

2013 Explanatory Notes
Grain Inspection, Packers and Stockyards Administration

Table of Contents

| | <u>Page</u> |
|----------------------------------------------------------|-------------|
| Purpose Statement..... | 20-1 |
| Available Funds and Staff Years..... | 20-2 |
| Permanent Positions by Grade and Staff Years..... | 20-3 |
| Motor Vehicle Fleet Data..... | 20-4 |
| Salaries and Expenses: | |
| Appropriation Language..... | 20-5 |
| Lead-off Tabular Statement..... | 20-6 |
| Summary of Increases and Decreases..... | 20-6 |
| Project Statement – On Basis of Appropriation..... | 20-7 |
| Project Statement – On Basis of Obligation..... | 20-7 |
| Justifications of Increases and Decreases..... | 20-8 |
| Geographic Breakdown of Obligations and Staff Years..... | 20-11 |
| Classification by Objects..... | 20-12 |
| Status of Program..... | 20-13 |
| Inspection and Weighing: | |
| Appropriation Language..... | 20-18 |
| Lead-off Tabular Statement..... | 20-19 |
| Summary of Increases and Decreases..... | 20-19 |
| Project Statement – On Basis of Appropriation..... | 20-19 |
| Justifications of Increases and Decreases..... | 20-20 |
| Geographic Breakdown of Obligations and Staff Years..... | 20-21 |
| Classification by Objects..... | 20-22 |
| Status of Program..... | 20-23 |
| Summary of Budget and Performance | |
| Statement of Department Goals and Objectives..... | 20-33 |
| Strategic Goal Funding Matrix..... | 20-36 |
| Key Performance Outcomes and Measures..... | 20-37 |
| Full Cost by Department Strategic Goal..... | 20-38 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Purpose Statement

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

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

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

P&SP activities are authorized by the Packers and Stockyards Act of 1921 (P&S Act), as amended, and Section 1324 of the Food Security Act of 1985. These activities are currently funded through appropriations. GIPSA's Packers and Stockyards Program (P&SP) is responsible for administering the P&S Act, which prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. The P&S Act makes it unlawful for a regulated entity to engage in unfair, unjustly discriminatory, or deceptive practices. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities—regulatory and investigative—in its administration and enforcement of the P&S Act. P&SP activities cover two general areas: Business Practices and Financial Protection. Business Practices are further divided into Competition and Trade Practices.

GIPSA headquarters is located in Washington, D.C. GIPSA's grain-related field activities are located in 7 field offices, 1 Federal/State office, and 3 suboffices. P&SP field activities are located in 3 regional offices with 55 resident agent positions across the nation. As of September 30, 2011, there were 665 permanent full-time employees, including 124 in the headquarters office and 541 in field offices.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Available Funds and Staff Years

(Dollars in thousands)

| Item | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>2013 Estimate</u> | |
|--------------------------------------------------------------------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years |
| <i>Detailed information for each account can be found in the Project Statements.</i> | | | | | | | | |
| Salaries and Expenses: | | | | | | | | |
| Discretionary Appropriations..... | \$41,964 | 310 | \$40,342 | 310 | \$37,750 | 306 | \$40,261 | 297 |
| Rescission..... | - | | -81 | | - | | | |
| Total Available..... | 41,964 | 310 | 40,261 | 310 | 37,750 | 306 | 40,261 | 297 |
| Lapsing Balances..... | -828 | - | -486 | - | - | - | - | - |
| Obligations..... | 41,136 | 310 | 39,775 | 310 | 37,750 | 306 | 40,261 | 297 |
| <u>Obligations under other USDA appropriations:</u> | | | | | | | | |
| Ag. Marketing Service - pesticide | | | | | | | | |
| sales data..... | 275 | 1 | 223 | 1 | - | - | - | - |
| Farm Service Agency | | | | | | | | |
| for Commodity Credit Corp..... | 538 | 3 | 842 | 6 | 2,500 | 7 | 2,500 | 7 |
| Misc, reimbursable..... | 74 | 1 | 51 | 1 | 30 | 1 | 30 | 1 |
| Total, Other USDA..... | 887 | 5 | 1,116 | 8 | 2,530 | 8 | 2,530 | 8 |
| Total, Agriculture Appropriations..... | 42,023 | 315 | 40,891 | 318 | 40,280 | 314 | 42,791 | 305 |
| <u>Non-Federal Funds</u> | | | | | | | | |
| Inspection and Weighing..... | 45,255 | 398 | 45,620 | 403 | 49,000 | 401 | 50,000 | 400 |
| Total, GIPSA..... | 87,278 | 713 | 86,511 | 721 | 89,280 | 715 | 92,791 | 705 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Permanent Positions by Grade and Staff Years

| Item | <u>2010 Actual</u> | | | <u>2011 Actual</u> | | | <u>2012 Estimate</u> | | | <u>2013 Estimate</u> | | |
|-------------------------------------------------|--------------------|-------|-------|--------------------|-------|-------|----------------------|-------|-------|----------------------|-------|-------|
| | Wash. | | Total | Wash. | | Total | Wash. | | Total | Wash. | | Total |
| | D.C. | Field | | D.C. | Field | | D.C. | Field | | D.C. | Field | |
| SES..... | 3 | 1 | 4 | 4 | - | 4 | 4 | - | 4 | 4 | - | 4 |
| GS-15 | 9 | 4 | 13 | 8 | 4 | 12 | 7 | 4 | 10 | 6 | 4 | 10 |
| GS-14 | 24 | 22 | 46 | 20 | 19 | 39 | 19 | 18 | 37 | 18 | 17 | 35 |
| GS-13 | 53 | 40 | 93 | 47 | 37 | 84 | 45 | 37 | 82 | 43 | 37 | 80 |
| GS-12 | 20 | 86 | 106 | 16 | 85 | 101 | 16 | 85 | 101 | 15 | 82 | 97 |
| GS-11 | 11 | 70 | 81 | 10 | 72 | 82 | 10 | 72 | 82 | 10 | 72 | 82 |
| GS-10 | 1 | 7 | 8 | 1 | 9 | 10 | 1 | 9 | 10 | 1 | 9 | 10 |
| GS-9 | 7 | 156 | 163 | 7 | 160 | 167 | 7 | 160 | 167 | 7 | 160 | 167 |
| GS-8 | 6 | 11 | 17 | 4 | 11 | 15 | 4 | 11 | 15 | 4 | 11 | 15 |
| GS-7 | 5 | 46 | 51 | 5 | 50 | 55 | 5 | 50 | 55 | 5 | 49 | 54 |
| GS-6 | 1 | 41 | 42 | 2 | 45 | 47 | 1 | 45 | 46 | 1 | 45 | 46 |
| GS-5 | 1 | 37 | 38 | 0 | 40 | 40 | 0 | 40 | 40 | 0 | 40 | 40 |
| GS-4 | 0 | 7 | 7 | 0 | 8 | 8 | 0 | 8 | 8 | 0 | 8 | 8 |
| GS-3 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 1 |
| Ungraded Positions | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Perm. Positions | 141 | 529 | 670 | 124 | 541 | 665 | 119 | 540 | 658 | 114 | 535 | 649 |
| Unfilled, EOY | 0 | 0 | 0 | 0 | | 0 | | | 0 | | | 0 |
| Total, Perm. Full-Time Employment, EOY | 141 | 529 | 670 | 124 | 541 | 665 | 119 | 540 | 658 | 114 | 535 | 649 |
| Staff Year Est | 150 | 563 | 713 | 124 | 597 | 721 | 119 | 596 | 715 | 114 | 591 | 705 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Size, Composition, and Annual Operating Costs of Vehicle Fleet

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

GIPSA pools the use of motor vehicles for different activities in order to keep the number of vehicles to a minimum and reduce overall costs of maintenance. One change to the fleet is the transition to agency-owned vehicles from leased vehicles from GSA. These replacements are due to a cost analysis which showed that owning vehicles would be more cost effective than leasing vehicles. GIPSA acquires owned vehicles and replaces leased vehicles on a one-to-one basis but there is generally a lag time between the acquisition of vehicles and expiration of leases. The increase in cost is due to the inclusion of depreciation cost (non cash expense) of \$180,000 from FY 2010 and FY 2011 (this is the first time GIPSA has included the cost of depreciation in overall annual operating cost).

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Size, Composition, and Annual Operating Costs of Vehicle Fleet

| Fiscal Year | Number of Vehicles by Type * | | | | | | | Annual Operating Costs (\$ in 000) ** | |
|-------------|------------------------------|------------------------------|-----|----------------------|------------|-------|---------------------|---------------------------------------|--------------------------|
| | Sedans and Station Wagons | Light Trucks, SUVs, and Vans | | Medium Duty Vehicles | Ambulances | Buses | Heavy Duty Vehicles | | Total Number of Vehicles |
| | | 4x2 | 4x4 | | | | | | |
| 2010 | 53 | 25 | 40 | - | - | - | - | 118 | \$377 |
| Change | -1 | +39 | -29 | - | - | - | - | +9 | +180 |
| 2011 | 52 | 64 | 11 | - | - | - | - | 127 | 557 |
| Change | - | -1 | -1 | - | - | - | - | -2 | -8 |
| 2012 | 52 | 63 | 10 | - | - | - | - | 125 | 549 |
| Change | -1 | - | -1 | - | - | - | - | -2 | -9 |
| 2013 | 51 | 63 | 9 | - | - | - | - | 123 | 540 |

* Numbers include vehicles owned by the agency and leased from commercial sources or GSA.

