.** GIPSA, working with the North American Export Grain Association (NAEGA), has charged a team of automation and grain inspection experts with the task of developing an automated grain inspection system for use at export elevators. When completed and approved, the system will provide export elevators with constantly updated grain inspection information five times faster than present manual methods. Automated systems may reduce costs to the industry and enhance GIPSA's efficiency. A prototype system is being installed at an export elevator in Destrehan, Louisiana.

### **Computer Imaging**

Computer imaging shows great potential for enhancing the accuracy, consistency, and objectivity of grain inspection and grading. In FY 1999, GIPSA conducted a pilot program with the State of California to use the method for certifying the percentage of broken kernels in milled rice. That study proved highly successful. GIPSA extended the study by placing a second instrument in Arkansas to verify accuracy for rice grown in the southern region. GIPSA also collaborated with the Agricultural Research Service in developing preliminary calibrations for measuring the vitreousness of Hard Red Spring wheat. In FY 2000, GIPSA will continue to refine and test the method for measuring broken kernels with the intent of approving it for general use in official inspection. GIPSA will work closely with the Agricultural Research Service to refine and test the method for wheat vitreousness and other inspection parameters.

### **Mycotoxin Methods Development**

In FY 1999, GIPSA approved two new deoxynivalenol (DON) test kits for use in the official grain inspection and weighing system. Approvals of these test kits expand the availability and choice of test kits for the official system. In FY 1999, GIPSA approved a new instrument for use in conjunction with an approved mycotoxin test kit. This new flourimeter provides the official system alternative equipment at approximately half the cost of the original equipment.

In FY 1999, GIPSA developed a reference method for fumonisins in grain. This method reduces direct costs and improves efficiency through utilization of robotics technology. The reference method will be used to evaluate the performance of rapid fumonisin tests submitted to GIPSA for approval and use in the official system. In FY 1999, GIPSA announced its intent to evaluate and approve rapid tests for fumonisins; in FY 2000, GIPSA will evaluate the performance of one or more of these rapid tests.

**Pesticide Residue Methods Development and Testing**

In FY 1999, GIPSA continued to participate in the USDA Pesticide Data Program (PDP), completing analyses of 190 soybean samples collected in FY 1998. In FY 1999, GIPSA validated a method to analyze oat samples for pesticide residues; in FY 2000, GIPSA will validate a method to analyze peanut butter samples for pesticide residues and will begin analyzing oat and peanut butter samples for pesticide residues.

The PDP is working to determine the use and ultimate residue of pesticides on American crops. PDP is a Federal-State partnership with 10 participating States using uniform procedures to collect and test many different types of processed fruits, vegetables, grain, and milk. GIPSA administers the grain testing portion of the program.

**Pulsed NMR for Sunflower Oil Measurements**

In FY 1999, GIPSA developed specifications for, evaluated, and approved three models of Pulsed Nuclear Magnetic Resonance (P-NMR) instruments for official determination of oil content in sunflower seeds. Approving these instrument types provides official inspection agencies with options for replacing the obsolete Continuous Wave NMR (CW-NMR) instruments currently in use. Preliminary technical tests indicate that the P-NMR instruments will improve the accuracy and repeatability of official sunflower oil measurements. In FY 2000, GIPSA will investigate ways of simplifying sunflower seed oil measurements using the P-NMR instruments' advanced capabilities. The P-NMR instruments are designed to measure oil content in many types of oilseeds. GIPSA will explore opportunities for using the P-NMR instruments for official oil determinations in grain types besides sunflower.

Traditionally, sunflowers grown for oil have been high-linoleic (polyunsaturated) varieties. NuSun is the name that has been given to the mid-range oleic (mono-unsaturated) sunflower oil now being produced for the domestic vegetable oil market. Oil from NuSun varieties is lower in saturated fat content and more acceptable than high-linoleic oil for deep-fat frying operations. Eventually, the majority of oil sunflower acreage is expected to shift from high-linoleic to mid-oleic varieties. GIPSA will continue to work with the National Sunflower Association (NSA) to make needed short- and long-term adjustments to the current high-linoleic-based NMR calibration to ensure the instruments accurately predict the oil content of NuSun (midoleic) varieties. Implementation of the P-NMR will further enhance GIPSA's ability to make efficient calibration adjustments between high-linoleic and mid-oleic oil sunflowers. GIPSA will continue to collaborate with the NSA to ensure that accurate sunflower seed oil calibrations are available to facilitate the marketing of traditional and emerging sunflower seed varieties.

**Wheat Dockage**

GIPSA has worked with the Agricultural Research Service (ARS) and the Kansas State University (KSU) since fiscal year 1996 to develop a new wheat dockage procedure that could be applied uniformly regardless of the types of dockage present. In FY 2000, GIPSA plans to further evaluate procedures suggested by KSU researchers to determine if results from the KSU proposed Uniform Dockage Procedure are significantly different than those obtained from current official procedures.

Especially important is a comparison of the proposed Uniform Dockage Procedure to the special dockage procedure required when action levels of the following special dockage materials are present: chess or similar seeds; buckwheat or similar seeds; cobjoint or chaff, and flaxseed, canola, or rapeseed. A uniform procedure may improve the consistency of results, which may, in turn, reduce the marketing risk to buyer and seller, thereby promoting fairness and increased efficiency in the market.

### **Wheat Protein Quality**

Wheat protein quality is of high interest to the millers and bakers. In FY 1999, GIPSA and ARS coordinated a meeting at which industry representatives indicated they would like a rapid measure of protein quality to replace more extensive and time consuming analysis methods. In FY 2000, GIPSA will collaborate with researchers from academia and the Agricultural Research Service to work toward a definition of wheat protein quality and to develop practical, rapid methods for assessing wheat protein quality in marketing channels. GIPSA is exploring the use of NIRT technology to determine if this is a feasible alternative. Developing a rapid wheat protein quality test will enable the wheat market to identify the potential performance of wheat and may result in premiums paid for higher quality wheat. Industry does this now by offering premium pay for specific wheat varieties recognized as good performance wheats.

## Promoting Standardization

### **ISO 9002 Certification**

The ISO organization is comprised of the national standards institutes and organizations of 97 countries worldwide, including the American National Standards Institute (ANSI). The ISO standards have been endorsed by the American Society of Quality, the European Standards Institute, and the Japanese Industrial Standards Committee, and are becoming the *de facto* standard across industries throughout the world. In FY 1998, GIPSA successfully met ISO 9002 standards and received certification for its moisture and protein reference laboratories. In FY 1999, ISO Certification of these laboratories was continued and work began to prepare other laboratory operations to meet ISO 9002 standards. In FY 2000, GIPSA plans to obtain ISO 9002 certification for the oil reference laboratory and the pesticide laboratory.

### **New Official Moisture Meter**

In FY 1999, GIPSA continued implementation of its new official moisture meter by developing and implementing official calibrations for wheat, rough rice (except Short Grain), sorghum, barley, oats, canola, rapeseed, rye, high-oil corn, and four types of edible beans. In addition, GIPSA developed improved calibration methods and a rapid grain conditioning procedure for improving moisture measurement accuracy at temperature extremes. In FY 2000, GIPSA will continue the implementation process by developing calibrations for several additional grain types.

### **NIRT Calibration Updates**

In FY 1999, GIPSA implemented an improved Hard Red Spring wheat protein calibration for official near-infrared transmittance (NIRT) instruments. GIPSA routinely monitors the performance of its NIRT calibrations and periodically updates them to maintain the “robustness” of the calibration and to ensure reliable official determinations. Calibrations are designed to achieve optimum agreement between the NIRT instrument results and GIPSA’s standard chemical reference methods. In FY 2000, GIPSA plans to implement an updated corn calibration.

