

**The Grain Inspection,
Packers and Stockyards Administration**

Organizational Overview

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

One of GIPSA's programs, the Federal Grain Inspection Service (FGIS), provides the U.S. grain market with Federal quality standards and a uniform system for applying them. The other, the Packers and Stockyards Programs (P&S), ensures open and competitive markets for livestock, meat, and poultry. The new agency carries on the traditions of service, integrity, professionalism, and fairness that characterize both of its component programs.

While uniting GIPSA's two program areas under a common mission of facilitating trade was a natural step, the statutory bases for carrying out these programs differ fundamentally. P&S is a regulatory program whose roots are in providing financial protection, and ensuring fair and competitive markets. FGIS, on the other hand, has both service and regulatory roles, and was founded to provide impartial, accurate quality and quantity measurements to create an environment that promotes fairness and efficiency.

The impartiality of both program areas has been essential over the years. The existence of GIPSA as an impartial, third-party entity helps ensure a fair and competitive marketing system for all involved in the merchandising of grain and related products, livestock, meat, and poultry.

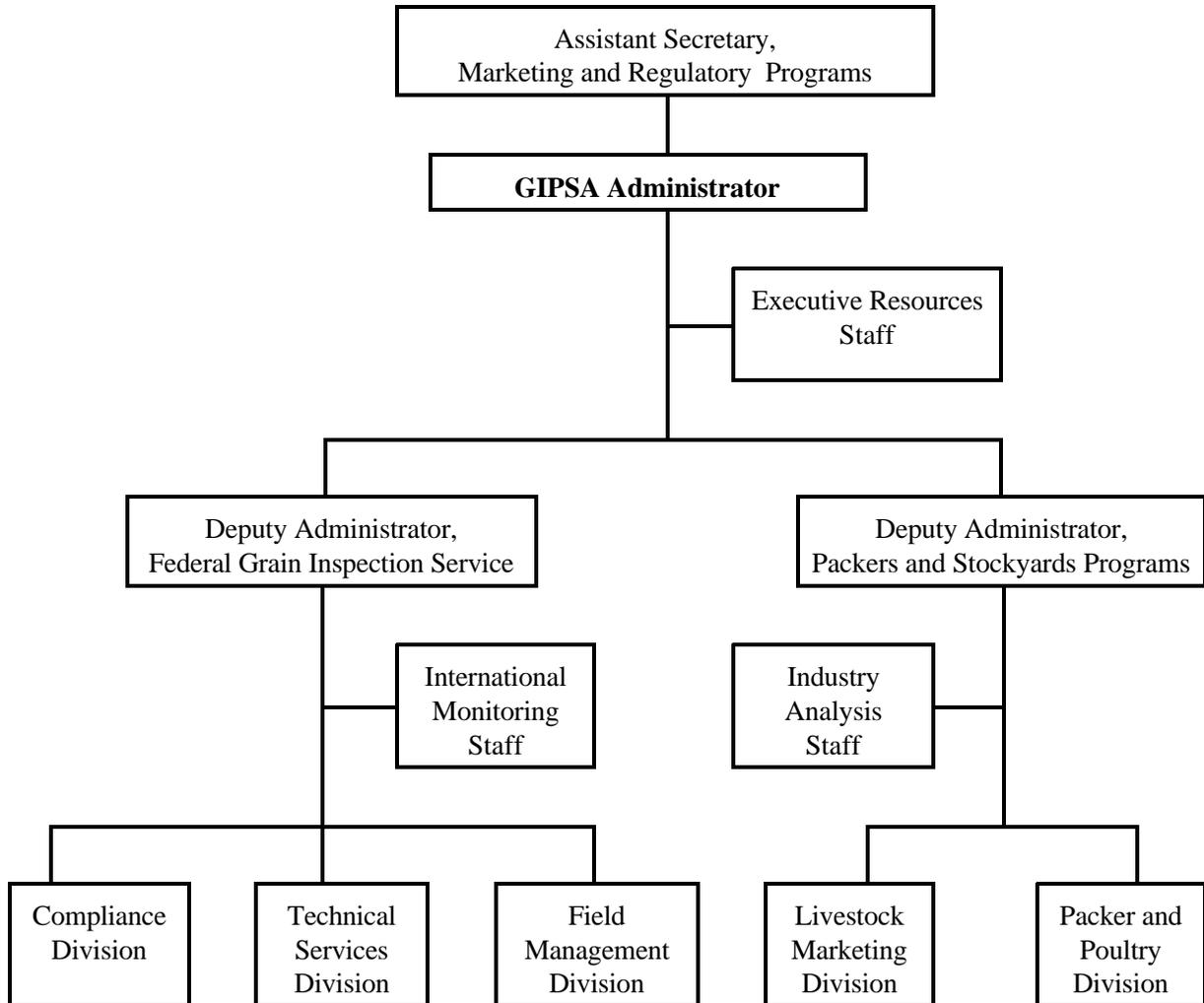
Mission

GIPSA facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products and promotes fair and competitive trading practices for the overall benefit of consumers and American agriculture.

Vision

A responsive team committed to excellence, value, integrity, and professionalism.

GIPSA Organizational Structure



Outlook 1997

Care and Handling of Livestock

The care and handling of livestock at stockyards will continue to be an important issue in FY 1997. In May 1996, the Agency, seeking comments from all interested parties, published a notice of proposed guidelines for the care and handling of livestock at stockyards. Over 3,800 comments were received. GIPSA currently is reviewing all of the comments and expects to make a final decision on the proposed guidelines in FY 1997. The Agency's program to investigate stockyard handling practices and procedures is ongoing to ensure continued compliance.

Concentration and Competitive Procurement Issues

Concerns about concentration in meatpacking, captive supplies in beefpacking, vertical coordination in hog production, possible mergers and other structural changes in the meatpacking industry will continue to be important issues in 1997. Concerns about concentration in cow and bull slaughter also could increase in 1997. Plans for implementing the recommendations of Secretary of Agriculture Dan Glickman's Advisory Committee on Agricultural Concentration will be watched closely. Recommendations that specifically relate to GIPSA include a comprehensive review of P&S' surveillance, investigation, and enforcement practices.

Grain Inspection Automation

GIPSA's customers are recognizing automation of official grain inspection functions as extremely important for improving the costs, risks, and productivity associated with grain handling. In FY 1996, GIPSA met with customers of the official system to clarify their needs, and developed policies and procedures to initiate grain automation inspection projects. In FY 1997, GIPSA will work with its customers to refine policies and procedures, issue guidelines for grain inspection automation projects, and initiate several such projects.