** Excludes acquisition costs and gains from sale of vehicles as shown in FAST.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

The estimates include appropriation language for this item as follows:

Salaries and Expenses

For necessary expenses of the Grain Inspection, Packers and Stockyards Administration, [\$37,750,000]
\$40,261,000: Provided, that this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but the cost of altering any one building during the fiscal year shall not exceed 10 percent of the current replacement value of the building.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Lead-off Tabular Statement, Summary of Increases and Decreases, Project Statement, and Justification of
Increases and Decreases

SALARIES AND EXPENSES - CURRENT LAW

| | |
|---------------------------------------------|-------------------------|
| Annualized Continuing Resolution, 2012..... | \$37,750,000 |
| Budget Estimate, 2013..... | <u>40,261,000</u> |
| Change in Appropriation..... | <u><u>2,511,000</u></u> |

SUMMARY OF INCREASES AND DECREASES – CURRENT LAW

(Dollars in thousands)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2013</u> |
|-------------------------------------|---------------|---------------|---------------|---------------|-----------------|
| | <u>Actual</u> | <u>Change</u> | <u>Change</u> | <u>Change</u> | <u>Estimate</u> |
| Discretionary Appropriations: | | | | | |
| Packers & Stockyards Program..... | \$23,692 | -\$1,225 | -\$1,197 | +\$1,197 | \$22,467 |
| Grain Regulatory Program..... | 18,272 | -478 | -1,314 | +1,314 | 17,794 |
| Total, Appropriation or Change..... | <u>41,964</u> | <u>-1,703</u> | <u>-2,511</u> | <u>+2,511</u> | <u>40,261</u> |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Project Statement

(On basis of appropriation)

(Dollars in thousands)

| Program | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>Change</u> | | <u>2013 Estimate</u> | | |
|-------------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|---------------|----------------|----------------------|----------------|-----|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | |
| Discretionary Appropriations: | | | | | | | | | | | |
| Packers and Stockyards | \$23,692 | 175 | \$22,467 | 175 | \$21,270 | 173 | \$1,197 | (1) | -5 | \$22,467 | 168 |
| Grain Regulatory . | 18,272 | 135 | 17,794 | 135 | 16,480 | 133 | 1,314 | (2) | -4 | 17,794 | 129 |
| Total Adjusted Appropriation | 41,964 | 310 | 40,261 | 310 | 37,750 | 306 | 2,511 | | -9 | 40,261 | 297 |
| Rescission | - | - | 81 | - | - | - | - | | | - | - |
| Total Appropriation | 41,964 | 310 | 40,342 | 310 | 37,750 | 306 | 2,511 | | -9 | 40,261 | 297 |
| Rescission | - | - | -81 | - | - | - | - | | - | - | - |
| Lapsing Balance | -828 | - | -486 | - | - | - | - | | - | - | - |
| Total Obligations | 41,136 | 310 | 39,775 | 310 | 37,750 | 306 | 2,511 | | -9 | 40,261 | 297 |

Project Statement

(On basis of obligations)

(Dollars in thousands)

| Program | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>Change</u> | | <u>2013 Estimate</u> | | |
|---------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|---------------|----------------|----------------------|----------------|-----|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | |
| Discretionary Obligation: | | | | | | | | | | | |
| Packers and Stockyards. | \$23,157 | 175 | \$22,319 | 175 | \$21,270 | 173 | +\$1,197 | (1) | 5 | \$22,467 | 168 |
| Grain Regulatory..... | 17,979 | 135 | 17,456 | 135 | 16,480 | 133 | +1,314 | (2) | 4 | 17,794 | 129 |
| Total Obligations..... | 41,136 | 310 | 39,775 | 310 | 37,750 | 306 | +2,511 | | 9 | 40,261 | 297 |
| Lapsing Balance..... | 828 | - | 486 | - | - | - | - | | - | - | - |
| Total Available..... | 41,964 | 310 | 40,261 | 310 | 37,750 | 306 | +2,511 | | 9 | 40,261 | 297 |
| Rescission..... | 0 | 0 | 81 | 0 | 0 | 0 | 0 | | 0 | 0 | 0 |
| Total Appropriations..... | 41,964 | 310 | 40,342 | 310 | 37,750 | 306 | 2,511 | | -9 | 40,261 | 297 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

An increase of \$117,000 to fund pay costs.

This increase will enable GIPSA to maintain staffing levels, which are critical to achieving the agency's objective of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture. Approximately 75 percent of GIPSA's budget is in support of personnel compensation.

The pay costs will be offset by reductions in the following programs: \$51,000, Packers and Stockyards Program (P&SP); and \$66,000 in the Grain Regulatory Program.

(1) A total increase of \$1,197,000 for Packers and Stockyards Program activities.

- (a) An increase of \$51,000 for pay costs. The pay cost will be offset as noted in the first item of change described in the Justification of Increases and Decreases.
- (b) An increase of \$1,146,000 (\$21,270,000 available in FY 2012) for P&SP to purchase necessary equipment, supplies, and other support expenses.

The Agency's P&SP promotes fair business practices, financial integrity, and competitive markets for livestock, meat, and poultry. Through its oversight activities, including monitoring programs, inspections, compliance reviews, and investigations, P&SP fosters fair competition, provides payment protection, and guards against deceptive and fraudulent trade practices that affect the movement and price of meat animal and their products to producers and consumers. The fund increase will strengthen direct enforcement of the Packers and Stockyards Act (P&S Act) and promote greater voluntary compliance with the P&S Act by offsetting past year staff attrition. The funds will supplement GIPSA enforcement staff with the equipment, supplies, and other support expenses needed to complete their jobs. P&SP relies on 55 resident agents and auditors, with assigned duty stations in their homes across the United States to conduct a large percentage of its front line regulatory inspections and investigations. These agents must travel, at times long distances, in conducting regulatory and investigative field work. Travel is an essential component of allowing GIPSA's resident agents to successfully perform their job function. Funding is also needed to provide all P&SP staff with the necessary equipment and supplies, such as computers and high speed scanners, to conduct their jobs. Without an increase in funding, the program will have to reduce staff in order to maintain sufficient resources (gas, supplies, travel, etc.) to support field activity. By providing staff with resources to travel and the tools needed to successfully conduct their work, GIPSA expects to achieve a level of 81 percent industry compliance with the P&S Act, up 5 percent from the actual FY 2011 level and consistent with the FY 2012 level. GIPSA anticipates a consistent level of compliance in FY 2012 and FY 2013, even with the increased funding, because of the continued financial pressures the regulated industry is experiencing as well as the large amount of uncertainty induced in the measure from external factors such as economic conditions, particularly credit availability for smaller firms, and structural changes taking place in the regulated industry such as shifts from spot markets to contract markets and the unknown effect of these changes in industry business practices on entity compliance with the Act. In summary, the funds will assist to offset staff attrition experienced recently and providing staff with the equipment, supplies, and other operating expenses to effectively conduct field operations to maintain compliance levels in the face of increased economic pressures that have tended to increase regulated entities incentives to forego compliance with the P&S Act. Even with these increases, GIPSA will continue to be compliant with Executive Order 13589 – Promoting Efficient Spending.

- (2) A total increase of \$1,314,000 (\$16,480,000 available in FY 2012) for Grain Regulatory Program activities.
- (a) An increase of \$66,000 for pay costs. The pay cost will be offset as noted in the first item of change described in the Justification of Increases and Decreases.
 - (b) An increase of \$1,248,000 (\$16,480,000 available in FY 2012) for the Grain Regulatory Program to purchase necessary capital equipment including scientific equipment and other support services.

The Agency's Grain Regulatory Program facilitates the marketing of U.S. grains, oilseeds, and related agricultural products by providing farmers, handlers, processors, exporters, and international buyers with information that accurately and consistently describes the quality of these products. To maintain the Agency's worldwide reputation as leader in grain quality assessment, GIPSA is seeking an increase of \$595,000 for equipment needed to provide wheat producers and marketers with advanced assessments of wheat functionality and protein quality. GIPSA is continually developing and refining practicable, rapid and reproducible tests to determine specific qualities within different types of wheat that are most suitable for the wide variety of end user products, which enhances the marketability of U.S. wheat. For example, protein content in different varieties of wheat used for baking bread can impact the quality of the bread so precise measurements of these qualities are essential to wheat marketers. Likewise, gluten strength has become increasingly significant as a quality factor, but at present there is no consistent measure of this characteristic. The instrument commonly used throughout the U.S. and international wheat industries to assess the quality of wheat being traded is a farinograph. GIPSA plans to obtain the most current model and related equipment to improve the accuracy and consistency of farinograph test results, including new standardized methods for precisely and reproducibly describing the properties of gluten. Equipment requested will also be used to assess whether an objective method can be developed to identify different classes of wheat. Determining classes of wheat is one of the most difficult challenges within the official inspection system. Wheat producers and inspection industry representatives have requested that GIPSA determine whether a practicable, rapid and reproducible test can be developed in lieu of or in addition to the current visual inspection method in use.

GIPSA is also seeking an increase of \$613,000 for equipment needed to refine and expand effective mycotoxin and pesticide residue testing programs for U.S. grain exporters. These programs are essential for demonstrating that U.S. grain is wholesome and safe for consumption, thereby confirming the high value of U.S. grain commodities. Overseas governments are implementing more stringent controls on an increasing number of pesticide residues in addition to well established restrictions on levels of harmful mycotoxins such as aflatoxin. Private entities working under GIPSA's supervision perform rapid field tests to detect these residues, and have requested that GIPSA expand the number and types of rapid tests available to use. To do so, GIPSA must test the efficacy of the rapid test kits against reference materials developed by GIPSA. Additional equipment, primarily liquid and gas chromatographs, will allow GIPSA to expand the standard reference materials against which rapid test kits developed for use in the field are compared to ensure that U.S. grain meets global pesticide residue and mycotoxin requirements.

GIPSA is seeking an increase of \$40,000 for equipment needed to replace aging instrumentation used to establish and maintain moisture and oil reference methods. GIPSA's ability to provide accurate reference methods is essential to ensure that moisture and oil testing equipment used by private entities operating under GIPSA's supervision are providing consistent measurements.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

SALARIES AND EXPENSESSUMMARY OF INCREASES AND DECREASES

(Dollars in thousands)

| <u>Item of Change</u> | <u>Current Law</u> | <u>Program Changes</u> | <u>President's Request</u> |
|-----------------------------|--------------------|------------------------|----------------------------|
| Packers and Stockyards..... | \$22,467 | (-\$22,467) | 22,467 |
| Grain Regulatory..... | 17,794 | (-5,000) | 17,794 |
| Total Available..... | 40,261 | (-27,467) | 40,261 |

USER FEES - PROPOSED LEGISLATIONExplanation of Proposed Legislation:

This proposal would recover approximately \$27.4 million.