### **NIRT Standardization**

In FY 1999, GIPSA cooperated with groups from Canada, Australia, and several countries in Europe to develop and test a “global” Near Infrared Transmission (NIRT) calibration for wheat protein testing. The calibration, based on tests of about 30,000 separate samples of wheat, uses artificial neural network technology to achieve excellent accuracy for very diverse wheat types. The tests also demonstrated very good agreement among the wheat protein chemical reference methods used by the participating countries. In FY 2000, GIPSA will continue to work with these groups to refine and test such global calibrations for possible implementation in the official inspection system.

### **Standardizing Commercial Grain Inspection Equipment**

In FY 1999, GIPSA continued to participate in the cooperative effort among GIPSA, the National Institute for Standards and Technology (NIST), and the National Conference on Weights and Measures (NCWM) to standardize commercial grain inspection equipment. GIPSA serves as the

sole evaluation laboratory for grain inspection equipment under NCWM's National Type Evaluation Program (NTEP). The data GIPSA collected during fiscal years 1995, 1996, 1997, and 1998 were used as the basis for numerous improvements in calibrations for commercial grain moisture meters. GIPSA evaluated and recommended NTEP certification of engineering enhancements for two commercial moisture meter models and conducted testing to extend the allowed operating temperature range for another model.

In FY 2000, GIPSA plans to conduct evaluations for at least two new or revised grain moisture meter models and offer NTEP evaluation services for near infrared spectroscopy instruments for constituents other than moisture. GIPSA will continue to provide technical support to NCWM as specifications and tolerances for commercial test weight apparatuses are developed.

**U.S. Standards for Oats**

GIPSA prepared a proposal to revise the definition of oats in the standards to include hullless oats. This change will benefit the oat industry, and especially the segment involved in hullless oat production and/or processing. GIPSA plans to publish this proposal in FY 2000.

**U.S. Standards for Sorghum**

GIPSA initiated a review to determine if the United States Standards for Sorghum are current with respect to sorghum classification, definition of broken kernels and foreign material, and the definition of damaged kernels, and to evaluate the need for change. During a 60-day comment period, GIPSA received several comments proposing to simplify the sorghum classification system and to establish specification for food grade sorghum. Based on these suggestions and other information, GIPSA is preparing a proposal for comments to amend the sorghum standards.

**U.S. Standards for Wheat**

**Garlic.** To gather needed data about the potential economic impact of a GIPSA proposal to eliminate the differentiation between dry, partly dry, and green bulblets (as well as elimination of the current 3:1 ratio), the Agency conducted an in-depth field study during FY 1999 to compare current and proposed procedures. Samples were collected at first point-of-sale facilities, upon load-out onto barges or railcars, and at export terminals. This analysis will help determine the potential economic impact, if any, of changing the current garlic procedures. Publication of a proposed rule in the *Federal Register* will remain pending completion of this analysis.

**Hard White Wheat.** In FY 1999, GIPSA worked with the grain industry to set a new color line to facilitate the development of a new and promising U.S. wheat market. To facilitate the marketing of wheat varieties that are not visually distinguishable from other types of wheats, GIPSA established a minimum color line for Hard White wheat (HDWH) to give breeders a "target" color. The new color line was adopted effective May 1, 1999.

### **International Outreach**

In FY 1999, GIPSA responded to customers' needs for technical assistance overseas. Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA cooperator organizations, and other governments, frequently ask for GIPSA personnel to travel overseas. 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 saw a dramatic increase in the number of 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's International Monitoring Staff. The 1995 amendment to the U.S. Grain Standards Act extended to GIPSA the authority to charge and be reimbursed for travel, salary, and related expenses when a customer requests consultative expertise. During fiscal year 1999, GIPSA helped other USDA agencies and USDA cooperators conduct destination sampling, provide technical assistance, give grain inspection seminars overseas, lead a U.S. delegation to review several receiver's grain scale operations, and investigate quality discrepancies, on a cost recovery basis. The authority to recover costs for providing consultative services has enhanced the Agency's ability to facilitate marketing of U.S. grains, oilseeds, and related commodities.



**Summary of Activities  
Involving International  
Travel in Fiscal Year 1999**

<b>Purpose</b>	<b>No. of Travelers</b>	<b>Country Visited</b>	<b>Dates of Visit</b>
1. To provide inspection and weighing services at the FGIS field office.	1	Canada	10/7-10/22/98
2. To attend the sixth Annual NAEGA-APPAMEX Trade Forum.	1	Mexico	10/22-10/25/98
3. To participate in a U.S. Grains Council/Chicago Board of Trade Grains and Futures Markets Seminar.	1	Peru	10/25-10/20/98
4. To provide inspection and weighing services at the FGIS field office.	1	Canada	10/26-11/06/98
5. To provide inspection and weighing services at the FGIS field office.	1	Canada	11/10-12/04/98
6. To provide inspection and weighing services at the FGIS field office.	1	Canada	12/07-12/24/98
7. To participate in a U.S. Grains Council/Chicago Board of Trade Grains and Futures Markets Seminar.	1	Dominican Republic	01/26-01/31/99
8. To witness the arrival and partial discharge of a Section 416(b) wheat donation under the President's initiative.	1	Indonesia	02/05-02/18/99
9. To supervise the loading of U.S. grain at a Canadian transfer elevator.	1	Canada	02/11-02/18/99
10. To represent GIPSA on an interagency delegation to continue negotiations with China on World Trade Organization access issues.	1	People's Republic of China	03/21-03/27/99
11. To participate in a grain grading and inspection workshop at the request of U.S. Wheat Associates.	1	Venezuela	04/10-04/15/99
12. To participate in a trade seminar at the request of USA Rice Federation.	1	Peru, Guatemala	04/19-04/24/99
<i>Continued</i>			

<b>Purpose</b>	<b>No. of Travelers</b>	<b>Country Visited</b>	<b>Dates of Visit</b>
13. To conduct a series of 1-day grain grading and inspection seminars at the request of U.S. Wheat Associates.	1	Kenya, Tanzania, Jordan, Egypt	04/13-04/26/99
14. To perform equipment checktesting at the FGIS field office.	1	Canada	05/11-05/28/99
15. To sample a shipment of damaged corn at the request of the Farm Service Agency.	1	Guatemala	05/12-05/26/99
16. To attend the National Type evaluation laboratory meeting.	1	Canada	05/15-05/20/99
17. To investigate a corn quality discrepancy at the request of the Foreign Agricultural Service.	1	Peru	05/17-05/20/99
18. To train local inspectors in grading soybeans at the request of the American Soybean Association.	1	Egypt	06/03-06/12/99
19. To participate in the Ninth International Conference on Near-Infrared Spectroscopy (NIRS).	1	Italy	06/10-06/19/99
20. To witness the discharge and assess the damage to a PL-480 Title III bagged rice shipment contaminated with grease at the request of the Farm Service Agency.	1	North Korea	06/18-07/02/98
21. To meet with Canadian Grain commission officials to discuss grain inspection issues.	4	Canada	06/23-06/25/99
22. To obtain samples from a shipment of calcium fortified corn soy blend for analysis under a field testing program at the request of the Commodity Credit Corporation.	1	India	06/25-07/11/99
23. To participate in the U.S. Wheat Associates South Asian Buyers Conference.	2	Singapore	06/25-07/01/99
24. To meet with millers to discuss wheat quality concerns at the request of U.S. Wheat Associates.	1	Sri Lanka	07/01-07/05/99
<i>Continued</i>			