Informational Video on U.S. Export Commodities

To assist recipients of U.S. export commodities (grain, rice, pulses, and processed commodities), GIPSA, in cooperation with USDA's Farm Service Agency (FSA), is developing a 30-minute informational video to educate recipients of U.S. commodity shipments about: (1) the importance of purchase contract specifications; (2) the process by which U.S. export commodities are handled and inspected from the point of packing until placed aboard the export vessel; (3) expected changes in quality that often occur in transit and in storage in overseas warehouses; and (4) complaint resolution, including drawing destination samples.

Official Moisture Measurements

In FY 1996, GIPSA initiated the selection of new official grain moisture measurement technology. Serving as an Authorized Laboratory under the National Conference on Weights and Measures' National Type Evaluation Program (NTEP), GIPSA completed NTEP testing and certification of six different instrument types. GIPSA is developing selection criteria for grain moisture meter technology that will enable the official grain inspection service to best meet its customers' needs.

In FY 1997, GIPSA plans to select the new official technology from among that group of six NTEP-certified instrument types and begin implementing a new official moisture meter(s).

Poultry Regulations

Currently, the predominant method used to pay growers for flocks under a poultry growing arrangement is based on a system that compared a grower's results to that of other growers during a specified time period. Many poultry growers have repeatedly expressed concern that comparing their production costs against those of other growers to determine payment is unfair. Growers also have expressed concerns about the accuracy of feed weights and feed delivery, and pickup procedures and the procedures for weighing live birds picked up for slaughter. As a result of the contract poultry growers' continuing concerns, GIPSA is considering the need for regulations in this area. To provide all contract growers and integrators (processors) an opportunity to comment on these concerns, an advance notice of proposed rulemaking will be published in the *Federal Register*.

Review of Enforcement Activities Under the P&S Act

The Secretary's Advisory Committee on Agricultural Concentration recommended a review of current enforcement practices under the P&S Act to help restore the confidence of producers that their interests are important and adequately protected. USDA's Office of the Inspector General has been asked to conduct a study of GIPSA enforcement activities under the provisions of the P&S Act. We anticipate the study will examine whether GIPSA is using its full authority to investigate and correct anticompetitive practices and arrangements. The study also will examine whether GIPSA's structure and operating practices and procedures should be modified to enhance its responsiveness to the needs of a changing industry.

Scale Testing

In addition to our routine, required programs (e.g., weighing and scale testing), the grain inspection and weighing program is responding to increasing requests to perform commercial scale testing and test weight calibrations. These requests are due, in large part, to GIPSA's unique testing equipment. In April 1996, GIPSA entered into an agreement with the Norfolk Southern Railway Company to provide scale testing services for 57 railway track scales in Illinois, Indiana, and Ohio. Grain industry scale testing remains GIPSA's priority; commercial requests are handled as time permits.

Organizational Development and Management

Customer Service

In March 1996, GIPSA published its first Customer Service standards. The brochure containing the standards documents the Agency's commitment to providing outstanding customer service. It also includes a self-addressed customer comment card which provides GIPSA customers with a convenient means of providing feedback to the Agency.

GIPSA recently completed a preliminary assessment of comment card results received to date. The assessment, as outlined below, also is posted on GIPSA's home page on the Internet (<http://www.usda.gov/gipsa>).

| Statement | Average Rating 1= strongly disagree 2= disagree 3= no opinion 4= agree 5=strongly agree | |
|---|---|---------------------------------|
| | Federal Grain Inspection Service | Packers and Stockyards Programs |
| GIPSA personnel were professional and courteous. | 4.1 | 4.6 |
| GIPSA employees responded to my questions in a timely manner. | 3.8 | 4.6 |
| I received clear information relevant to my questions or needs. | 3.9 | 4.6 |
| GIPSA personnel were objective and impartial. | 4.2 | 4.6 |

As GIPSA continues to receive feedback, the Agency will carefully review these results and take appropriate action to continue to improve the quality of service to its customers.

GIPSA also uses a variety of other means to obtain customer feedback. At both the local and national levels, GIPSA meets with its customers regularly to assess service delivery and identify any needed changes. Direct customers (i.e., those who pay user fees for GIPSA's services) have 24-hour-a-day, 365-day-a-year access to local and national GIPSA representatives to address any unusual circumstance requiring special attention. GIPSA representatives also gain valuable feedback from customers during routine reviews of the State and private agencies that provide inspection services on behalf of GIPSA.

GIPSA also continues to meet with representatives of the major trade associations representing the livestock, meat, poultry, and grain industries. In addition, GIPSA's Grain Inspection Advisory Committee, with members representing all facets of the grain industry, regularly meets to advise GIPSA on the establishment of programs and services that meet the needs of its customers.

GIPSA's customer interaction extends to the international market. The Agency's International Monitoring Staff acts as the primary liaison between the Agency and governments and customers overseas. The staff frequently meets with representatives of other countries to educate them about GIPSA's programs and services, exchange information, and listen to their concerns. The staff also actively investigates complaints about grain quality and weight reported by importing countries and end users.

Organizational Consolidation

The Technical Services Division (TSD) consolidated functions performed at the Commodity Testing Laboratory (CTL) located in Beltsville, Maryland, with the quality assurance and quality control programs at the Technical Center in Kansas City, Missouri, in April 1996. The consolidation of CTL and TSD improved customer service and established a single point of contact for field customers. The new structure has provided a flexible organizational structure to meet service opportunities and provides increased uniformity in reporting data and information.

Strategic Planning

GIPSA's operating environment is dynamic and fluid. Like many other industries, GIPSA's customers are experiencing a rapidly changing business environment characterized by mergers, acquisitions, vertical integration, and the increasing automation of their operations. The changes shaping the industries of GIPSA's customers also are shaping how GIPSA does business. Price fluctuations and mergers in the livestock, meat, and poultry markets affect the types and levels of investigations conducted. In grain inspection, workload volume is affected by market prices, crop quality and quantity, and international trade influences. This environment of changing marketing practices and customer needs creates a shifting base for GIPSA's services and programs.

New technology and increasingly sophisticated buyers (both domestic and international) are creating new opportunities for products and services, and for opening new markets. Emerging technologies are also continuously changing the way businesses operate, as well as the tools and procedures needed to provide service and monitor compliance with Federal regulations.

Within this challenging and highly competitive operating environment, GIPSA is guided by the overriding principle that the Agency must ensure the quality and value of its products and services. Like all public and private sector businesses, GIPSA is under constant scrutiny, both by the Agency's customers and by the public, to provide efficient and cost-effective products and services.