GIPSA develops, reviews, and maintains official U.S. grain standards that describe the grain characteristics in terms of physical, sanitary, and intrinsic value at the time of inspection. These standards provide a common language for use by producers, sellers, and buyers of U.S. grain. This proposal would initiate user fees for this service. Because these standards benefit and are used almost solely by the grain trading industry, and because they facilitate the orderly marketing of grain products, it is industry that should bear the costs. Fees would be charged to those who benefit from such services such as those who receive, ship, store, or process grain. Estimated receipts in FY 2013 would be \$5 million.

This proposal would also amend the P&SP Act to provide authority to collect license fees to cover the cost of the program. Beneficiaries of the program and activities administered under the provisions of the P&SP Act are livestock market agencies, dealers, stockyards, packers, live poultry dealers, and swine contractors. These market participants benefit because they are protected from the adverse effects of anticompetitive and unfair business practices in meat and poultry marketing and distribution. Estimated receipts in FY 2013 would be \$22.4 million.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Geographic Breakdown of Obligations and Staff Years
(Dollars in thousands)

| State/Territory | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>2013 Estimate</u> | |
|---------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years |
| Arkansas..... | \$84 | 1 | \$82 | 1 | \$81 | 1 | \$86 | 1 |
| Colorado..... | 6,224 | 58 | 5,752 | 54 | 5,673 | 53 | 5,999 | 53 |
| District of Columbia..... | 17,103 | 73 | 16,611 | 72 | 15,560 | 69 | 15,804 | 64 |
| Georgia..... | 4,707 | 46 | 4,553 | 45 | 4,483 | 45 | 4,808 | 45 |
| Idaho..... | 113 | 2 | 182 | 3 | 178 | 3 | 188 | 3 |
| Iowa..... | 5,184 | 55 | 4,829 | 53 | 4,761 | 53 | 4,862 | 51 |
| Louisiana..... | 1,076 | 14 | 1,315 | 18 | 1,286 | 18 | 1,361 | 18 |
| Missouri..... | 5,729 | 52 | 5,219 | 49 | 4,524 | 49 | 5,838 | 47 |
| North Dakota..... | 83 | 1 | 81 | 1 | 80 | 1 | 85 | 1 |
| Ohio..... | 230 | 2 | 329 | 4 | 322 | 4 | 347 | 4 |
| Oregon..... | 273 | 3 | 414 | 5 | 403 | 5 | 443 | 5 |
| Texas..... | 201 | 2 | 283 | 4 | 276 | 4 | 301 | 4 |
| Washington..... | 129 | 1 | 125 | 1 | 123 | 1 | 139 | 1 |
| Obligations..... | 41,136 | 310 | 39,775 | 310 | 37,750 | 306 | 40,261 | 297 |
| Lapsing Balance..... | 828 | - | 486 | - | - | - | - | - |
| Total, Available..... | 41,964 | 310 | 40,261 | 310 | 37,750 | 306 | 40,261 | 297 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

CLASSIFICATION BY OBJECTS

(Dollars in thousands)

| | <u>2010</u> <u>Actual</u> | <u>2011</u> <u>Actual</u> | <u>2012</u> <u>Estimate</u> | <u>2013</u> <u>Estimate</u> |
|------------------------------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Personnel Compensation: | | | | |
| Washington D.C..... | \$6,901 | \$6,907 | \$6,741 | \$6,727 |
| Field..... | 17,745 | 17,761 | 17,336 | 17,298 |
| 11 Total personnel compensation..... | 24,646 | 24,668 | 24,077 | 24,025 |
| 12 Personal benefits..... | 7,023 | 7,388 | 7,242 | 7,323 |
| 13.0 Benefits for former personnel..... | 10 | 46 | 44 | 42 |
| Total, personnel comp. and benefits..... | 31,679 | 32,102 | 31,363 | 31,390 |
| Other Objects: | | | | |
| 21.0 Travel and transportation of persons..... | 1,634 | 983 | 925 | 940 |
| 22.0 Transportation of things..... | 38 | 54 | 51 | 57 |
| 23.2 Rental payments to others..... | 94 | 61 | 59 | 61 |
| 23.3 Communications, utilities, and misc. charges... | 1,178 | 891 | 846 | 858 |
| 24.0 Printing and reproduction..... | 87 | 58 | 48 | 53 |
| 25.2 Other services from non-Federal sources..... | 4,260 | 3,767 | 3,433 | 3,928 |
| 26.0 Supplies and materials..... | 833 | 973 | 839 | 864 |
| 31.0 Equipment..... | 1,327 | 886 | 186 | 2,110 |
| 42.0 Insurance claims and indemnities..... | 6 | 0 | 0 | 0 |
| Total, Other Objects..... | 9,457 | 7,673 | 6,387 | 8,871 |
| 99.9 Total, new obligations..... | 41,136 | 39,775 | 37,750 | 40,261 |
| Position Data: | | | | |
| Average Salary (dollars), ES Position..... | \$150,000 | \$150,500 | \$150,500 | \$151,000 |
| Average Salary (dollars), GS Position..... | \$62,500 | \$62,800 | \$62,800 | \$62,900 |
| Average Grade, GS Position..... | 10.1 | 11.6 | 11.6 | 11.6 |

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

GRAIN REGULATORY PROGRAM

GIPSA's Federal Grain Inspection Service (FGIS) establishes quality standards for grains, oilseeds, pulses, and legumes; provides impartial inspection and weighing services through a network of Federal, State, and private entities; and monitors marketing practices to enforce compliance with the U.S. Grain Standards Act, as amended (USGSA) and Agricultural Marketing Act (AMA) of 1946. Through these activities, FGIS facilitates the marketing of grain, oilseeds, and related products.

Current Activities:

Providing the Market with Terms and Methods for Quality Assessments

Wheat Functionality – Protein Quality Assessments

The intrinsic qualities of wheat affect the quality of end products. To best determine the ability of wheat to meet specific end-use needs, accurate test methods are needed to differentiate functional qualities. These methods should also be practical, rapid, and reproducible among different laboratories to provide value transparency from the producer to the processor and provide information that better predicts appropriate end-uses, thereby enhancing the marketability of U.S. wheat. To this end, GIPSA is working on several initiatives to improve standardization of testing methods.

Farinograph tests are widely used to determine certain quality factors. GIPSA studies have shown significant differences in Farinograph test results among commercial laboratories, which can lead to confusion in wheat markets. In 2008, GIPSA initiated a multiple laboratory collaboration that included the instrument manufacturer to identify ways to improve standardization of the Farinograph method among commercial laboratories. In 2009, collaborative studies identified the addition of water and data processing algorithms as additional sources of significant Farinograph method variation. In 2010 and 2011, GIPSA continued collaborative studies of the Farinograph method with the manufacturer, who introduced a new Farinograph model that incorporated automated water addition and a more flexible software platform. In 2012, GIPSA plans to continue collaborative studies using the new AT model instrument to improve the Farinograph method.

Gluten strength is one of the most important aspects of wheat functionality, but the market lacks a consistent definition of this characteristic. Since 2008, GIPSA has worked with USDA's Agricultural Research Service, academia, and industry to develop new standardized methods for precisely and reproducibly describing the viscous and elastic properties of gluten. Significant progress has been made, and, in 2012, GIPSA will systematically evaluate the new instruments and participate in collaborative studies to further assess the method's effectiveness and value in describing the functional properties of wheat.

Wheat classing continues to be one of the most difficult challenges within the official inspection system. There is a need for an objective method to perform varietal identification of wheat cultivars (and thereby, classing) to augment subjective visual analyses. GIPSA has established a reference High Performance Liquid Chromatography (HPLC) method that is based upon work performed at the USDA's Agricultural Research Service laboratory in Manhattan, Kansas, and has demonstrated the utility of the method. In 2009, GIPSA developed a database of all relevant U.S. wheat varieties and a mathematical algorithm for identifying unknown varieties. For single-variety samples, the varietal identification success rate is near 100 percent. In 2010, GIPSA developed a more efficient matching algorithm and investigated the transferability of the method to another HPLC instrument. In 2011, GIPSA tested and improved the accuracy and generality of this method for objectively identifying wheat varieties using results obtained from another laboratory. This test is now routinely used to assist official inspectors at the Board of Appeals and Review in classifying challenging wheat samples. In 2012, this method will be further refined to test single kernels of wheat and thereby resolve the individual wheat varieties present within multiple-variety wheat lots.

Biotechnology

In the biotechnology arena, GIPSA provides several key services which assist in improving testing accuracy, protecting the integrity of U.S. grain and related markets, and harmonizing biotechnology reference methods.

The USDA/GIPSA *Biotechnology Proficiency Program* now involves 160 organizations on five continents (Africa, Asia, Europe, and North and South America), with more than 80 percent of the participants from organizations outside the United States. This program, which GIPSA initiated in 2002, enables organizations to assess and improve their accuracy and precision in identifying Genetically Engineered (GE) events in grains and oilseeds. GIPSA disseminates blind test samples to participants bi-annually and compiles the results of tests.

In recent years, there have been instances of *inadvertent releases of unapproved GE events into the U.S. grain handling system*. When such an inadvertent release occurs, a rapid response is necessary to identify and validate methods to detect the trait and thereby protect the integrity of U.S. grain and related markets. The testing methods must be highly-specific and sensitive to effectively restore confidence in U.S. grain marketing systems. GIPSA assists government and private laboratories that use protein- and DNA-based technologies by performing impartial third-party verification of their methods for both qualitative and quantitative detection of transgenic events in GE crops. GIPSA involvement in responding to such incidents facilitates harmonization of sampling plans and international testing for GE grains and oilseeds. GIPSA provides expertise to USDA's Animal and Plant Health Inspection Service when responding to inadvertent releases of unapproved GE events.