<b>Purpose</b>	<b>No. of Travelers</b>	<b>Country Visited</b>	<b>Dates of Visit</b>
25. To monitor a shipment of vegetable oil from unloading to production to distribution, and to discuss quality concerns, at the request of Best Foods, Inc.	1	Saudi Arabia, Kuwait	07/02-07/13/99
26. To participate in the 1999 American Society of Agricultural Engineers/Canadian Society of Agricultural Engineers (ASAE/CSAE) Annual International Meeting.	2	Canada	07/18-07/21/99
27. To give a presentation on corn and sorghum standards to importers at the request of U.S. Grains Council.	1	Venezuela	07/20-07/23/99
28. To monitor the discharge of a shipment of U.S. wheat and to meet with the receiver to discuss their quality concerns at the request of Garnac Grain Co., Inc.	1	Bangladesh	07/20-08/19/99
29. To monitor the discharge of a shipment of U.S. wheat and meet with government officials to dispel their quality concerns.	1	Republic of Georgia	08/10-08/21/99
30. To participate in rice seminars at the request of USA Rice Federation.	2	El Salvador, Honduras, Guatemala	08/22-08/29/99
31. To participate in rice seminars at the request of USA Rice Federation.	2	Nicaragua, Panama, Costa Rica	09/06-09/11/99
32. To participate in phase I of a joint U.S./PAFMIL study of PAFMIL's grain weighing system.	2	Philippines	09/10-09/26/99
<i>Continued</i>			

<b>Purpose</b>	<b>No. of Travelers</b>	<b>Country Visited</b>	<b>Dates of Visit</b>
33. To meet with Syrian government officials to discuss their quality concerns at the request of the Foreign Agricultural Service, and to conduct follow-up training of local inspectors in Egypt at the request of the American Soybean Association.	1	Syria, Egypt	09/17-09/26/99
34. To participate in bilateral discussions with South African officials on grain trade issues, as part of the Market Access and Regulatory Programs Working Group of the U.S./South Africa Binational Commission.	1	South Africa	09/18-09/25/99
35. To participate in a 1-day rice seminar at the request of Dainty Foods.	1	Canada	09/21-09/21/99
36. To provide export services on a cargo of U.S. wheat being loaded in Canada.	3	Canada	09/22-09/28/99

**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, the 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. Feed 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, MO. 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. Presentations include explanations of the various services available from GIPSA, the Agency's use of the latest technology to provide grain traders with accurate and reliable inspection and weighing information, and, for importers or potential importers new to the U.S. grain market, information on contracting for the quality they desire.

These briefings foster a better understanding of the U.S. grain marketing system and the official U.S. grain standards and the national inspection system, and enhance purchasers' confidence in U.S. grain. In FY 1999, GIPSA representatives met with 89 teams from 50 countries, as shown below. Some countries were represented on several different teams.

**Summary of Briefings with  
Visiting Trade and  
Governmental Teams in  
Fiscal Year 1999**

Albania	Macedonia
Algeria	Madagascar
Australia	Mexico
Bangladesh	Morocco
Brazil	New Zealand
Bulgaria	Nigeria
China	Panama
Colombia	Peru
Costa Rica	Philippines
Croatia	Poland
Cyprus	Senegal
Czech Republic	Singapore
Ecuador	Slovenia
Egypt	Slovakia
El Salvador	South Africa
Ethiopia	South Korea
Germany	Switzerland
Greece	Taiwan
Guatemala	Tanzania
Honduras	Thailand
Hungary	Turkey
India	Ukraine
Israel	Uzbekistan
Japan	Venezuela
Jordan	Yemen

## **Providing Official Inspection and Weighing Services**

### **Biotechnology**

GIPSA is involved in many efforts to assess developments in genetically modified organisms (GMO's) and to anticipate their impact on future grain quality testing and assurance needs of the U.S. grain industry. To this end, GIPSA remains abreast of current with international quality concerns and disputes; maintains strong ties with industry participants and official testing agencies; and develops and tests new analytical methods and procedures, many of which involve GMO-modified crops. GIPSA also is a member of the USDA Biotechnology Coordinating Committee, an internal USDA forum to support intensive and regular dialogue about the array of issues related to the expanding use of biotechnology for agriculture.

In FY 1999, to address the immediate concerns of international importers of U.S. grain, GIPSA issued a letterhead statement that no transgenic (GMO) varieties of wheat or barley are available in U.S. commerce at this time. The statement reads, simply: "There are no transgenic (wheat or barley) varieties for sale or in commercial production in the United States at this time." Any applicant for official services can request that GIPSA issue the statement. Should transgenic wheat or barley varieties be released for commercial production in the future, GIPSA will discontinue providing this service.

In FY 2000, GIPSA will develop a reference facility to provide standardization with respect to sampling, reference methodologies, and rapid tests for bio-engineered grains. These services will help standardize the testing of bio-engineered grains throughout the commercial market and help ensure that all entities involved in the marketing of U.S. grain, from producer to end user, can obtain uniform information on these products. Through these efforts, GIPSA is fulfilling its mission of facilitating the marketing of grain through cost-effective and accurate testing and identification of grain quality.

### **Railroad Track Scale Testing Program**

GIPSA's railroad track scale testing program, which was implemented in 1978 as part of the USGSA-mandated equipment testing requirements, continues to grow. We continue to receive numerous requests for service, and meet those needs as completely as possible with the limited amount of Agency-owned testing equipment. While GIPSA's priority is testing grain industry railroad track scales, the Agency also provides service to the Association of American Railroads, (AAR), the National Institute of Standards and Technology (NIST), and railroad companies on a time available/cost recovery basis. The testing program now has five test cars and is considering the addition of two more.

**Review Inspections**

In FY 1999, GIPSA drafted rulemaking that proposes to revise the regulations under the U. S. Grain Standards Act to allow interested persons to stipulate the quality factor(s) that would be redetermined during a reinspection or appeal inspection for grade. Currently, reinspections and appeal inspections for grade must include a review of all official factors that: (1) may determine the grade; (2) are reported on the original certificate, or (3) are required to be shown. GIPSA has determined that mandating that all quality factors be reexamined during a review inspection is inefficient, time consuming, and costly. Further, such a complete review of the preceding inspection service is usually not needed to confirm the true quality of the grain. This proposed action will allow interested parties to specify which official factor(s) should be redetermined during the reinspection or appeal inspection service. However, to safeguard against inadvertent misgrading, official personnel may determine other factors, when deemed necessary.

**Year 2000 Outreach**

GIPSA held numerous Year 2000 (Y2K) outreach discussions with key industry groups last year. GIPSA, which has been addressing its own Year 2000 status for some time, is committed to helping American agriculture successfully achieve Year 2000 readiness. To this end, GIPSA felt it was imperative to initiate discussions with key industry groups to share what the Department and GIPSA have learned about this issue.

**Inspection Program Data**  
**Fiscal Years 1997-99**

Item	Fiscal Years		
	1997	1998	1999
Quantity of Grain Produced <sup>1</sup> (Mmt) <sup>2</sup>	399.6	408.6	424.7
Quantity of Grain Officially Inspected (Mmt)			
Domestic	124.0	121.6	127.4
Export by GIPSA	73.7	71.4	85.2
by Delegated States/Official Agencies	<u>27.5</u>	<u>21.4</u>	<u>16.1</u>
Total	225.2	214.4	228.7
Delegated States/Official Agencies			
Delegated and Designated States	8	8	8
Designated States	8	7	7
Private Agencies	<u>49</u>	<u>47</u>	<u>44</u>
Total	65	62	59
State AMA Agreements	15	14	15
Number of Official Original Inspections and Reinspections			
GIPSA	125,292	122,325	126,753
Delegated States/Official Agencies	<u>1,935,050</u>	<u>1,830,992</u>	<u>1,852,031</u>
Total	2,060,342	1,953,317	1,978,784
<i>(continued)</i>			

<sup>1</sup> Source: USDA Crop Production Reports.

<sup>2</sup> Million metric tons.