In accordance with the many factors that influence how GIPSA does business, the Agency has defined strategic goals and objectives to guide the organization into the next century:

- **Goal 1:** Ensure that our programs are cost-effective and responsive to the markets we serve.
- **Goal 2:** Ensure that the credibility of our programs is unquestionable.
- **Goal 3:** Ensure that we are highly skilled professionals providing quality customer service.
- **Goal 4:** Harmonize our customers' expectations with our authority and capabilities.

Customer, supplier, and stakeholder feedback was essential in preparing the Agency's strategic plan. GIPSA will continue communicating with these parties through meetings, educational exchanges, surveys, and other available forums in developing the Agency's annual performance plans, updating the strategic plan, as necessary, and developing future strategic plans. Both internal and external evaluations of program performance will be integral parts of the Agency's business operations.

Grain Advisory Committee

The Grain Advisory Committee is comprised of 15 members and 15 alternate members representing all segments of the U.S. grain industry including producers, domestic and export elevators, official grain inspection and weighing agencies, scientists, merchandisers, and processors. Members of the committee are appointed to 3-year terms. The committee met once in FY 1996, on March 20-21, 1996, and offered several resolutions, including the recommendation that GIPSA adopt metric test weight methodology for use in the official inspection system.

Labor/Management Partnership Council

In FY 1995, GIPSA and the National Council of Federal Grain Inspection Locals established a national partnership council. The Council is comprised of union and management representatives who are working from the premise that informed employees and union involvement add value and quality to FGIS' decisionmaking. During FY 1996, the Council continued to work on a variety of issues.

Financial Information

Status of GIPSA Fee-Supported Accounts Fiscal Year 1996

Dollars in Thousands

| Program | Revenue 9/30/96 | Obligations 9/30/96 | Profit/(Loss) 9/30/96 | Trust Fund 9/30/96 |
|---|--------------------|------------------------|--------------------------|--------------------------|
| U.S. Grain Standards Act | | | | |
| Inspection and Weighing | 22,012 | 23,285 | (1,273) | 922 |
| Canadian Operations | 484 | 302 | 182 | (168) |
| Official Agencies | 1,523 | 1,296 | 228 | 4,201 |
| Registration | 15 | 5 | 10 | 81 |
| USGSA Subtotal | 24,034 | 24,888 | (853) | 5,035 |
| Agricultural Marketing Act of 1946 | | | | |
| Rice Inspection | 3,411 | 3,715 | (304) | (1,393) |
| Commodity Inspection | 3,459 | 5,200 | (1,742) | (60) |
| AMA Subtotal | 6,869 | 8,915 | (2,046) | (1,454) |
| FGIS Total Fiscal Year 1996 | 30,904 | 33,803 | (2,899) | 3,582 |

GIPSA Appropriated Budget Authority

| Description | FY 92 Actual | FY 93 Actual | FY 94 Actual | FY 95 Actual | FY 96 Actual |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Appropriated Funds | | | | | |
| Budget Authority | | | | | |
| Packers and Stockyards Programs | 12,009 | 11,996 | 12,082 | 11,973 | 12,109 |
| Federal Grain Inspection Service | 11,397 | 11,397 | 11,532 | 11,300 | 10,965 |
| Total Budget Authority | <u>1/</u> | <u>1/</u> | <u>1/</u> | <u>1/</u> | 23,074 |

^{1/} Consolidated financial reporting for GIPSA's two program areas began in FY 96.

Federal Grain Inspection Service

Functions and Responsibilities

FGIS was created by Congress in 1976 to manage the national grain inspection system, which initially was established in 1916, and to institute a national grain weighing program. The goal of creating a single Federal grain inspection entity was to ensure development and maintenance of uniform U.S. standards, to develop inspection and weighing procedures for grain in domestic and export trade, and to facilitate grain marketing. In October 1994, as part of the U.S. Department of Agriculture's reorganization, FGIS was combined with the Packers and Stockyards Administration to form GIPSA. FGIS is now a program of GIPSA.

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

In administering and enforcing the Act, GIPSA:

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

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

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

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

Mandatory Services

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

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

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

Mandatory inspection and weighing services are provided by GIPSA on a fee basis at 42 export elevators. Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at 6 locations in Canada exporting U.S. grain. Eight delegated States provide official services at an additional 20 export elevators under GIPSA oversight.

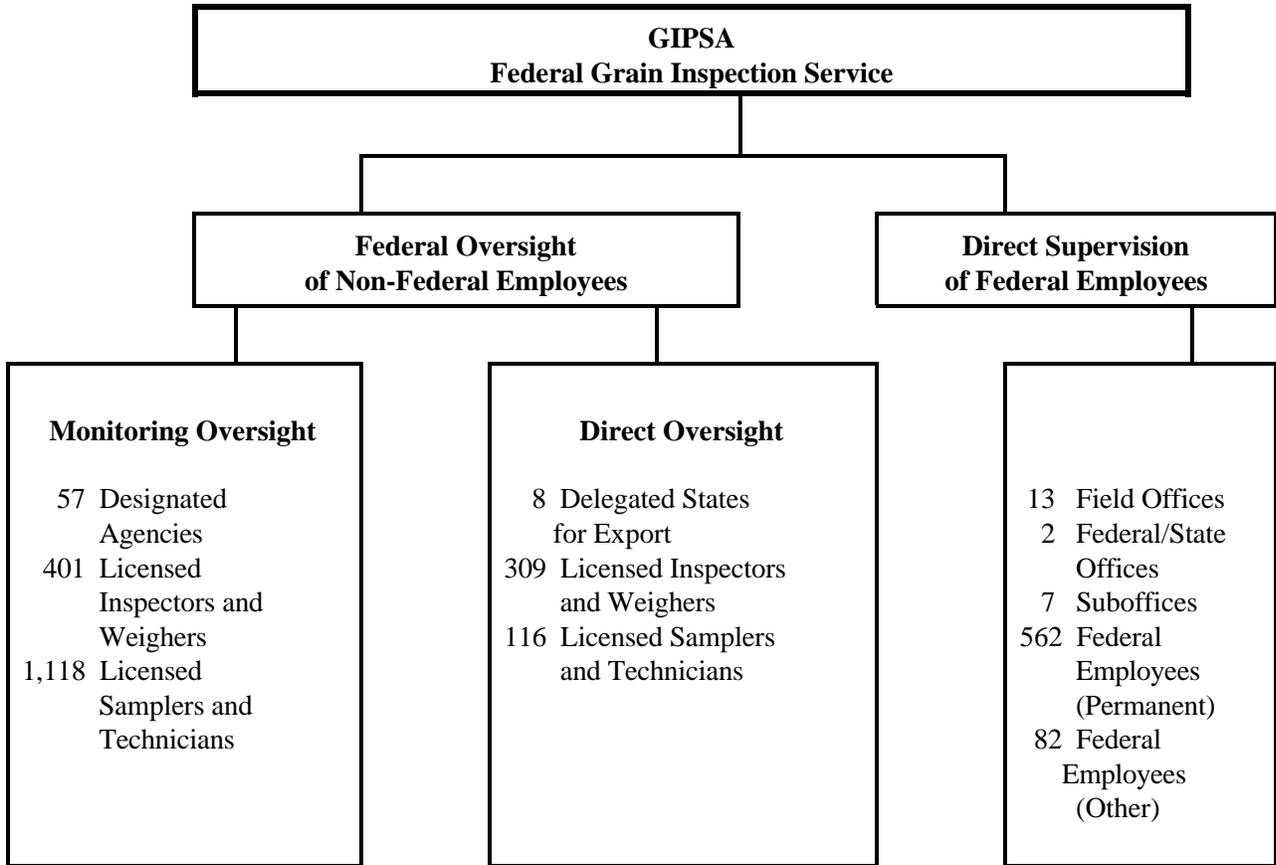
Grain exporters shipping less than 15,000 metric tons of grain abroad annually are exempt from mandatory official inspection and weighing requirements. Grain exported by train or truck to Canada or Mexico also is exempt from official inspection and weighing requirements.