There is a need for *highly specific and accurate tests for the various GE crops grown in the United States*. GIPSA has developed intra-laboratory validated real-time polymerase chain reaction methods and has evaluated the accuracy, reliability, and proficiency of publicly available methods used to detect and identify GE grains and oilseeds. GIPSA participated on a scientific panel of experts engaging U.S. stakeholders and influencing outcomes on issues related to testing of GE traits in grains with the goal of developing global scientific consensus regarding the analysis of transgenic events. GIPSA continues to collaborate with international organizations such as Codex Alimentarius, International Organization for Standardization, Association of Analytical Communities, American Association of Cereal Chemists, American Oil Chemists' Society, Institute for Reference Materials and Measurements, Canadian Grain Commission, and the National Institute for Standards and Technology to harmonize testing technologies for GE grains and oilseeds. Many of these collaborations result in publications in peer-reviewed scientific journals.

Mycotoxin and Biotechnology Test Kit Approvals

The grain industry needs fast, reliable tests to assess the presence of biotechnology-derived grains and oilseeds and mycotoxins in grain. To ensure commercial availability of rapid and reliable tests, GIPSA provides a performance verification and approval program for such tests. In 2011, a total of 27 evaluations were performed on aflatoxin and deoxynivalenol rapid test kits, of which 19 passed and were granted certificates. One test kit was evaluated and certified for detection of a GE event, T-25 (Liberty Link in corn).

Reference Method Analysis

GIPSA maintains reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins. These methods are used to maintain the accuracy of current testing in the official inspection system and to support development of new rapid field tests. The protein, moisture, oil, and fatty acid reference analyses support the near-infrared spectroscopic, dielectric, and nuclear magnetic resonance instruments used for rapid inspection at field locations that perform official testing. The mycotoxin reference analyses support the evaluation and standardization of rapid tests for official and commercial grain inspection, support quality assurance programs to ensure consistent and reliable testing results, and are available for Board Appeals upon request. In 2011, GIPSA validated improved reference methods for the determination of aflatoxin in corn, deoxynivalenol in corn and wheat, and zearalenone in corn. In 2012, GIPSA will continue to provide quality reference method analyses in support of the development of new testing methods and in the maintenance accurate field testing for official and commercial inspection systems.

Official Moisture Measurement Technology

Moisture measurement remains one of the most important official and commercial grain inspection activities because of moisture content's impact in end-use value (dry matter content) and storability. GIPSA research has resulted in the 149 MHz Unified Grain Moisture Algorithm (UGMA) – an approach to grain moisture measurement that has the potential to improve grain moisture measurements by: 1) yielding improved accuracy, 2) permitting multiple manufacturers to design moisture meters that can use common calibrations and give equivalent results, and 3) reducing the cost of on-going calibration maintenance. In 2012, GIPSA will perform and report an evaluation of the effects of moisture gradients within grain samples (such as can occur at harvest) for different moisture technologies and will make a decision regarding whether to implement the new technology. The tentative target dates for implementation are May 2013 and August 2013, with the transition dates for different crops selected to minimize the effects on the value of grain stocks.

Sorghum Odor

Sorghum inherently has a range of odors. Sorghum end-users may find different types and levels of odor acceptable based on their preferences and the grain's intended end-uses. This variance poses many challenges for the sorghum industry. GIPSA is currently working with industry to ensure that the official system properly recognizes and characterizes these odors. In the fall of 2011, with the assistance of Kansas State University, GIPSA created the reference sample for "storage musty" sorghum and commenced training for all official inspection personnel. The training is designed to ensure that all sorghum inspectors are calibrated to the reference sample when assessing whether stored sorghum has a musty odor. In the spring of 2012, GIPSA will distribute the reference samples to all official inspection laboratories that inspect sorghum. During 2012, GIPSA will determine the feasibility and value of the routine use of sorghum "storage musty" reference samples for short-term and long-term standardization of official sorghum odor determinations.

Review of Official U.S. Standards for Grain

GIPSA regularly reviews the official standards for grain to ensure that his standards remain relevant to the marketplace. In 2012, GIPSA will continue its review of the wheat and barley standards.

Farm Gate and Export Quality Assessments

GIPSA continues to work with stakeholders to capture inspection data for grain entering the value chain. Through this multi-year initiative, GIPSA has collected samples at the first point of sale when producers deliver grain to the elevator during harvest. These samples provide a baseline of quality for grading factors such as damage and foreign material content, plus non-grade factors such as foreign material composition, moisture, oil, and protein. The data gathered from this project allow GIPSA to better evaluate the potential impact on the marketplace of proposed changes to the grain standards. Since beginning farmgate assessments in 2006, over 9,000 samples representing 29 soybean or sorghum-producing States have been submitted. In 2009, GIPSA published a report detailing sorghum and soybean quality based on previous years of the study. In 2011 GIPSA completed the fifth and final year of the sorghum-farmgate assessment, and in 2012 GIPSA will complete its fifth and final soybean farm gate assessment.

Improving Safety for Railcar Stowage Exams

Eliminating the hazard of falling from a hopper car is a priority of both GIPSA and loading facilities. GIPSA, in conjunction with cooperating loading facilities, determined that it is feasible for an inspector to perform stowage examinations from inside the inspection lab, using video cameras mounted above the cars a short distance before the loading spout. With this arrangement, the hopper cars are examined a few minutes before they are loaded. When cars do not pass inspection requirements, facility personnel can remove the identified loose debris from cars before they reach the loading spout, but cars that require more extensive cleaning cannot be filled. If the video inspection is inconclusive, the car will be physically inspected (in an area where fall protection is installed). As of October 2011, 58 facilities have been reported to GIPSA as having approved video stowage exam systems. This represents an increase of 35 facilities since 2010. The systems have been reported as working well, provided the video cameras' lenses are cleaned regularly to remove grain dust.

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

Alleged Violations

At the beginning of FY 2011, 5 cases involving alleged violations of the USGSA and the AMA were pending further GIPSA action. During FY 2011, 9 new cases were opened, including cases involving foreign quality complaints, deceptive loading, and failure to follow procedures and maintain records. GIPSA issued a combination of sanction, warning, cautionary, and informational letters to close 6 cases, including 2 from prior years and 4 from 2011.

Delegation and Designation Program

GIPSA oversees 55 official state and private agencies that are designated under the USGSA to provide voluntary official inspection and/or weighing services for domestic trade. Designations must be renewed every 3 years. In 2011, GIPSA renewed 17 agencies for full three year designations, amended one agency's designation to include official weighing services, and renewed one agency for a one year designation.

Quality Management Program

GIPSA manages the Quality Management Program (QMP) as part of the GIPSA Strategic Plan to enhance program delivery, utilization of resources, and customer satisfaction. The QMP is an audit-based system that uses modern quality management principles to evaluate federal, state, and private agencies. The QMP requires all official federal, state, and private agencies to establish a program for providing official services based on the principles of quality control, quality assurance, and quality improvement. GIPSA expects that implementation of the QMP will further enhance delivery of official services to the grain, feed, and processing industries while supporting GIPSA's efforts to contain costs and staff resources. GIPSA conducts QMP reviews every three years and requires annual internal audits. In 2011, GIPSA conducted onsite QMP reviews of one GIPSA office, one GIPSA sub-office, one delegated state, two delegated and designated states and 14 private agencies.

Container Inspection and Weighing Services

Expansion of the containerized grain export market has exceeded most forecasts. Inspection of containerized cargo has increased from 0.7 percent of total grain exported (metric tons) in 2005 to 3.6 percent of total grain exported (metric tons) in 2011 and represented 1 percent of total grain officially inspected (metric tons) by GIPSA in 2011. In order to accommodate the containerized grain trade, GIPSA has remained flexible with regard to sampling containerized lots and certification procedures. To ensure that GIPSA regulations and service operations effectively address current and evolving market conditions, GIPSA, in 2011, initiated a comprehensive review of the policies and procedures governing official inspection and weighing services for grain exported in containers, and proposed regulatory changes. GIPSA is developing outreach material for current and potential buyers of U.S. grain to enhance understanding of the sampling, inspection, and certification processes for grain exported in containers.

Complaints

GIPSA administers a formal process for investigating grain quality and weight discrepancies. When an importer of U.S. grains reports a quality or weight discrepancy, GIPSA initiates an investigation to determine the validity of the discrepancy. GIPSA analyzes samples retained on file from the original inspection and samples submitted from the overseas destination and evaluates the accuracy of the initial inspection. This process verifies whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. GIPSA then issues a report outlining its findings and provides suggestions to avoid similar discrepancies in the future.

In 2011, GIPSA received, investigated, and closed 9 quality complaints and no weight complaints from importers regarding grain shipments inspected under the U.S. Grain Standards act, as amended. These complaints involved about 0.6 percent by weight of the total amount of grain exported during the year.

TABLE 1: Summary of Complaints Reported by Importers on Inspection and Weighing, FY 2011

| Complainant | Grain | No. of Complaints | Nature of Complaint |
|------------------------------|--------------|-------------------|----------------------------------------------------------------|
| Asia | | | |
| China | Soybeans | 2 | Treated soybeans |
| Taiwan | Soybeans | 1 | Odor, damage, heat damage |
| | Wheat | 1 | Infestation, damage, heat damage, dockage, foreign material |
| Central/South America | | | |
| Colombia | Corn | 1 | Heat damage, broken corn, and foreign material |
| Middle East | | | |
| Egypt | Corn | 2 | Damage, heat damage, broken corn & foreign material, aflatoxin |
| Jordan | Wheat | 1 | Protein |
| Europe | | | |
| Spain | Wheat | 1 | Protein |
| TOTAL | | 9 | |

Working with International Customers

GIPSA personnel frequently meet with delegations visiting from other countries to provide technical assistance and brief them on the U.S. grain marketing system, our national inspection and weighing system, U.S. grain standards, and GIPSA's mission. Many of these delegations are sponsored by USDA cooperator organizations like U.S. Wheat Associates and U.S. Grains Council, which arrange visits to grain production areas, GIPSA headquarters and field offices, onsite laboratories at export grain elevators, and the National Grain Center in Kansas City, Missouri. At the National Grain Center, delegations sometimes receive technical training on analytical testing procedures and grain inspection methods, and GIPSA's briefings are tailored to address each group's interests and concerns. These briefings foster a better understanding of the entire U.S. grain marketing system and serve to enhance purchasers' confidence in U.S. grain. Ultimately, these efforts help move our nation's harvest to end-users around the globe. During 2011, GIPSA personnel met with 25 teams from 19 countries. Also of note, since 2002, GIPSA has stationed employees in Asia for 1- to 3-months to work with Asian customers and their governments. GIPSA has been able to address immediate and long-term issues in the region, promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in results, and develop face-to-face relationships with customers, USDA cooperators, and government officials. In September 2011, GIPSA placed one representative in China on a 2-week temporary duty assignment. The representative met with Chinese inspectors at several port laboratories to give presentations on U.S. grain standards and GIPSA's export inspection procedures and to observe their inspection procedures.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Limitation on Inspection and Weighing Services Expenses:

Not to exceed [~~\$49,000,000~~] \$50,000,000 (from fees collected) shall be obligated during the current fiscal year for inspection and weighing services: Provided, That if grain export activities require additional supervision and oversight, or other uncontrollable factors occur, this limitation may be exceeded by up to 10 percent with notification to the Committees on Appropriations of both Houses of Congress.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Lead-off Tabular Statement, Summary of Increases and Decreases, Project Statement, and Justification of
Increases and Decreases

LIMITATION ON INSPECTION AND WEIGHING SERVICES

| | |
|----------------------------|-------------------|
| Estimate, 2012..... | \$49,000,000 |
| Budget Estimate, 2013..... | <u>50,000,000</u> |
| Change..... | <u>1,000,000</u> |

Project Statement
(On basis of appropriation)

| Program | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>Change</u> | | <u>2013 Estimate</u> | |
|------------------------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|---------------|----------------|----------------------|----------------|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years |
| Discretionary Appropriation: | | | | | | | | | | |
| Limitations and Weighing Activities..... | \$45,255 | 398 | \$45,620 | 403 | \$49,000 | 401 | +\$1,000 | -1 | \$50,000 | 400 |
| Bal. Available, SOY..... | -9,948 | - | -14,662 | - | -17,687 | - | - | - | -17,687 | - |
| Transfers In..... | -874 | - | -445 | - | - | - | - | - | - | - |
| Bal. Available, EOY.... | 14,662 | - | 17,687 | - | 17,687 | - | - | - | 17,687 | - |
| Total Collections..... | <u>49,095</u> | <u>398</u> | <u>48,200</u> | <u>403</u> | <u>49,000</u> | <u>401</u> | <u>1,000</u> | <u>-1</u> | <u>50,000</u> | <u>400</u> |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

JUSTIFICATION OF INCREASES AND DECREASES

Justification of Increase

(1) An increase in the obligation limitation on fees collected from inspection and weighing services of \$1,000,000.

GIPSA anticipates the estimated collections for 2013 will be \$50,000,000 for its Federal Grain Inspection Service (FGIS). The increase in the obligation limitation will allow FGIS to spend its estimated collections, and continue to meet all requests for official services. In addition, this increase will also allow the program to operate without needing to utilize the 10 percent provision except under extreme circumstances.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Inspection and Weighing ServicesGeographic Breakdown of Obligations and Staff Years
(Dollars in thousands)

| State/Territory | <u>2010 Actual</u> | | <u>2011 Actual</u> | | <u>2012 Estimate</u> | | <u>2013 Estimate</u> | |
|---------------------------|--------------------|----------------|--------------------|----------------|----------------------|----------------|----------------------|----------------|
| | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years | Amount | Staff Years |
| Arkansas..... | \$2,179 | 20 | \$2,197 | 20 | \$2,379 | 20 | \$2,437 | 20 |
| District of Columbia..... | 9,550 | 53 | 9,526 | 52 | 10,032 | 50 | 10,258 | 50 |
| Idaho..... | 254 | 2 | 256 | 2 | 278 | 2 | 283 | 2 |
| Iowa..... | 371 | 2 | 274 | 1 | 297 | 1 | 303 | 1 |
| Louisiana..... | 17,522 | 181 | 17,563 | 180 | 18,889 | 180 | 19,317 | 180 |
| Missouri..... | 237 | 2 | 239 | 2 | 260 | 2 | 165 | 1 |
| North Dakota..... | 1,228 | 9 | 1,238 | 9 | 1,347 | 9 | 1,374 | 9 |
| Ohio..... | 2,148 | 18 | 2,166 | 18 | 2,343 | 18 | 2,390 | 18 |
| Oregon..... | 4,113 | 38 | 4,146 | 38 | 4,489 | 38 | 4,589 | 38 |
| Texas..... | 7,573 | 72 | 7,934 | 80 | 8,597 | 80 | 8,794 | 80 |
| Washington..... | 80 | 1 | 81 | 1 | 89 | 1 | 90 | 1 |
| Total, Obligations..... | 45,255 | 398 | 45,620 | 403 | 49,000 | 401 | 50,000 | 400 |

Classification by Objects
(Dollars in thousands)

| | <u>2010</u> <u>Actual</u> | <u>2011</u> <u>Actual</u> | <u>2012</u> <u>Estimate</u> | <u>2013</u> <u>Estimate</u> |
|------------------------------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| Personnel Compensation: | | | | |
| Washington | | | | |
| D.C..... | \$6,532 | \$6,585 | \$7,072 | \$7,252 |
| Field..... | <u>24,248</u> | <u>24,444</u> | <u>26,255</u> | <u>26,910</u> |
| 11 Total personnel compensation..... | 30,780 | 31,029 | 33,328 | 34,162 |
| 12 Personal benefits..... | 7,305 | 7,364 | 7,910 | 8,125 |
| 13.0 Benefits for former personnel..... | <u>62</u> | <u>62</u> | <u>67</u> | <u>68</u> |
| Total, personnel comp. and benefits..... | 38,147 | 38,455 | 41,304 | 42,355 |
| Other Objects: | | | | |
| 21.0 Travel and transportation of persons..... | 1,297 | 1,307 | 1,404 | 1,400 |
| 22.0 Transportation of things..... | 43 | 43 | 46 | 46 |
| 23.2 Rental payments to others..... | 82 | 83 | 89 | 91 |
| 23.3 Communications, utilities, and misc. charges... | 1,531 | 1,543 | 1,657 | 1,679 |
| 24.0 Printing and reproduction..... | 49 | 49 | 53 | 50 |
| 25.2 Other services from non-Federal sources..... | 3,545 | 3,574 | 3,838 | 3,764 |
| 26.0 Supplies and materials..... | 379 | 382 | 410 | 415 |
| 31.0 Equipment..... | 182 | 184 | 198 | 202 |
| 42.0 Insurance claims and indemnities..... | - | - | - | - |
| Total, Other Objects..... | <u>7,108</u> | <u>7,165</u> | <u>7,696</u> | <u>7,645</u> |
| 99.9 Total, new obligations..... | <u><u>45,255</u></u> | <u><u>45,620</u></u> | <u><u>49,000</u></u> | <u><u>50,000</u></u> |

Position Data:

| | | | | |
|--------------------------------------------|----------|----------|----------|----------|
| Average Salary (dollars), GS Position..... | \$58,200 | \$58,700 | \$59,000 | \$59,500 |
| Average Grade, GS Position..... | 10.1 | 10.7 | 10.8 | 10.9 |

PACKERS AND STOCKYARDS PROGRAM

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

Regulatory and investigative actions frequently find that entities are in compliance with the Act. When violations are discovered, GIPSA assesses fines for admitted violations or pursues administrative or civil litigation with the USDA Office of the General Counsel before a USDA Administrative Law Judge or through the Department of Justice. Litigation may also result in a fine against the offending entity (Table 2) or a suspension of a registration required under the P&S Act to conduct regulated activity.

TABLE 2: Penalties Levied for P&S Act Violations, 2007-2011

| Type Judgment | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------|---------|---------|---------|---------|---------|
| Stipulations (\$) | 9,750 | 23,275 | 30,775 | 127,787 | 364,800 |
| Administrative penalties (\$) | 404,150 | 657,770 | 364,700 | 341,027 | 662,470 |
| DOJ Civil penalties (\$) | 36,500 | 51,240 | 59,580 | 347,705 | 70,480 |

GIPSA maintains a toll-free telephone number and a dedicated e-mail address to allow members of the grain, livestock, and poultry industries and the public to report complaints and share concerns. Individuals or firms with complaints about the industries are encouraged to call the appropriate regional office to discuss their concerns, anonymously if desired. GIPSA responds to all of these complaints and sources of information.

GIPSA may also initiate investigations independently, for example, as a result of information obtained from monitoring industry behavior.

Current Activities:

Regulation Status Update

GIPSA received over 60,000 comments on the proposed rule, "Implementation of Regulations Required Under Title XI of the Food, Conservation and Energy Act of 2008; Conduct in Violation of the Act." The comment period closed November 22, 2010. The proposed rule encompasses sections 11005 and 11006 of the 2008 farm bill, and seeks to address concerns raised by producers across the country who have called on USDA to evaluate unfair, deceptive and anticompetitive practices in the market. On November 18, 2011, a provision in the 2012 Appropriations Act became law, which prevented moving forward with all but four narrow provisions of the proposed rule and set a deadline for completing this work. Funds were prohibited from being used for all other work related to the proposed rule for 2012. GIPSA published the final rule containing the provisions related to arbitration, suspension of delivery of birds, breach of contract and additional capital investments on December 9, 2011 (76 FR 76874).

Business Practices

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

Competition and Trade Practices

To obtain compliance with the P&S Act, GIPSA undertakes investigative and regulatory activities. These are identified as either competitive or trade practices activities. Investigations are enforcement actions conducted when there is reason to believe a violation of the P&S Act is occurring. Investigations at a firm-level may be a follow-up to previously identified violations, in response to industry-driven complaints, and in response to possible violations found while conducting regulatory activities on a business' premises, or through other monitoring activities. Investigations may be conducted as rapid response actions to prevent irreparable harm to the regulated industries. In 2011, GIPSA closed 23 competition investigations, 1,022 financial investigations, and 1,008 trade practice investigations, for a total of 2,053 investigations closed by GIPSA. An additional 78 investigations were closed that GIPSA had referred to OGC for possible administrative or judicial action.