Item	Fiscal Years		
	1997	1998	1999
Number of Grain Inspection Appeals			
Field Offices	3,140	3,443	3,103
Board of Appeals and Review	683	351	373
Number of Commercial Inspections			
GIPSA	545	1,474	1,896
Delegated States/Official Agencies	<u>322,953</u>	<u>383,181</u>	<u>454,431</u>
Total	323,498	381,620	456,327
Number of Wheat Protein Inspections			
GIPSA	35,218	38,210	43,642
Delegated States/Official Agencies	<u>415,661</u>	<u>436,202</u>	<u>460,661</u>
Total	450,879	474,412	504,303
Number of Soybean Protein and Oil Inspections			
GIPSA	16,379	15,855	16,880
Delegated States/Official Agencies	<u>4,157</u>	<u>5,424</u>	<u>5,723</u>
Total	20,536	21,279	22,603
Number of Aflatoxin Inspections	62,582	54,923	62,875
Number of Vomitoxin Inspections	21,109	16,549	23,668
Quantity of Rice Inspected (Mmt) (milled basis)	3.5	3.9	4.0

**Weighing Program Data**  
**Fiscal Years 1997-99**

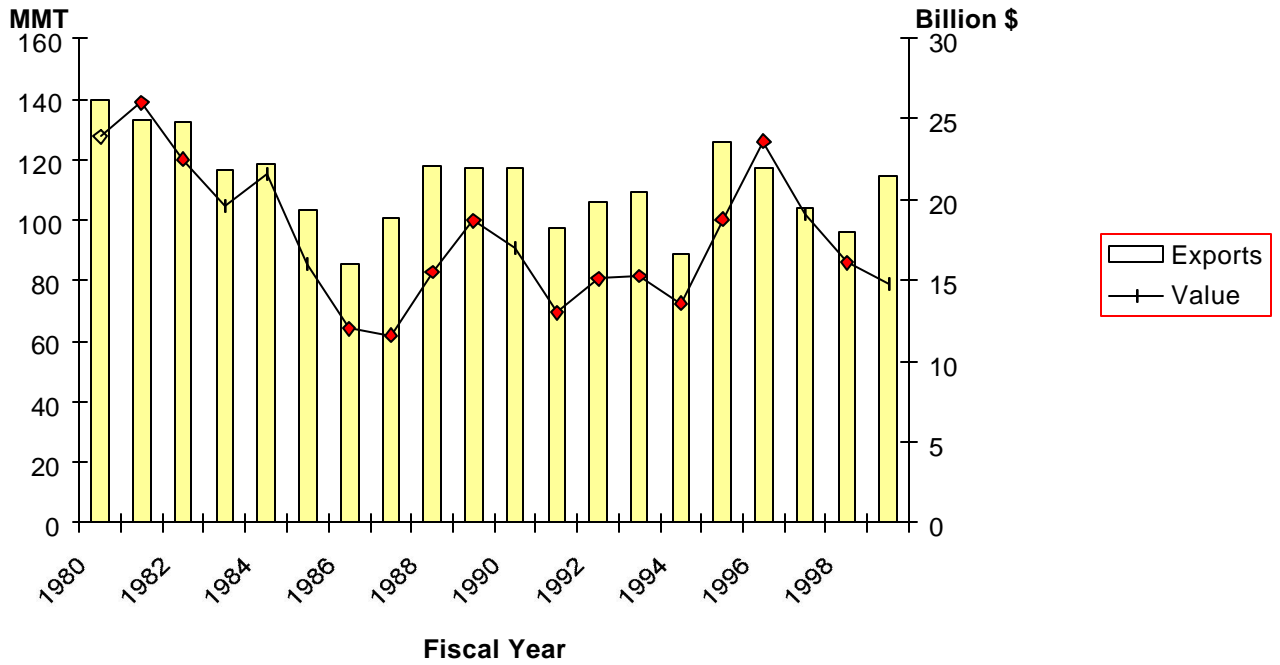
Item	Fiscal Years		
	1997	1998	1999
Official Weight Certificates Issued			
GIPSA			
Class X <sup>1</sup>	76,454	70,741	79,967
Class Y <sup>2</sup>	<u>11,978</u>	<u>8,412</u>	<u>10,612</u>
Total	88,432	79,153	90,579
Delegated States/Official Agencies			
Class X <sup>1</sup>	21,777	17,480	28,054
Class Y <sup>2</sup>	<u>144,498</u>	<u>116,052</u>	<u>116,130</u>
Total	166,275	133,532	144,184
Exported Grain Weighed (Mmt)			
GIPSA	73.8	71.4	85.2
Delegated States	<u>23.7</u>	<u>17.4</u>	<u>21.3</u>
Total	97.5	89.8	106.5
Number of Certified Scales in Service			
Export Elevators	253	256	258
Number of Railroad Track Scales Tested	136	155	204

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<sup>1</sup> Class X weighing involves 100 percent supervision.

<sup>2</sup> Class Y weighing involves a minimum of 25 percent supervision.

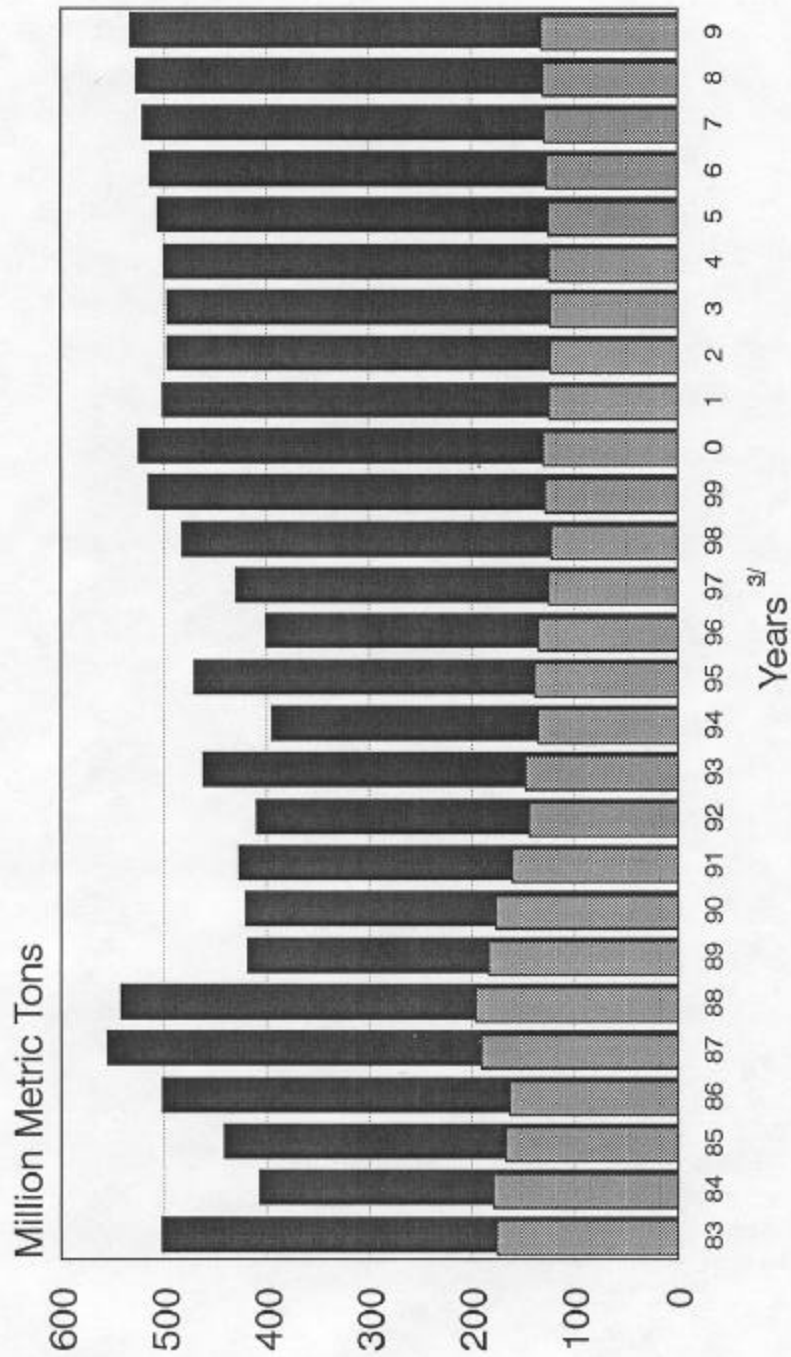
## U.S. Grain, Oilseed, and Rice Exports: Volume and Value