Permissive Services

Official inspection and weighing of U.S. grain in domestic commerce are performed upon request and require payment of a fee by the applicant for services. Domestic inspection and weighing services are provided by 66 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions. The supervisory and administrative costs of the Federal grain inspection program have been funded by user fees since October 1, 1981.

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

GIPSA's Oversight Responsibilities

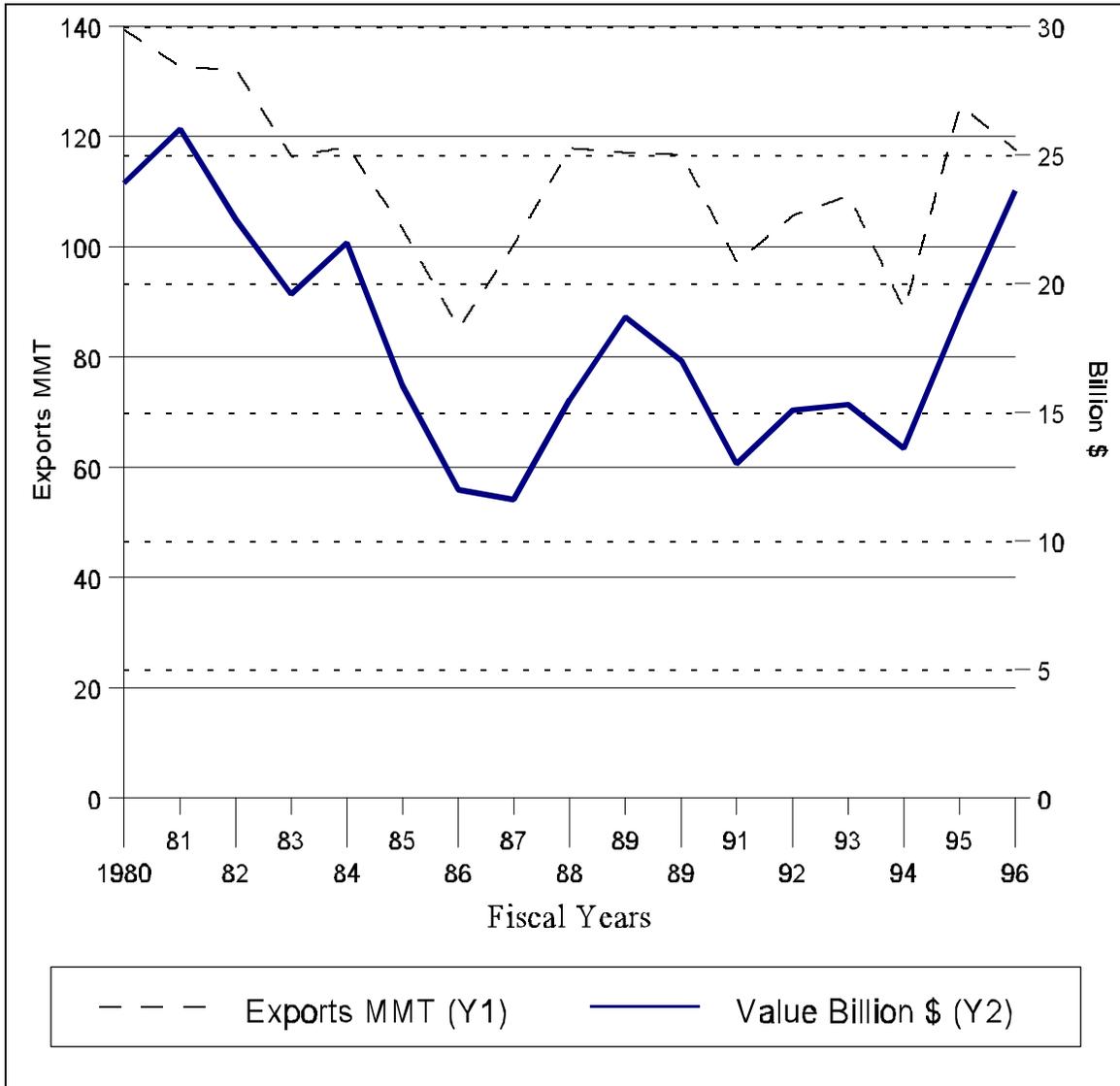


Services By State

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

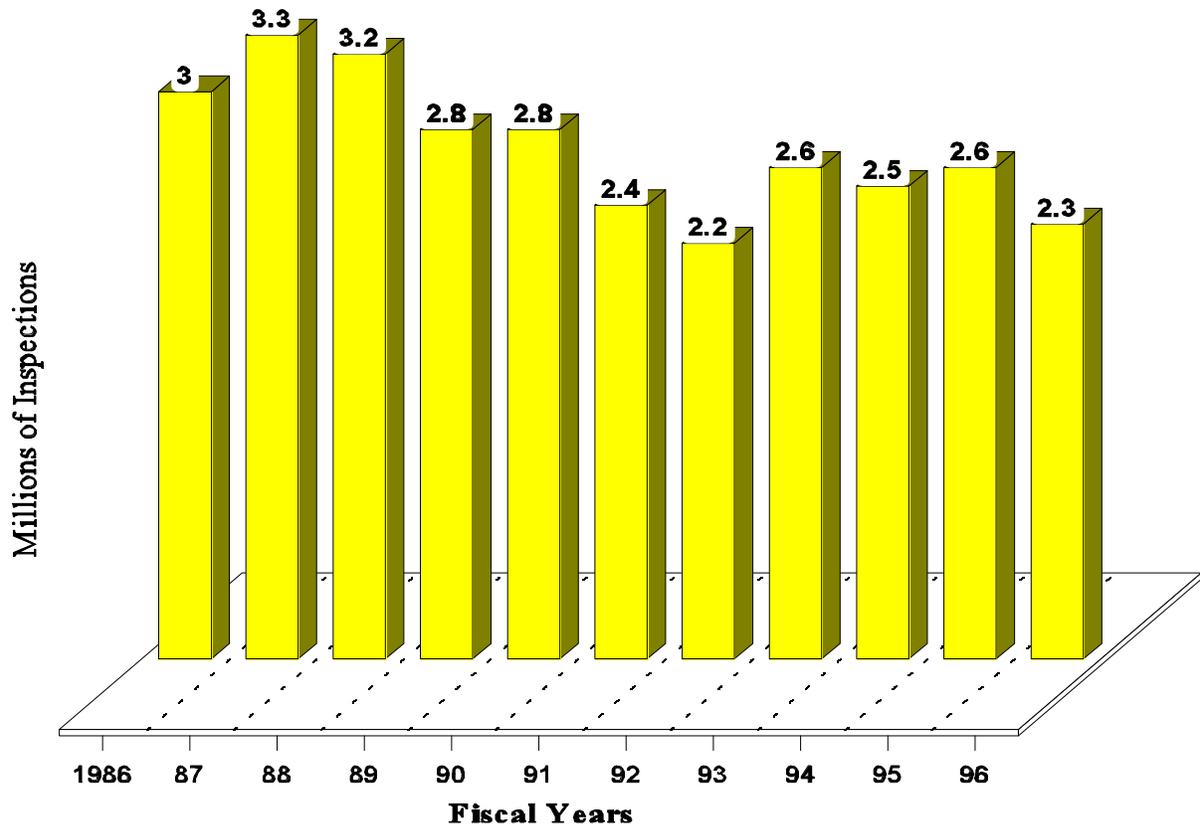
* Federal/State office.

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



Source: USDA, Grain Inspection, Packers and Stockyards Administration

**Number of Inspections Performed
Under the U.S. Grain Standards Act**



Source: USDA Grain Inspection, Packers and Stockyards Administration
Grain Inspection and Weighing Information System

Insert Graphic Here: US Export Grain Inspections

Insert Graphic Here: US Domestic Grain Inspections

Insert Graphic Here: US Rice Inspections

Insert Graphic Here: Volume of U.S. Grain Inspected Export by Port Locations

FGIS Organizational Structure

GIPSA's Federal Grain Inspection Service currently is comprised of a headquarters unit, 13 field offices, 2 Federal/State offices, and 7 suboffices. Two of the program's three headquarters divisions -- Compliance and Field Management -- are located in Washington, D.C. The third -- the Technical Services Division -- is located in Kansas City, Missouri.

Compliance Division

The Compliance Division ensures that the U.S. Grain Standards Act (hereinafter, the Act), applicable provisions of the AMA, and applicable regulations are implemented accurately and uniformly. The Division:

- evaluates alleged violations and initiates preliminary investigations, and assists USDA's Office of the Inspector General on investigations involving criminal violations of the Act and applicable provisions of the AMA;
- initiates enforcement/administrative actions for violations of the Act and applicable provisions of the AMA;
- administers the program for delegating State agencies and designating State and private agencies to provide official inspection and weighing, and monitors their performance;