Regulatory activities, on the other hand, are activities undertaken to determine if a regulated entity is complying with the P&S Act. Two examples of regulatory activities are scale and weighing inspections and audits of custodial bank accounts maintained by market agencies for seller proceeds. In 2011, 760 scale and weighing checks were conducted, finding 141 violations; and 305 custodial account audits resulted in account corrections worth approximately \$2.9 million. Regulatory activities also include market level monitoring, which is generally conducted using data that are available in the public domain. Examples include, but are not limited to, monitoring fed cattle and hog prices, and structural changes in the livestock, meat, and poultry industries. Monitoring activities have led to firm-level investigations.

Fed Cattle Price Monitoring

In 2003, following the first case of Bovine Spongiform Encephalopathy in the U.S., GIPSA reviewed its fed-cattle market monitoring practices and revised its econometric model used since the mid-1990's to detect price differences in regional fed cattle markets. The statistical model relies on publicly reported price data to assess regional price differences. The model is run weekly, and any price outlier that is not caused by certain statistical factors triggers a regulatory review. If the review does not determine that the price outlier was caused by certain external factors or readily observable market conditions, then a formal investigation is initiated to determine the cause of the price outlier. The formal investigation involves a deeper examination of the price data and cattle characteristics, and interviews with buyers, sellers, and other market participants. The fed cattle price monitoring program initiated 11 regulatory activities in 2011, none of which indicated cause for investigation.

Committed Procurement Review and Audit

Each year, GIPSA economists obtain fed cattle and hog procurement data and any new or modified contracts and agreements for the previous calendar year from the five largest beef and four largest hog packers. Economists classify, review, and tabulate the individual transaction's data, and calculate the reliance of the top packers on committed procurement methods. GIPSA economists review the contracts and, if necessary, discuss them with the packers to determine the nature of the agreements as they relate to the committed procurement categories of interest. In 2011, GIPSA continued to conduct regulatory reviews of the procurement practices of the four largest hog packers to assess whether the procurement methods reported to the Agency in the packers' yearly reports accurately reflect packer procurement transactions' data.

Financial Protection

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

Trusts and Bonds

The P&S Act also establishes a statutory trust on certain assets of packers and live poultry dealers for the benefit of unpaid cash sellers of livestock, and unpaid cash sellers or contract growers of live poultry grown for slaughter. When a trust claim is filed, GIPSA analyzes the claim to determine if the claim appears to be timely and supported by adequate documentation. Additionally, all market agencies, dealers, and slaughtering packers purchasing over \$500,000 of livestock annually are required to file and maintain bonds or bond equivalents for the protection of livestock sellers. When a seller fails to receive payment on a transaction, they must file a bond claim within 60 days of the transaction. Both trustees and bond sureties receive GIPSA's analysis as a courtesy. GIPSA does not pay trust or bond claims, and cannot compel payments. In 2011, there were 20 dealer, 4 market, and 11 packer failures. For the cases that were closed, Consigners received restitution of 23, 57 and 10 percent respectively.

Poultry Contract Compliance Review Process

In 2009, GIPSA added a formal poultry contract compliance review as a component of GIPSA's industry compliance rate performance measure. Contract reviews, in addition to the other component reviews that are conducted based on a random sample, may be initiated based on industry intelligence or complaints. GIPSA developed a sub-process module to be followed when agents conduct reviews. Contracts are reviewed for consistency and adherence to regulations and randomly chosen payment sample data are reviewed for accuracy and completeness. If discrepancies are found in the firm's documentation, an investigation will be opened. Otherwise, exit interviews are provided indicating that the firm is found to be free of violation. In 2011, P&SP conducted 49 poultry reviews, 31 of these reviews were based on a random sample.

Packers and Stockyards Automated System

As a result of the Business Process Re-engineering effort initiated by GIPSA in 2006 to develop workflow process descriptions for all major activities, GIPSA standardized business practices across the agency and then focused on automating the information management system. GIPSA merged three database systems that stored critical data into the Packers and Stockyards Automated System (PAS), an integrated system that eliminates multiple data entry and ensures accuracy for reporting and management. Implementation of PAS began in summer 2008 and full software functionality, regional enforcement analysis, and policy analysis was completed in 2009 to fully implement the system. GIPSA completed enhancements to PAS in 2011 that consisted of updating the standard operating procedures and designing a workflow to automate the process for scale tests. In addition, software developers have previewed a "dashboard" concept which allows data to be easily accessed by users, sorted based on user preferences, and displayed in a tabular or graphical format. Since PAS collects a vast amount of data, dashboards will be released in phases. The goal is to implement dashboards for investigations and regulatory activities. The execution of these "dashboards" will be the final phase for fully implementing and completing development for PAS.

Failures and Restitution

Bonding requirements usually do not cover the entire loss sustained when a firm fails financially. A large packer's failure (one failed in 2002, owing more than \$15 million), may impact auction markets and dealers from whom it purchased livestock and failed to pay. Since 2002, there has been an average of 13 dealer failures per year. Percent restitution to livestock sellers from all sources has averaged 19 percent per year. In 2011, it was 47 percent, with 46 percent originating from bonds (Table 3).

TABLE 3: Total Dealer Financial Failures and Restitution, 2002-2011

| Fiscal Year | No. of Failures Closed | Closed, Owed For Livestock (\$) | Closed, Restitution | | Closed Recovery (%) |
|----------------|------------------------------|------------------------------------------|-----------------------|-------------------------------|---------------------------|
| | | | From Bonds (\$) | From Other Sources (\$) | |
| 2002 | 11 | 3,271,962 | 618,764 | 60,000 | 21 |
| 2003 | 5 | 1,805,600 | 112,281 | 28,923 | 8 |
| 2004 | 3 | 770,860 | 95,000 | 0 | 12 |
| 2005 | 1 | 2,993,990 | 0 | 0 | 0 |
| 2006 | 13 | 3,018,131 | 134,936 | 26,856 | 5 |
| 2007 | 31 | 6,941,930 | 257,634 | 549,303 | 12 |
| 2008 | 20 | 2,054,647 | 843,682 | 301,916 | 56 |
| 2009 | 25 | 3,134,145 | 348,018 | 411,133 | 24 |
| 2010 | 7 | 213,332 | 20,000 | 0 | 9 |
| 2011 | 14 | 878,620 | 407,105 | 4,479 | 47 |

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. Since 2002, an average of 6 auction markets per year has failed, with consignors receiving an average restitution of 47 percent. In 2011, the average auction restitution received was 57 percent, with almost all the restitution originating from sources other than bonds. (Table 4).

TABLE 4: Total Auction Market Financial Failures and Restitution, 2002-2011

| Fiscal Year | No. of Failures Closed | Closed, Owed Consignors (\$) | Closed, Restitution | | Closed Recovery (%) |
|----------------|------------------------------|---------------------------------------|-----------------------|-------------------------------|---------------------------|
| | | | From Bonds (\$) | From Other Sources (\$) | |
| 2002 | 6 | 1,082,034 | 378,610 | 0 | 35 |
| 2003 | 6 | 1,187,979 | 211,464 | 138,848 | 29 |
| 2004 | 2 | 145,772 | 60,000 | 16,649 | 53 |
| 2005 | 3 | 336,006 | 85,000 | 201,840 | 85 |
| 2006 | 9 | 979,543 | 267,174 | 19,380 | 29 |
| 2007 | 11 | 511,704 | 37,252 | 155,890 | 38 |
| 2008 | 6 | 602,100 | 237,734 | 352,111 | 98 |
| 2009 | 7 | 981,189 | 261,498 | 1,365 | 27 |
| 2010 | 4 | 20,901 | 4,547 | 0 | 22 |
| 2011 | 4 | 158,279 | 0 | 89,586 | 57 |

Centralized Reporting Unit

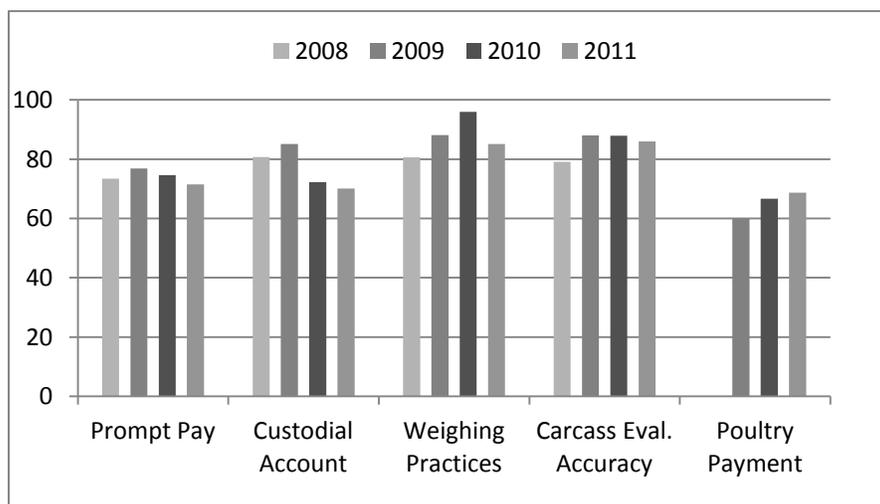
GIPSA formed a centralized reporting unit (CRU) in FY 2008 to receive and handle annual reports submitted by entities that are regulated under the P&S Act. Fully functional in 2009, the CRU increased the efficiency in processing annual reports and enhanced the agency’s ability to take enforcement action against firms that fail to complete or submit an annual report and firms that submit incomplete forms in a timely fashion. In 2011, the CRU continued to analyze annual reports submitted by firms to determine if custodial accounts are short, set appropriate bond amounts, and monitor trade practices.

Performance and Efficiency Measurement

Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations. The time increased from 60 days in 2010 to 98 days for investigations closed within GIPSA in 2011. Total number of regulatory actions plus investigations worked on during the year increased about 37 percent, from 5,525 in 2010 to 7,384 in 2011. In 2011, 2,780 investigations of regulated firms were opened while 2,131 cases opened from 2011 and prior years were resolved and closed, including those closed after referral to OGC and the Department of Justice. The comparable numbers for 2010 were 2,110 cases opened and 1,854 cases closed.