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

# U.S. DOMESTIC GRAIN INSPECTIONS

Officially Inspected <sup>1/</sup>
 U.S. Grain Supply <sup>2/</sup>



Source:

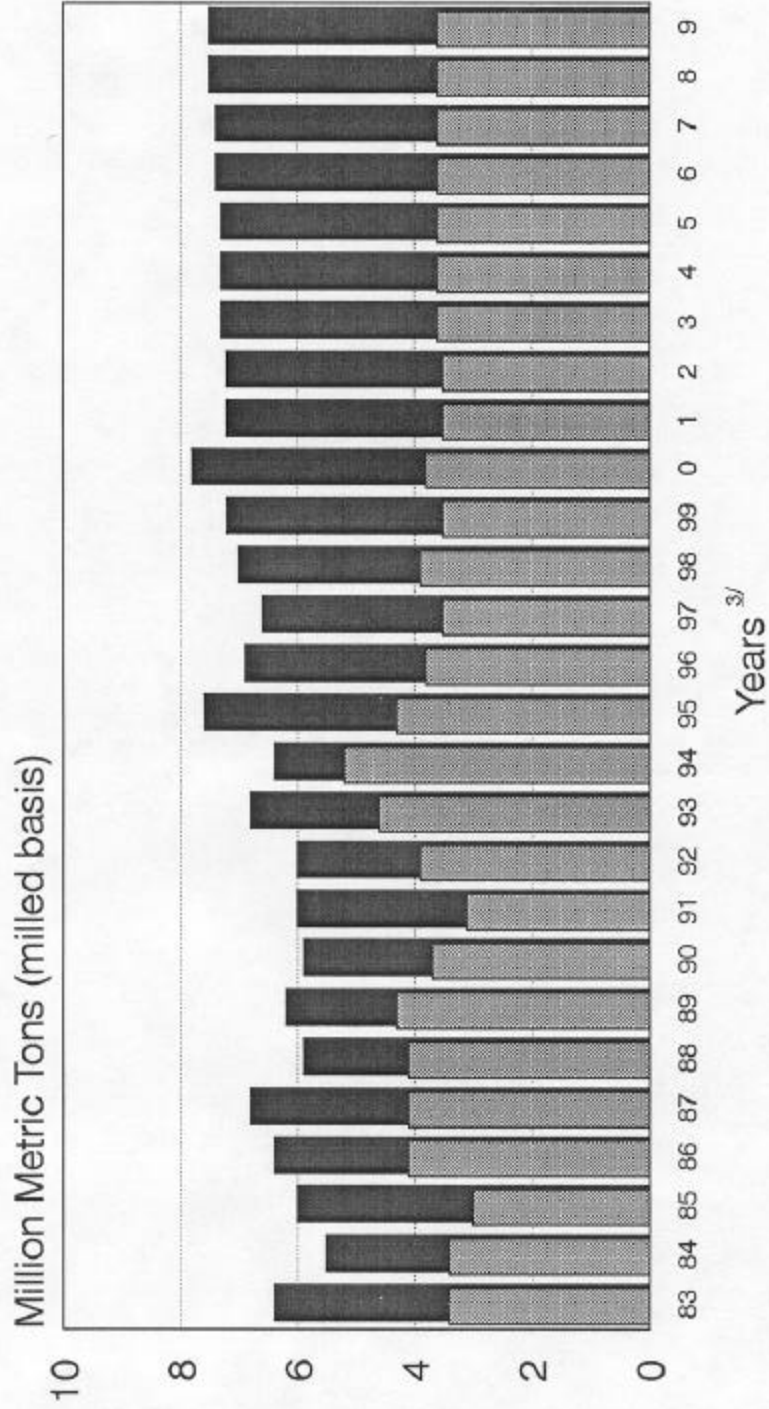
1/ FGIS, GIWIS for 1983 - 99 and 1999 inspection rate (24.7%) applied to estimated supplies for 2000 - 2009.

2/ USDA, ERS market year figures for 1983 - 97, WASDE (Oct. 8, 1999) for 1998 - 2000, and WAOB baseline projections for 2001 - 2009.

3/ Domestic inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

# U.S. RICE INSPECTIONS

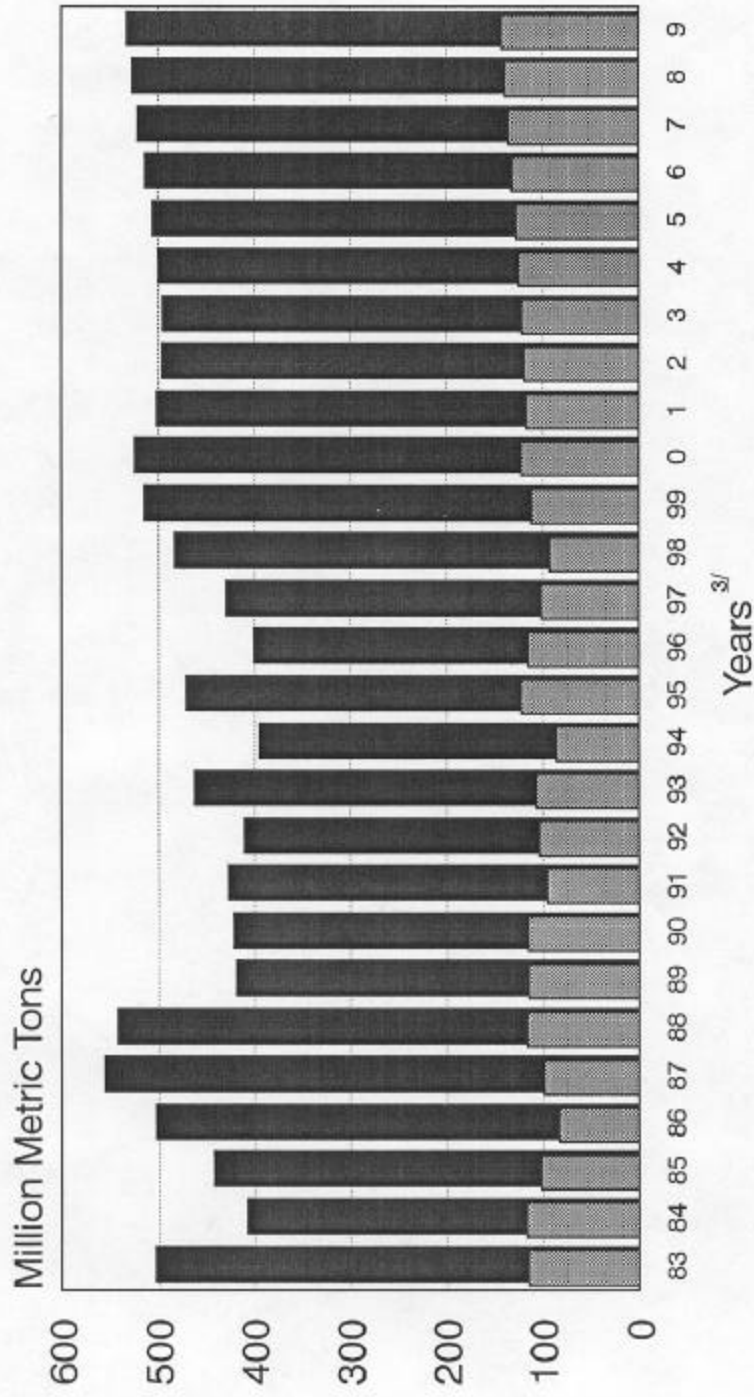
Officially Inspected <sup>1/</sup>
 U.S. Rice Supply <sup>2/</sup>



Source:  
 1/ FGIS, AMA Output Reports for 1983 - 99 and 1999 inspection rate (48.6%) applied to estimated supplies for 2000-2009.  
 2/ USDA, ERS market year figures for 1993 - 97, WASDE (Oct. 9, 1999) for 1998 - 2000, and WAOB baseline projections for 2001 - 2009.  
 3/ Inspections are reported by fiscal years and U.S. rice supplies are by marketing years.