- reviews and, when appropriate, approves official agency fee schedules;
- identifies and monitors official agency and licensee conflicts of interest;
- registers firms that export U.S. grain;
- conducts management evaluations and operational reviews of FGIS programs, and monitors appropriate corrective actions;
- responds to audits and surveys of FGIS programs;
- coordinates litigation proceedings involving FGIS personnel and/or records; and
- administers the program to ensure that management control and accountability comply with governmental standards.

Field Management Division

The Field Management Division, the largest division within GIPSA, directs and oversees the operation of all FGIS field offices, Federal/State offices, and delegated and designated agencies. The Division also:

- establishes U.S. standards for grain, rice, and pulses;
- develops inspection and weighing policies and procedures;
- performs original inspection and weighing of export grain;
- licenses official agency personnel;
- manages all field operations carried out through 22 offices (13 field offices, 2 Federal/State offices, and 7 suboffices);
- provides quality assurance functions for the USDA's FSA and the Department of Defense Personnel Support Center; and
- samples, inspects, and tests processed grain products for producers, school lunch programs, military rations, and shipments to needy countries throughout the world.

Technical Services Division

The Technical Services Division is responsible for research, methods development, technical training, and quality control programs. The Division:

- develops new or improved tests and methods for determining grain quality;
- provides reference standards for GIPSA methods;
- develops criteria and specifications for instruments to improve the reliability of grain inspection;
- develops and maintains an agencywide quality control program covering all aspects of grading and inspection;
- maintains the uniform application of grain and commodity standards;
- renders final decisions on inspection appeals;

- conducts technical training for field personnel;
- briefs representatives of importing countries on GIPSA's functions and activities; and
- performs analytical and reference testing for grain and processed commodities.