GIPSA measures the overall performance of the P&SP by annually monitoring the regulated entities’ compliance with the P&S Act. The aggregate industry compliance rate for 2011 dropped slightly to 76 percent from the 80 percent level in 2010. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the aggregate compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews (Figure 1). The results of the individual component inspection and audits that comprise the aggregate index show a year-to-year decline in compliance rates in 2011 for four of the five areas reviewed. The poultry contract compliance review shows improvement from the initial rate of 60 percent in 2009 to 67 percent in 2010 and 69 percent in 2011. Of the other four components, two were above 85 percent and the third and fourth were 70 and 72 percent respectively.

FIGURE 1: Performance Measure Component Compliance Rates, 2008-2011



Annual Industry Assessment

GIPSA completed the assessment of the industries regulated under the P&S Act based on data from annual reports filed by regulated firms for the firms' 2010 fiscal year. The assessment indicates that the four largest firms' share of total value of livestock purchases (i.e., aggregate industry concentration) declined nearly three percentage points in 2010 after increasing for the previous three years. Four-firm concentration ratios by volume of steer and heifer slaughter increased by three percentage points in 2010.

Concentration in poultry slaughter has trended upward since 2000. Cow and bull slaughter concentration increased from 1999 to 2007 then declined slightly for the last three years. Concentration in hog slaughter increased sharply in 2003, declined in 2006, increased in 2007 and remained essentially steady since. Concentration in sheep slaughter declined in the first half of the decade then increased in 2005 and remained steady through 2009, but declined by five percentage points in 2010.

Pricing methods

Pricing methods are divided into two categories: live-weight or carcass pricing methods. With live-weight purchasing of livestock, the price is quoted and the final payment is determined based on the weight of the live animal. In a "carcass-based" purchase, the price is quoted and the final payment is determined based on the hot weight of each animal's carcass after it has been slaughtered and eviscerated. The total volume of cattle purchased on a carcass basis, trended upward from 1998 through 2002. After a sharp decline in 2004, the volume stabilized in 2005 and 2006, and then increased through 2008 remaining close to constant in 2009 and 2010. The proportion of cattle purchased on a carcass basis is expected to remain in the 60-percent range with modest fluctuations. Carcass-based purchases have become the predominant method used for hogs purchased for slaughter with a sharp increase in 2008, but declined in 2009 to a level more consistent with the longer term trend, as there was little change in 2010. The proportion of hogs purchased on a carcass basis will likely stabilize at current levels. In comparison, the volume of sheep purchased on a carcass basis peaked at over 1.9 million head in 2001 but has declined to around 600,000 head in recent years.

Procurement

The use of formula pricing methods and forward contracting for fed cattle increased in 2010, as the use of negotiated pricing declined. Packer feeding remained relatively constant. Packer feeding and forward contracting represent only about 5 percent and 12 percent, respectively, of total cattle procurement. Patterns of use of alternative procurement and pricing methods for hogs were relatively unchanged in 2010, with about 68 percent purchased through various types of marketing arrangements, about 28 percent fed by packers, and the balance of just under five percent purchased on the negotiated spot market. Procurement methods used in the purchase of sheep and lambs for slaughter are similar to those used for other species and include purchase in spot markets, use of marketing agreements, use of various other forms of advance sales contracts, and packer feeding. As with other species, the various procurement methods used for lambs continue to evolve but GIPSA has not observed major changes in the methods in recent years and expects this stability to continue. Live poultry production is coordinated through production (grow-out) contracts, company-owned farms, and marketing agreements.

Industry Concerns

Industry participants have expressed a concern over GIPSA's lack of administrative authority within certain poultry areas. Administrative authority regarding poultry as provided by the P&S Act is significantly different than the livestock provisions. In particular, the Secretary's administrative authority applies to only two financial payment provisions "Section 207, Statutory trust established; poultry" and "Section 410, Final date for making payment to cash seller or poultry grower" of the P&S Act. If the Secretary seeks to bring enforcement action against an entity for an alleged violation of provisions outside of his administrative authority, then the investigative case would be referred to the Department of Justice.

Analysis of industry data indicates that those areas in which P&SP has administrative authority have higher compliance rates compared to areas without administrative authority. For example, in 2009 the industry compliance rate for areas under administrative authority was 79.6 percent. This compares to a 60.0 percent compliance rate for the poultry industry for a measure made over four provisions with only one being under the Secretary's administrative authority. Examining the poultry industry compliance data more closely in 2010, the areas under administrative authority had a compliance rate of 84.7 percent versus 65.3 percent for those areas not under administrative authority. Using the same areas in 2011 to measure poultry industry compliance, a difference was observed with those areas under administrative authority being 72.3 percent compliant versus a rate of 55.3 percent compliant for those areas not under administrative authority.

The lack of compliance imposes costs on poultry growers and potentially the poultry industry. Poultry, beef, and pork compete against each other for a share of the consumer's purchasing dollar. This competition is waged over product attributes offered to the consumer such as taste preferences, convenience, and price per pound. The poultry industry has made enormous gains in production efficiencies spanning more than 20 years to establish poultry as the low cost meat protein. In order to maintain that growth, the industry relies on a steady introduction of production technologies at the grower level. Frequently, these infusions of new technology require expensive capital investments in the form of new poultry growing house designs or environmental control features within existing houses. (See testimony provided at the joint Department of Justice and USDA competition workshop held in Normal, AL in May 2010 at: <http://www.justice.gov/atr/public/workshops/ag2010/>. P&SP collected similar public comments at a townhall meeting held in Gainesville, FL in October 2008 for the poultry industry. Individual grower complaints are also made to P&SP agents on a periodic basis.)

The nature of poultry production, where growers contract to integrators their production services, makes poultry growers susceptible to extraction of income by integrators after the contract is executed, referred to as ex-post opportunism. This is in part caused by the poultry grower making a relatively large investment in poultry growing facilities often prior to entering into a poultry growing contract or as terms of entering into a growing contract. The investment makes it difficult financially for growers to exit the industry once they enter into the contract and contract compensation rates may be below the grower's initial expectations. Frequently related to the lower rates of compensation are credible threats of contract termination if the grower does not invest in new production technologies. Consistent reports to GIPSA over time suggest that this may be a systemic feature of poultry production potentially related to a lack of administrative authority. To determine the extent of harm related to the lack of authority, an estimate was made on the cost that poultry growers are being exposed to as a result of ex-post opportunism and whether it results in an over investment in technology that distorts cattle and hog prices.

The method to quantify potential ex-post opportunity costs uses return on equity defined as net farm income, minus the opportunity cost of operator labor, divided by net worth (gross assets minus debt). The presumption is that growers should be able to earn a rate of return on equity that maintains itself relative to the erosion created by inflation. The median return on equity from ERS data for growers that were earning 90 percent or more of their gross income from production contracts was -0.509 when averaged over the 7 years from 2003 to 2009.

Using an average rate of inflation of 2.18, the inflation-return on equity gap is 2.71. This implies poultry growers are losing equity at a rate exceeding the loss due to inflation. Based on a per farm asset value for 2009 of \$624,047; the gap on earnings to inflation represents an annual loss on equity of \$16,903 per farm. Assuming that 50 percent of the low return on equity is due to over investment in farm level technology induced on the grower by the processor from ex-post opportunism, the \$16,903 when multiplied by the 20,637 poultry grower farms, implies an ex-post opportunism cost potentially due to lack of administrative authority of \$174.4 million. This behavior also represents a significant comparative advantage for the poultry processing industry relative to the beef and pork industries.

In summary, administrative authority regarding poultry as provided by the P&S Act is significantly different than the livestock provisions. In particular, the Secretary's administrative authority applies to only two financial payment provisions "Section 207, Statutory trust established; poultry" and "Section 410, Final date for making payment to cash seller or poultry grower" of the P&S Act. Analysis of industry data indicates that those areas in which P&SP has administrative authority have higher compliance rates compared to areas without administrative authority. For

example, in 2009 the industry compliance rate for areas under administrative authority was 79.6 percent. The lack of compliance imposes costs on poultry growers and potentially the poultry industry. Poultry, beef, and pork compete against each other for a share of the consumer's purchasing dollar. To determine the extent of harm related to the lack of authority, an estimate was made of the cost to poultry growers. The estimate suggests a cost potentially due to lack of administrative authority of \$174.4 million.

INSPECTION AND WEIGHING SERVICESProviding Official Grain Inspection and Weighing Services

The U.S. Grain Standards Act, as amended (USGSA) requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations. Services under the USGSA are performed on a fee basis for both export and domestic grain shipments. Official inspection and weighing of U.S. grain in domestic commerce are performed upon request. Table 1 displays an overview of GIPSA's inspection and weighing program activity.

TABLE 5: Inspection and Weighing Program Overview, Fiscal Years 2009-2011

| Item | Fiscal Years | | |
|------------------------------------------------------------------------|--------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| <i>Inspection Program</i> | | | |
| Quantity of Grain Produced ¹ (Mmt) ² | 500.4 | 480.7 | 464.1 |
| Quantity of Standardized Grain Officially Inspected (Mmt) ³ | | | |
| Domestic | 168.0 | 191.5 | 187.3 |
| Export by GIPSA | 71.4 | 77.7 | 81.2 |
| by Delegated States | 25.1 | 29.2 | 29.5 |
| by Designated Agencies | <u>10.1</u> | <u>11.5</u> | <u>12.3</u> |
| Total | 274.6 | 309.9 | 310.3 |
| <i>Weighing Program</i> | | | |
| Official Weight Certificates Issued | | | |
| GIPSA | 69,163 | 80,097 | 75,473 |
| Delegated States/Official Agencies | 226,686 | 222,781 | 265,686 |
| Exported Grain Weighed (Mmt) | | | |
| GIPSA | 70.3 | 77.1 | 80.3 |
| Delegated States | <u>24.8</u> | <u>29.0</u> | <u>29.1</u> |
| Total | 95.1 | 106.1 | 109.4 |

Current Activities:**FGISonline**

GIPSA continues to modernize its inspection and weighing program with implementation of two new FGISonline Applications in 2011. The modernization effort is improving the efficiency and effectiveness of service delivery by streamlining business practices, such as billing, creation and issuance of weight certificates, and access to official inspection and weighing records.