# U.S. EXPORT GRAIN INSPECTIONS

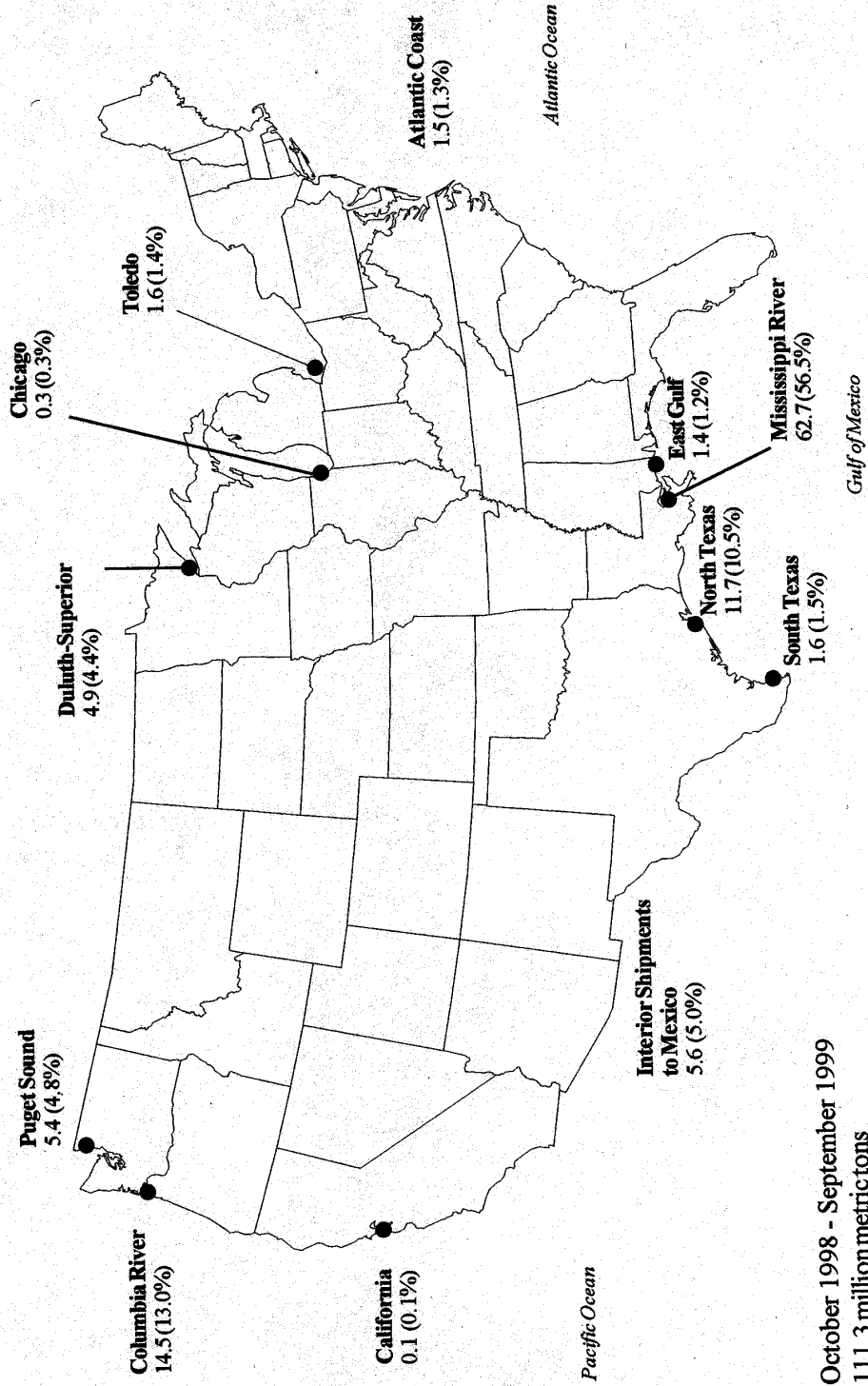
■ Export Inspections <sup>1/</sup> ■ U.S. Grain Supply <sup>2/</sup>



Source:  
 1/ FGIS, EGIS for 1983 - 99; USDA, ERS Outlook (Aug 30, 1999) for 2000 and WAOB baseline projections for 2001 - 2009.  
 2/ USDA, ERS market year figures for 1983 - 97, WASDE (Oct 8, 1999) for 1998 - 2000, and WAOB baseline projections for 2001 - 2009.  
 3/ Export inspections are reported by fiscal years and U.S. grain supplies are by marketing years.

# Volume of U.S. Grain Inspected for Export by Area Fiscal Year 1999

Million Metric Tons



October 1998 - September 1999  
111.3 million metric tons

## Protecting Integrity

### **Alleged Violations and Case Activity**

At the beginning of FY 1999, 14 cases involving alleged violations of the USGSA and the AMA were pending further action. During FY 1999, GIPSA personnel opened 16 cases (13 alleged violations and 3 inquiries) and closed 20 cases, leaving 10 cases pending. Some examples of alleged violations included: false weighing, deceptive loading and grain handling practices, altering official certificates, issuing false official certificates, exporting grain without official inspection, performing official duties improperly, and employee misconduct.

To address the 16 cases opened during FY 1999, FGIS personnel conducted 5 onsite investigations and addressed the remaining cases by reviewing information received from field personnel. In addition, GIPSA completed an onsite employee misconduct investigation for another USDA agency.

The Agency took administrative action in 9 of the 20 cases closed during FY 1999. These actions included 12 cautionary letters to various grain firms, official agencies, licensed personnel. One case involved an investigation by the Office of Inspector General (OIG) which led to the criminal prosecution of several individuals. Moreover, during FY 1999, OIG and the Justice Department pursued criminal action in two investigations involving false certification and weights of grain and false weight certificates.

In a case involving false certification and weights of grain, a U. S. District Judge dismissed a pending indictment on an individual involved because officials in Colorado incarcerated the subject on pending State charges. In addition, the court handed down indictments against four other individuals involved in this matter and all individuals pled guilty to misdemeanor violations and received various fines and sentences. This concluded the criminal action and closed GIPSA's files. In addition, two subjects in a case involving false weight certificates signed plea agreements with the court. Indictments are pending for several other individuals. The case remains in the courts.

The Agency closed the remaining 10 cases due to insufficient evidence to prove a violation.



**Compliance Reviews**

Compliance reviews are independent third-party reviews of GIPSA field office circuits. During FY 1999, GIPSA personnel conducted compliance reviews of 6 FGIS field offices and 1 suboffice, and 19 States and private agencies (official agencies) delegated to provide export services or designated to provide domestic services. Review teams evaluated customer satisfaction (including potential service delivery discrimination), management effectiveness, and procedural compliance. GIPSA found no instances of service delivery discrimination; but did find various noncompliance and procedural problems within the national inspection and weighing system. All identified noncompliances/ problems were subsequently corrected. None of these findings affected the overall integrity of GIPSA's programs, the inspection system, or GIPSA's mission. Overall, field offices and official agencies are performing satisfactorily, thus meeting GIPSA's mission.