International Monitoring Staff

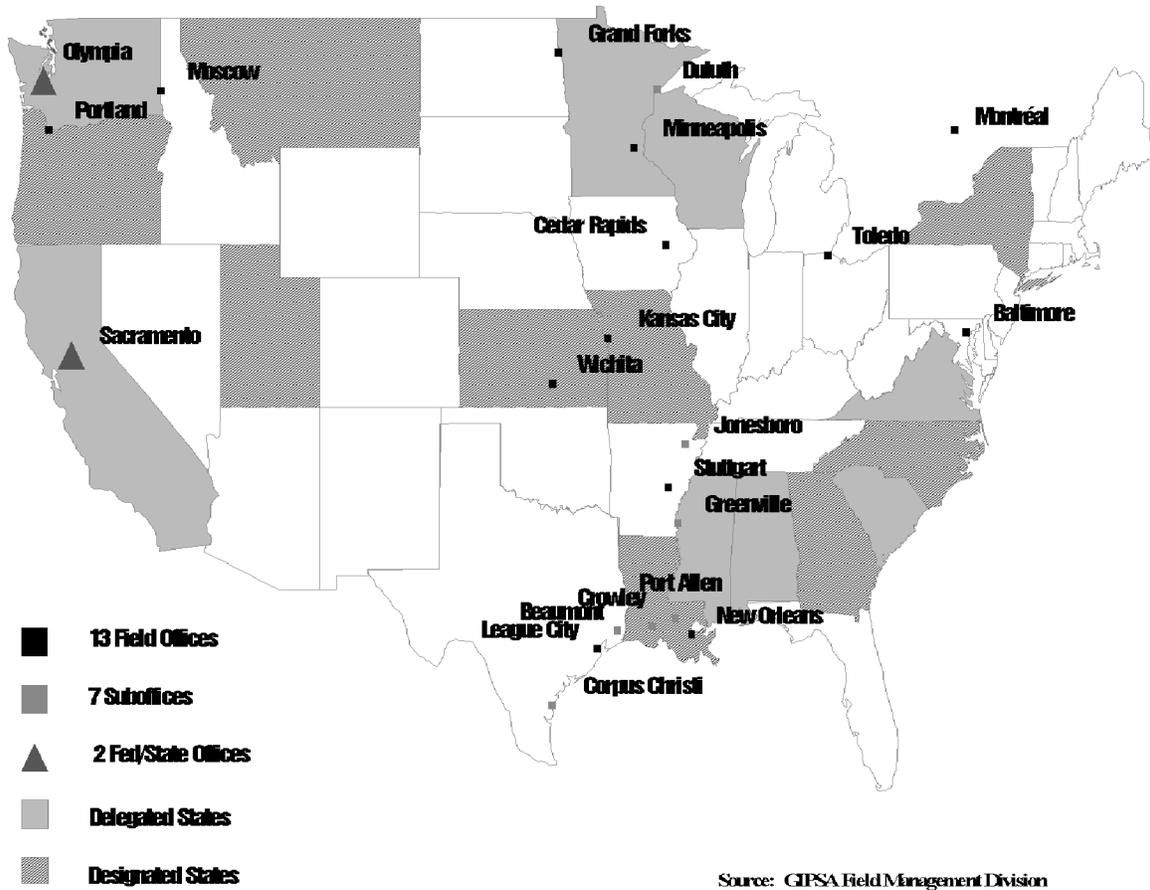
The International Monitoring Staff (IMS) is part of the Office of the Deputy Administrator, FGIS. The IMS:

- monitors the quality and weight of grain shipments between origin and destination ports;
- responds to grain quality or weight complaints received through the Foreign Agricultural Service and other sources;
- briefs representatives of importing countries (agricultural officials, buyers, end users, and others), both in the United States and abroad, on GIPSA's roles and responsibilities; and
- works closely with USDA sister agencies, the Food and Drug Administration, and USDA cooperator organizations to increase awareness of GIPSA's role and responsibilities in the United States and abroad.

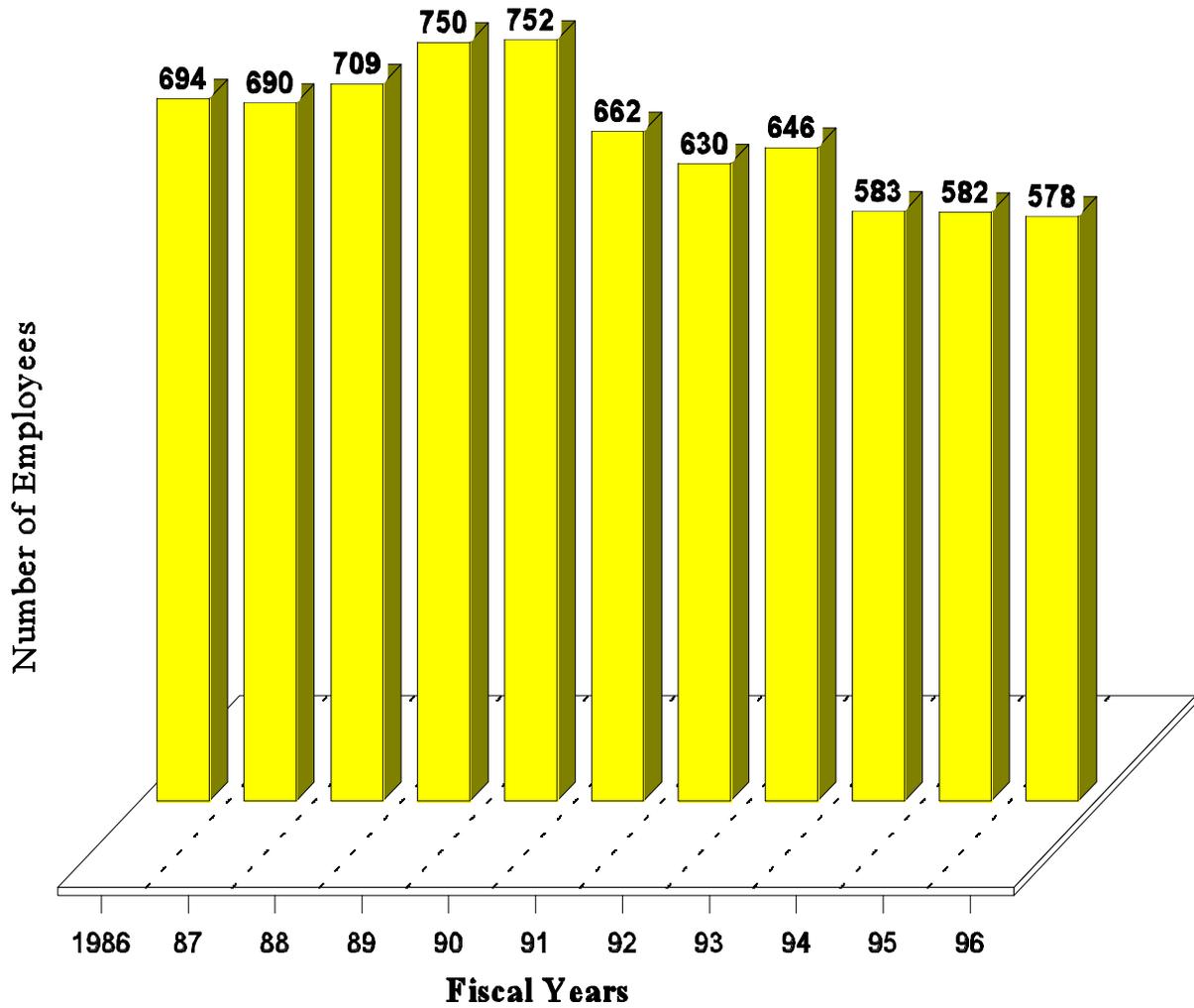
FGIS Field Structure

FGIS field personnel are located across the Nation, thus ensuring the availability of official inspection and weighing services anywhere in the United States. FGIS personnel also are located in eastern Canada to provide inspection of U.S. grain at Canadian ports.