Distiller's Dried Grains

As the production of grain-based ethanol has increased in recent years, so too have distiller's grains, the co-products of ethanol production. GIPSA facilitates the marketing of distiller's grains by providing phytosanitary inspections on behalf of the USDA/Animal and Plant Health Inspection Service. During FY 2011, GIPSA sampled nearly 47

¹ Source: USDA World Agricultural Supply and Demand Estimates. This figure includes production of wheat, corn, sorghum, barley, oats, and soybeans.

² Million metric tons.

³ Includes grain for which GIPSA maintains official standards.

percent of all exported distiller's grains. Given the expected continued growth in foreign demand, GIPSA expects to continue to provide high-quality inspection service for this growing market.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance

Statement of Department Goals and Objectives

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

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

| USDA Strategic Goal | Agency Strategic Goal | Agency Objectives | Programs that Contribute | Key Outcome |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| USDA Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving. | Agency Goal 1: Promote fair and competitive marketing of livestock, meat, and poultry. | <u>Objective 1.1:</u> Protect fair trade practices, financial integrity, and competitive livestock, meat, and poultry markets. | Packers and Stockyards Program | <u>Key Outcome 1:</u> Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry. |
| | Agency Goal 2: Facilitate the marketing of U.S. grain and related agricultural products. | <u>Objective 2.1:</u> Provide the market with terms and methods for quality assessments. <u>Objective 2.2:</u> Protect the integrity of U.S. grain and related markets. <u>Objective 2.3:</u> Provide official grain inspection and weighing services. | Federal Grain Inspection Service | <u>Key Outcome 2:</u> Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world. |

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

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

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- Packers and Stockyards Program – GIPSA measures the overall performance of the P&SP by annually monitoring the regulated entities' compliance with the P&S Act. The aggregate industry compliance rate for 2011 dropped to 76 percent from the 80 percent level of 2010 due partly to continuing fiscal and liquidity pressures on certain segments of the regulated industry, particularly livestock markets and live poultry dealers as well as structural changes in the industry towards increased use of production contracts. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the aggregate compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews. The results of the individual component inspection and audits that comprise the aggregate index show a year-to-year decline in compliance rates in 2011 for four of the five areas reviewed. The poultry contract compliance review shows improvement from the initial rate of 60 percent in 2009 to 67 percent in 2010 and 69 percent in 2011.
- Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations. The time increased from 60 days in 2010 to 98 days for investigations closed within GIPSA in 2011. This change reflects primarily the increased number of cases referred to headquarters for enforcement action, but also reflects case types, which can be more or less complex, ranging from inaccurate annual reports filed from regulated entities to complaints regarding unfair and undue behaviors on the part of regulated entities as well as complaints related to structural issues that involved the Department of Justice. Total number of regulatory actions plus investigations worked on during the year increased about 37 percent, from 5,525 in 2010 to 7,384 in 2011. In FY 2011, 2,780 investigations of regulated firms were opened while 2,131 cases opened from 2011 and prior years were resolved and closed, including those closed after referral to OGC and the Department of Justice. The comparable numbers for 2010 were 2,110 cases opened and 1,854 cases closed. Both these changes reflect increased output per P&SP agents from enhanced management practices such as the electronic case file management system that allows agents and supervisors to monitor workflow assignments and track overall work progress from assignment inception to completion.

Selected Accomplishments Expected at the FY 2013 Proposed Resource Level:

- In FY 2013, GIPSA expects to focus staff resources on increasing industry compliance with the P&S Act in 2012 and maintaining this level in 2013. The focus involves two areas. First, GIPSA is reviewing the recommendation made by the National Research Council (at https://download.nap.edu/catalog.php?record_id=13304) on the public release of USDA/Food Safety and Inspection Service plant inspection results to obtain increased compliance to determine how GIPSA might adopt similar recommendation based on its regulatory reviews. Secondly, GIPSA is using the data compiled on a daily basis of its field inspections to prioritize and align scarce staff resources to optimize the effort expended in achieving greater industry compliance. Although the 2011 level of compliance declined from 2010 levels, potentially due to economic conditions, by taking the two steps described above GIPSA will be able to realize an 81 percent level of industry compliance in 2012 and for 2013 achieve a level of 81 percent compliance, up 6 percent compared to the baseline of 75 percent for FY 2007. Nonetheless, the industry's anticipated recovery from current economic conditions and staff reductions may result in compliance rates improving slightly less in the coming 2 years than previously projected.
- In FY 2013, GIPSA will continue to implement directives and policies stemming from the publication in December, 2011 of the GIPSA 2008 Farm Bill regulation titled "Implementation of Regulations Required Under Title XI of the Food, Conservation and Energy Act of 2008; Suspension of Delivery of Birds, Additional Capital Investment Criteria, Breach of Contract, and Arbitration." The regulation has broad implications in the poultry industry in particular and will require significant efforts in monitoring the industry for compliance with the regulation and in pursuing investigative and enforcement actions against those entities that fail to operate in compliance with the new regulation. As a consequence of the rule and its implementation, GIPSA expects to make some internal organizational adjustments to accommodate the added responsibilities of the regulation.

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

Key Outcome 2: Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.

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

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- In FY 2009, the GIPSA Market Opportunities Team evaluated its master list of market needs, in cooperation with entities representing all segments of the grain and related commodities markets, and correspondingly recalculated target levels of performance for FY 2010 and beyond. GIPSA was able to provide standardization for 98.6 percent of market identified attributes, prior to the recalculation. In FY 2010 and 2011, GIPSA was able to provide standardization for 85 and 86.8 percent, respectively, of market identified attributes.
- In FY 2011, GIPSA played a significant role in maintaining the level of U.S. grain exports traded without disruptions or reported quality discrepancies at 99 percent. This indicates the accuracy and reliability of GIPSA's grain quality measurements and the success of our efforts to ensure that all of America's international trading partners understand how grain quality is determined.

Selected Accomplishments Expected at the FY 2013 Proposed Resource Level:

- In FY 2013, GIPSA expects to provide standardization for 88 percent of all market-identified quality attributes. During FY 2013, GIPSA anticipates continued success in facilitating the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user fee funded official inspection and weighing services. GIPSA will provide the market with quality assessment terms and methods that reflect the evolving market needs, including providing both direct product testing, and documentation of specific production or processing methods, to help the market differentiate its diverse products. To protect the integrity of U.S. grain and related markets, GIPSA will maintain regulatory requirements for grain handling, marketing, and performance of laboratories authorized to provide official grain quality assessments that promote fair marketing. The agency also will continue to provide official grain inspection and weighing services to American agriculture through the official national system, a network of Federal, State, and private service providers.

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

Strategic Goal Funding Matrix
(Dollars in thousands)

| <u>Program / Program Items</u> | <u>2010</u> <u>Actual</u> | <u>2011</u> <u>Actual</u> | <u>2012</u> <u>Estimate</u> | <u>Change</u> | <u>2013</u> <u>Estimate</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|--------------------------------|---------------|--------------------------------|
| Department Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving | | | | | |
| Packers and Stockyards..... | \$23,157 | \$22,319 | \$21,270 | +1,197 | \$22,467 |
| Staff Years..... | 175 | 175 | 173 | -5 | 168 |
| Grain Regulatory..... | 17,979 | 17,456 | 16,480 | +1,314 | 17,794 |
| Staff Years..... | 135 | 135 | 133 | -4 | 129 |
| Total Costs, All Strategic Goals..... | 41,136 | 39,775 | 37,750 | +2,511 | 40,261 |
| Total FTEs, All Strategic Goals..... | 310 | 310 | 306 | -9 | 297 |

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Summary of Budget and Performance

Key Performance Outcomes and Measures

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

Key Outcomes:

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

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

Key Performance Measures:

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

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

Agency Priority Goal Targets:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Performance Measures | Actual | Actual | Actual | Actual | Actual | Target | Target |
| Percent of industry compliance with the Packers and Stockyards Act | | | | | | | |
| a. Percent | 75 | 80 | 80 | 80 | 76 | 81 | 81 |
| b. Dollars (in thousands) | \$20,200 | \$20,900 | \$22,400 | \$23,157 | \$22,319 | \$21,270 | \$22,467 |
| Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization. | | | | | | | |
| a. Percent | 95.7 | 97.8 | 98.6 | 85.0[1] | 86.8[1] | 87.0[1] | 88.0[1] |
| b. Dollars (in thousands) | \$10,800 | \$11,000 | \$11,000 | \$10,900 | \$10,600 | \$10,200 | \$10,800 |

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

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Full Cost by Department Strategic Goal
(Dollars in thousands)

Department Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving

| <u>Program / Program Items</u> | <u>2010</u> <u>Actual</u> | <u>2011</u> <u>Actual</u> | <u>2012</u> <u>Estimate</u> | <u>2013</u> <u>Estimate</u> |
|--------------------------------------------------------------------------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| <u>Packers and Stockyards Program</u> | | | | |
| Packers and Stockyards Program..... | \$20,336 | \$19,600 | \$18,679 | \$19,730 |
| Indirect costs..... | 2,821 | 2,719 | 2,591 | 2,737 |
| Total Costs..... | 23,157 | 22,319 | 21,270 | 22,467 |
| FTEs..... | 175 | 175 | 173 | 168 |
| Performance Measure: | | | | |
| Rate of industry compliance with the P&S Act (%)..... | 80 | 76 | 81 | 81 |
| <u>Grain Regulatory Program</u> | | | | |
| Grain Regulatory Program..... | \$15,095 | \$14,656 | \$13,836 | \$14,940 |
| Indirect costs..... | 2,884 | 2,800 | 2,644 | 2,854 |
| Total Costs..... | 17,979 | 17,456 | 16,480 | 17,794 |
| FTEs..... | 135 | 135 | 133 | 129 |
| Performance Measure: | | | | |
| Percent of market-quality attributes for which GIPSA has provided standardization (%)..... | 85 | 87 | 87 | 88 |
| Total Costs, All Strategic Goals..... | 41,136 | 39,775 | 37,750 | 40,261 |
| Total FTEs, All Strategic Goals..... | 310 | 310 | 306 | 297 |