**Conflicts of Interest**

At the beginning of FY 1999, there were four designated official agencies operating with discretionary conflict-of-interest waivers. One of the agencies had experienced severe financial problems, and problems in carrying out the technical aspects of FGIS' programs. As a result, they voluntarily canceled their designation this year. As of the end of FY 1999, three agencies remain with conflicts.

**Delegation and Designation Programs**

There are 59 State and private agencies (official agencies) designated under the U.S. Grain Standards Act, as amended, to provide permissive official inspection and/or weighing services at domestic locations. Of these, eight are States which are also 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.

Under the triennial renewal process, 17 official agency designations automatically terminated in FY 1999. GIPSA renewed all 17 for full 3-year terms after reviewing their performance.

Three official agencies voluntarily canceled their designations this year. As noted above, one conflict of interest agency requested cancellation, and its area is being served by another official agency.

Two other private agencies had their corporate stock purchased and operations merged with another single private agency in order to provide better service to customers of the official system.

**Drug-Free Workplace Certification**

As each designated official agency becomes eligible for designation renewal, FGIS certifies that they provide a drug-free workplace.

## **Pilot Programs**

In FY 1999, GIPSA continued three established pilot 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 area. These programs will continue until September 30, 2000, when they will become established under regulations.

The first pilot program addresses improving the timeliness of service provided by official agencies to facilities. The program allows official agencies to provide service to facilities located outside of their assigned area on a case-by-case basis, when official service cannot otherwise be provided within established timeframes. During FY 1999 (through July 31), 2 facilities received 27 inspections; all were for barge or railcar movement.

The second pilot allows an "open season" during which official agencies can offer their service to facilities outside their assigned area if no official service has been provided during the previous 3 months. During FY 1999 (through July 31), 53 facilities received 12,280 inspections, of these 1,047 were barges and 11,233 were railcars.

The third program allows customers shipping grain in barges to select any official agency to probe-sample and inspect the grain. During FY 1999 (through July 31), 6 facilities received 27 barge inspections.

## **Registration Program**

During calendar year 1999, GIPSA issued 78 Certificates of Registration to individuals and firms involved in foreign commerce grain business.

## **Complaints from Importers**

USDA administers a formal grain quality and weight discrepancy process administered under the regulations of the Foreign Agricultural Service. If an importer of U.S. grains files a complaint under this process, GIPSA analyzes samples retained on file from the original inspection, as well as 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 that 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 a discrepancy, the Agency issues a report outlining its findings and providing suggestions to avoid similar discrepancies in the future.

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

In FY 1999, GIPSA received 20 quantity and 2 quality complaints from importers on grains inspected under the U.S. Grain Standards Act, as amended. Complaints involved 1,517,176 metric tons, or about 1.4 percent, by weight, of the total amount of grain exported during the year.

This compares to 14 quality and 1 quantity complaint received in FY 1998, representing about 0.4 percent of grain exports by weight. (In FY 1999, one complaint involved 12 large corn shipments, which accounted for the increase in the percentage of grain exports involved in complaints.)

**Summary of Complaints  
Reported by Importers on  
Inspection and Weighing  
Fiscal Year 1999**

<b>Complainant</b>	<b>Grain</b>	<b>Number of Complaints</b>	<b>Nature of Complaint</b>
<b>Africa and Middle East</b>			
Egypt	Corn	1	Broken corn and foreign material
	Wheat	2	Wheat of other class, protein
Eritrea	Sorghum	1	Infestation
Ethiopia	Wheat	1	Test weight, damaged kernels, foreign material, shrunken and broken kernels, total defects
Israel	Wheat	2	Damaged kernels, total defects, moisture, protein, wheat of other classes
		1	Short weight
Morocco	Sorghum	1	Infestation, broken kernels and foreign material
Syria	Corn	1	Damaged kernels
<i>Continued</i>			

<b>Complainant</b>	<b>Grain</b>	<b>Number of Complaints</b>	<b>Nature of Complaint</b>
<b>Asia</b>			
Bangladesh	Wheat	1	Heat-damaged kernels
China	Wheat	1	Protein, wheat of other classes
Russia	Wheat	1	Quality
South Korea	Corn	3	Moisture, broken corn and foreign material
Sri Lanka	Wheat	1	Damaged kernels
	Wheat	1	Dockage
<b>Latin America and the Caribbean</b>			
Chile	Wheat	1	Protein
Colombia	Wheat	1	Infestation
Honduras	Wheat	1	Short weight
Peru	Corn	1	Broken corn and foreign material
<b>TOTAL</b>		<b>22</b>	

# Management Initiatives

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## Management Initiatives

### **Civil Rights/Equal Employment Opportunity**

In accordance with the recommendations put forth by the U.S. Department of Agriculture's (USDA) Civil Rights Action Team (CRAT) and the Agency's continuing commitment to supporting the Secretary in improving all areas of Civil Rights at USDA, GIPSA has taken the following actions:

- Developed a new Alternative Dispute Resolution (ADR) Program. As part of the Agency's effort to operate more efficiently and effectively, and to encourage, where possible, consensual resolution of disputes, GIPSA is promoting greater use of mediation, arbitration, early neutral evaluation, agency ombuds, and other alternative dispute resolution (ADR) techniques. GIPSA, which has had an ADR program in place for more than a year, is strengthening its program to meet new EEOC complaint regulations that went into effect on October 1, 1999. The new regulations mandate that complainants be afforded the opportunity to enter mediation as part of the informal complaint process. GIPSA is considering a number of options for implementing its ADR program.
- Initiated a nationwide civil rights review program. GIPSA's Civil Rights Staff (CRS) conducted the first of two compliance reviews scheduled in 1999. The first review was conducted in the League City, Texas, field office of GIPSA's grain inspection program. The second review was conducted in late-September in the Denver, Colorado, regional office of the P&S Programs.
- Expanded the EEO Special Emphasis Program to include providing information to Agency employees to increase their awareness of cultural diversity within GIPSA. Special Emphasis Program Managers are using available resources to announce vacant positions to universities with higher concentrations of minorities.
- Provided mandatory civil rights training to all first-line supervisors in the areas of employee performance, conflict management, employee development, and communications. During each of five training sessions, GIPSA supervisors were trained on the "Fundamentals of Equal Employment Opportunity and Civil Rights." The objective of this training was to increase the knowledge and understanding of the EEO complaint process, provide a method for assessing vulnerability, offer guidance for developing action plans to address potential complaint situations, explain the Agency's new ADR program, and increase efforts to ensure compliance with Federal Civil Rights laws by conducting Civil Rights compliance reviews.