Performance of Official Weighing and Inspection Services



**Federal Grain Inspection Service
Full-Time Permanent Employment, FY 1986-96**



Source: Executive Resources Staff, SF-113-A

Inspection and Weighing Activities

Automation Initiatives

Inspection Services. GIPSA's customers are recognizing that the automation of official grain inspection functions is extremely important for improving the costs, risks, and productivity associated with grain handling. In FY 1996, GIPSA met with official customers to clarify their needs and developed policies and procedures to initiate grain automation inspection projects. In FY 1997, GIPSA will work with its customers to refine policies and procedures, issue guidelines for grain inspection automation projects, and initiate several such projects.

Major export elevators continue to integrate automation into official weighing and grain handling operations. Four fully automated weighing systems have been approved, four systems are being installed, one system has submitted a proposal for review, and one system is in the proposal stage. GIPSA continues to receive inquiries from other elevators regarding automation initiatives.

Electronic Commerce. GIPSA continues to work closely with the National Grain and Feed Association (NGFA) on Electronic Data Interchange (EDI), an electronic commerce project that is designed to automate the exchange of financial transaction documents among businesses in a standard format. This project is being closely coordinated with GIPSA's new, multi-year initiative to establish an official agency (OA) telecommunications network. This initiative will include a requirement that OAs electronically send to GIPSA, on a daily basis, official grain data in a standardized, formatted file. The file will include output from the various certificate programs maintained by the OAs. The standardized GIPSA file will support the industry's EDI function.

Official Agency Network. The OA telecommunications network also will allow electronic mail and (official grain) daily data sharing between the OAs and GIPSA. The foundation of data transfer is the formatted file that includes all grain data requirements. In addition to being used as part of the EDI function, this file will allow GIPSA to create a national grain quality database that will have many uses, including providing a dynamic picture of nationwide grain trends and allowing timely responses to potential problem areas.

GIPSA is automating the export inspection statistical shiploading plan, also known as Cu-Sum. In FY 1996, the Agency developed prototype software code, data entry screens, and data entry strategy to input Cu-Sum data on multiple shiplots simultaneously.

The final application code which is in Visual Age and Small Talk has been developed, and a site pilot at a New Orleans automated elevator is scheduled for the fall of 1996. GIPSA plans to install the automated system at a number of elevators in the New Orleans area during FY 1997. The automated Cu-Sum system will improve the efficiency of the official system by minimizing manual data collection and calculations, and permit direct data sharing with customers and remote GIPSA offices.

Improved information management also is occurring at GIPSA's Technical Center in Kansas City, Missouri, through installation of a Laboratory Information Management System (LIMS) software package. The system accommodates both manual and direct instrument data input, databases all laboratory results, tracks sample processing efficiency, and offers a variety of reporting and statistical analysis functions.

In June 1996, GIPSA's New Orleans Field Office, the Agency's largest field location, installed an automated time and attendance system. This system uses electronic readers and magnetic strip cards to capture information such as hours and location worked, and accounting codes for over 200 employees. The data is transmitted via modem each night to the host computer in the field office. Currently, GIPSA is tailoring the system to the Agency's 24-hour operations. When implemented, this system will reduce errors, improve the efficiency of administrative functions, and speed our ability to respond to customer inquiries.

Inspection and Weighing Fees

Effective October 1, 1996, GIPSA changed the manner in which it collects user fees charged for inspection and weighing of grain (61 FR 43301). The new fee structure established fees for specific services using hourly rates and/or unit fees. It also included a 4-percent increase to recover salary increases.

Previously, fees were charged on an hourly basis. The hourly rate included the salary and benefits for each representative providing the service, and a portion of overhead and program support costs. The overall cost of many services were averaged together and recovered through an hourly service rate.

Under the new system, customers are charged a lower base hourly rate plus a unit fee to cover the cost of the specific service they request. Overhead and program costs are recovered through a per metric-ton volume fee assessed on all grain loaded from a facility. This new fee structure provides customers with information to better assess the cost of specific services and allows GIPSA to pass savings (in the form of fewer billable hours) to customers who invest in operational efficiencies.

The change in methodology and small fee increase ensure that, as mandated by law, revenue covers, as nearly as practicable, the projected operating costs, including related supervisory and administrative costs, for grain inspection and weighing services performed. Fees for inspection and weighing were last increased on May 20, 1991 (56 FR 15803).

Quality Enhancement

GIPSA is implementing an enhanced quality assurance and quality control program to ensure the quality and accuracy of inspection results nationwide. The new program will include a balance of national and localized monitoring. A greater emphasis will be placed on proactive actions to prevent problems from occurring rather than reacting to problems once they have occurred. A new computer system which will allow data processing at the local level will provide more timely information to our front-line inspectors. All field office managers and quality assurance specialists have been provided hands-on computer training in operating the system. Implementation of the program is scheduled for FY 1997. A handbook explaining the overall program is being developed to serve as the quality guide for our field offices and official agencies.

GIPSA has developed a pilot intermarket tracking system for barge movements on the Mississippi River to compare origin and destination quality results. Data gathered from this pilot program will be used to develop a nationwide tracking program that will allow origin and destination inspectors to quickly identify and correct any discrepancies. The tracking system will be a vital part of GIPSA's quality assurance and quality control program.

GIPSA's OA electronic network also will contribute to our quality control process. The ability to electronically share inspection data and quality information throughout the entire official inspection system will be vital to quickly identifying and correcting inspection discrepancies, and to providing our customers with the accurate and timely information they need to market America's grain.

Rice Inspection Fees

Effective August 2, 1996, GIPSA increased fees for rice inspection services performed under the authority of the Agricultural Marketing Act of 1946 (AMA) (61 FR 34714). Fees were raised by 6 percent, with provisions for additional fee increases of 6 percent per year effective on January 1, 1997 and 1998. The increase will ensure that, as mandated by law, revenue covers, as nearly as practicable, the projected operating costs, including related supervisory and administrative costs, for rice inspection services performed. Fees for rice inspection were last increased on January 1, 1995 (56 FR 15483).