- Underscored GIPSA's commitment to maintaining a work environment wherein employees and customers are treated fairly and equitably, and with dignity and respect. This was done, in part, by briefing Agency managers and supervisors on the implementation of the USDA Civil Rights Performance Measures, which includes responsibilities for holding all managers and supervisors accountable for implementing the new performance measures.
- Continued to seek early resolution of employee complaints. GIPSA targeted several formal cases for resolution and worked closely with the USDA's Employee Complaints and Adjudication Division to reduce the Agency's caseload by 25 percent by the end of FY 1999.
- Conducted an All-Employee Town Hall Meeting, the third such meeting in 2 years. Agency employees were provided the opportunity to discuss such topics as training and career development, program issues, and civil rights issues.
- Expanded GIPSA's support for educational initiatives, Land Grant and other minority institutions, and the USDA summer intern program. GIPSA more than doubled the number of students participating in the Summer Intern Program and the Student Career Experience Program (SCEP, formerly Co-op) for temporary summer employment opportunities. The 17 students employed under the Summer Intern Program worked in a variety of GIPSA offices, including Washington, D.C. headquarters. Finally, GIPSA contributed to the success of fulfilling the mission of the Washington Internship for Native American Students by sponsoring a summer internship in GIPSA.
- Continued to play a major role on the USDA Hispanic Advisory Council (HAC), including leading the Hispanic Education and Research working group. This group is charged with finding ways to increase Hispanic recruitment for and participation in USDA programs and to help Hispanic students attain educational excellence.
- Increased funding and support for outreach activities, such as providing additional funds to Title IX Federal assistance programs. GIPSA is also in the process of increasing the number of students participating in the SCEP.
- Continued to build relationships with small and disadvantaged businesses. Last year, GIPSA entered into a blanket purchase agreement with a women-owned business contractor for repair and construction activities, and with a disabled women-owned business for technical support at the GIPSA Technical Center in Kansas City, Missouri.



- Ensured, through a Civil Rights Impact Analysis, as required by Departmental regulations, that the proposed reauthorization of the grain inspection program will not have an impact on any minority group, women, or persons with disability by virtue of their race, color, gender, national origin, religion, age, marital or family status. The USDA Office of Civil Rights concurred with GIPSA's findings.

## **GPRA**

In accordance with the Government Performance and Results Act of 1993 (GPRA) and the Agency's continuing commitment to improving the efficiency and effectiveness of its programs and services, GIPSA prepared annual performance plans in conjunction with FY 1999, 2000, and 2001 budgeting cycles. The Agency is also in the process of reviewing its strategic plan for potential revision and developing its first annual performance report for FY 1999.

## **Small Farms Outreach**

The challenges faced by small farmers in today's changing market and policy environments prompted GIPSA to strengthen its efforts to address the concerns of small and mid-sized farmers. While the Agency's programs benefit farms of all sizes, we are taking steps to ensure that all of our activities are sensitive to the particular needs of small farms.

GIPSA has a toll-free hotline, reorganized Packers and Stockyards Programs, and requested, and received, appropriated funds to add economic, statistical, and legal expertise to pursue investigations of packer concentration and poultry concerns. These efforts will increase customer awareness and involvement in our services. Peer review of investigations, expansion of round-table discussions, and expanded use of information technology will provide small farmers access to and input into GIPSA's regulatory process. Stakeholder involvement in and feedback on our initiatives are essential to our goal of recognizing the small farmer as a priority constituent.

GIPSA has also been examining ways to implement relevant recommendations of the National Commission on Small Farms, formed by Secretary Glickman in February 1997. The Commission issued its report, "A Time to Act," in September 1997.

## **Union/Management Relations**

During FY 1999, GIPSA and the National Council of Federal Grain Inspection Locals renegotiated a new National Partnership Agreement and renewed their efforts to bilaterally address many of the concerns facing the Agency and its workforce. Union and management officials also agreed to establish a travel share program for employees.

## **Workforce Planning**

It is GIPSA's policy to institute a continuing and dynamic workforce planning process to ensure that the Agency has people with the needed skills at the right place and time to meet its strategic goals and objectives. To this end, GIPSA completed a 5-year workforce plan for fiscal years 1999-2004, as well as its short-term plan for FY 1999. Every employee has access to the plans either in hard copy or via the Internet.

Implementation of the plan is an on-going process. To date, specific accomplishments include the implementation of a 360-degree self-assessment process as a training needs identification tool for supervisors, managers, and executives, and delivery of training tailored to the needs of the Agency's front-line supervisors.

**Year 2000 (Y2K)**

When January 1, 2000, arrives, the information systems and computer applications for GIPSA will be "Year 2000 (Y2K) compliant." GIPSA has taken a strong, proactive approach in meeting the challenges of resolving the Y2K problem both in-house and with the customers we serve.

Currently, the Agency is developing detailed national and local business contingency and continuity plans in the event of uncontrollable Y2K failures such as power outages. Specifically, the contingency plans identify risks and threats, establish mitigation strategies for those risks and threats, and provide contingency plans in the event risk mitigation efforts fail.

**Explosion Data**

GIPSA receives information on grain dust explosions through the cooperation of universities, insurers, trade groups, GIPSA personnel, and a news clipping service. GIPSA does not investigate grain dust explosions, and the private sector is not required to report explosions to GIPSA.

**Summary of Reported  
Grain Dust Explosions,  
Fiscal Years 1995-99**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Number of Explosions	12	16	14	18	10
Number of Injuries	6	26	8	22	14
Number of Deaths	2	1	1	7	0

**Summary of Reported  
Grain Dust Explosions,  
Fiscal Year 1999**

<b>Facility</b>	<b>Location</b>	<b>Date</b>	<b>Injuries</b>	<b>Fatalities</b>
Bartlett Coop Assn.	Edna, KS	10/23/98	0	0
Frontier Equity Exchange	Bird City, KS	11/02/98	0	0
Bunge Cooperative	LaGrange, MO	11/18/98	0	0
Central Counties Coop	Reinbeck, IA	11/23/98	2	0
Jacobson Grain Elevator	Dwight, IL	02/01/99	1	0
Farmers Cooperative	Sterwin, KS	04/19/99	1	0
Amick Farms	Craig, IA	08/02/99	10	0
Port Bunge	Monetta, SC	08/16/99	0	0
Garvin Cooperative	Savage, MN	09/03/99	0	0
	Tracy, MN			



# Financial Overview

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## Financial Overview

### **Inspection and Weighing Fees**

Effective February 1, 1999, GIPSA increased by approximately 3.6 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 (63 *Federal Register* 70990). The increase was designed to generate additional revenue required to recover operational costs created by mandated cost-of-living increases to Federal salaries.

### **Rice Inspection Fees**

Effective March 1, 1999, GIPSA increased its fees for Federal rice inspection services (64 *Federal Register* 7057). This fee increase was intended to cover the projected operating costs and to generate sufficient revenues to maintain an appropriate operating reserve.

**Status of GIPSA Fee-Supported Accounts  
Fiscal Year 1999**

<b>Program</b>	<b>Revenue 9/30/99</b>	<b>Obligations 9/30/99</b>	<b>Profit/(Loss) 9/30/99</b>	<b>Trust Fund 9/30/99</b>
<b>U.S. Grain Standards Act</b>				
Inspection and Weighing	22,971,204	22,883,063	88,141	(65,686)
Canadian Operations	275,723	290,753	(15,030)	(148,851)
Official Agencies	1,609,509	1,412,166	197,343	4,739,401
Registration	13,759	17,358	(3,599)	51,461
<b>USGSA Subtotal</b>	24,870,195	24,603,340	266,855	4,576,325
<b>Agricultural Marketing Act of 1946</b>				
Rice Inspection	4,412,131	4,105,564	306,567	(508,628)
Commodity Inspection	7,190,879	5,951,852	1,239,027	1,764,140
<b>AMA Subtotal</b>	11,603,010	10,057,416	1,545,594	1,255,512
<b>Total Fiscal Year 1999</b>	36,473,205	34,660,756	1,812,449	5,831,837



**GIPSA's Appropriated Budget Authority**

**Fiscal Years 1994-99**

*Dollars in thousands*

Description	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
<b>Appropriated Funds</b>						
Budget Authority						
Packers & Stockyards Programs	12,082	11,973	12,109	12,376	13,165	16,062
Federal Grain Inspection Service	11,532	11,300	10,965	10,752	10,725	10,725
Total Budget Authority	<u>1/</u>	<u>1/</u>	23,074	23,128	23,890	26,787

<sup>1/</sup> Consolidated financial reporting for GIPSA's two program areas began in FY 96.

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