**Inspection Program Data
Fiscal Years 1994-1996**

| Item | Fiscal Years | | |
|---|------------------|------------------|------------------|
| | 1994 | 1995 | 1996 |
| Quantity of Grain Produced ¹ (Mmt) ² | 310.1 | 425.4 | 335.6 |
| Quantity of Grain Officially Inspected (Mmt) | | | |
| Domestic | 134.9 | 138.0 | 134.7 |
| Export by GIPSA | 72.2 | 92.5 | 89.9 |
| by Delegated States | <u>14.1</u> | <u>29.5</u> | <u>24.6</u> |
| Total | 221.2 | 260.0 | 249.2 |
| Delegated States/Official Agencies | | | |
| Delegated and Designated States | 8 | 8 | 8 |
| Designated States | 10 | 10 | 9 |
| Private Agencies | <u>51</u> | <u>48</u> | <u>48</u> |
| Total | 69 | 66 | 65 |
| Number of Official Original, Reinspection, and Commercial Inspections | | | |
| GIPSA | 154,173 | 164,122 | 158,055 |
| Delegated States/Official Agencies | <u>2,331,710</u> | <u>2,420,577</u> | <u>2,149,516</u> |
| Total | 2,485,883 | 2,584,699 | 2,307,571 |
| <i>(continued)</i> | | | |

¹ Source: USDA Crop Production Reports.

² Million metric tons.

| Item | Fiscal Years | | |
|--|----------------|----------------|--------------------|
| | 1994 | 1995 | 1996 |
| Number of Grain Inspection Appeals | | | |
| Field Offices | 12,771 | 10,700 | 6,800 ³ |
| Board of Appeals and Review | 3,500 | 2,094 | 1,006 |
| Number of Commercial Inspections | | | |
| GIPSA | 7,022 | 3,003 | 1,889 |
| Delegated States/Official Agencies | <u>181,249</u> | <u>245,681</u> | <u>286,076</u> |
| Total | 188,271 | 248,684 | 287,965 |
| Number of Wheat Protein Inspections | | | |
| GIPSA | 69,091 | 68,963 | 60,679 |
| Delegated States/Official Agencies | <u>614,332</u> | <u>496,873</u> | <u>490,699</u> |
| Total | 683,423 | 565,836 | 551,379 |
| Number of Soybean Protein and Oil Inspections | | | |
| GIPSA | 12,974 | 18,095 | 15,919 |
| Delegated States/Official Agencies | <u>3,580</u> | <u>4,416</u> | <u>3,797</u> |
| Total | 16,554 | 22,511 | 19,716 |
| Number of Aflatoxin Inspections | 44,758 | 66,096 | 68,190 |
| Number of Vomitoxin Inspections | 55,711 | 31,677 | 46,240 |
| Quantity of Rice Inspected (Mmt) (milled basis) | 5.2 | 4.3 | 3.8 |

³ Estimate.

Weighing Program Data
Fiscal Years 1994-1996

| Item | Fiscal Years | | |
|--|---------------|----------------|----------------|
| | 1994 | 1995 | 1996 |
| Official Weight Certificates Issued | | | |
| GIPSA | | | |
| Class X ¹ | 83,907 | 95,618 | 102,328 |
| Class Y ² | <u>8,821</u> | <u>21,904</u> | <u>15,820</u> |
| Total | 92,728 | 117,522 | 118,148 |
| Delegated States/Official Agencies | | | |
| Class X ¹ | 30,340 | 22,985 | 28,472 |
| Class Y ² | <u>98,414</u> | <u>159,690</u> | <u>141,706</u> |
| Total | 128,754 | 182,675 | 170,178 |
| Exported Grain Weighed (Mmt) | | | |
| GIPSA | 68.9 | 89.5 | 86.6 |
| Delegated States | <u>14.1</u> | <u>29.4</u> | <u>24.6</u> |
| Total | 83.0 | 118.9 | 114.2 |
| Number of Certified Scales in Service | | | |
| Export Elevators | 286 | 299 | 272 |
| Number of Railroad Track Scales Tested | 137 | 114 | 110 |

¹ Class X weighing involves 100 percent supervision.

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

Methods Development Activities

Computer Imaging for Grain Inspection

Computer imaging is one of the most promising new technologies to contribute to the accuracy, consistency, and objectivity of grain inspection and grading. In FY 1996, GIPSA investigated current methodologies and procured equipment to use in establishing the feasibility of determining critical grain quality factors using computer imaging. In FY 1997, GIPSA plans to work on methods for assessing grain quality factors using computer imaging and to assess the capability of commercially available instrumentation for standardizing inspections.

Grain Odor

Odor is an important grain grading factor because it affects the acceptability of grain for many end uses. The presence of an objectionable odor results in the grain being assigned the lowest official grade, Sample grade. This, in turn, directly affects the value of the grain. The current official method for determining odor in grain requires inspectors to directly smell grain samples in shallow pans. This method potentially exposes inspectors to dust, mold spores, and chemical residues. Also, differences in sensitivity to odors among inspectors make odor determinations less reproducible than most other official determinations.

GIPSA has been working with the Agricultural Research Service (ARS) to develop methods to improve the safety and objectivity of grain odor determinations. An interim solution to reduce inspectors' exposure to grain dust and mold spores is the development of a device that allows the inspector to smell a controlled flow of air through a closed sample chamber. In FY 1996, GIPSA and ARS refined the "odor sniffer" and performed additional testing. In FY 1997, GIPSA plans to build several prototype units and field-test the device.

GIPSA and ARS have also been working on electronic odor-sensing instruments. In FY 1996, several hundred samples were collected representing different grain types, and different types and intensities of acceptable and objectionable odors. These samples are being analyzed by the official method, by a special sensory panel at Kansas State University, and by a sophisticated analytical method that detects the chemical components of sample vapors. In addition, three manufacturers of newly developed "electronic nose" instruments will test the samples to determine whether that technology has the capability for rapid, relatively low-cost odor assessments. This study will be completed in FY 1997.

Heavy Metal Analysis

The presence of heavy metal residues in foods is becoming a significant international health concern. GIPSA scientists are developing and refining methods for detecting and quantifying heavy metal residues in grains. In FY 1996, GIPSA began a survey program to assess the levels of lead residues in wheat. Over 100 wheat samples of all classes were analyzed for lead content. None of the samples tested had levels of lead residues exceeding the World Health Organization guideline of 500 parts per billion.

Future GIPSA efforts will include developing and validating analytical methods for other heavy metals, and implementing survey programs and testing services to assess the presence of such residues in U.S. grain.

Mycotoxins

Mycotoxins are toxic substances produced by a wide variety of fungi (molds). GIPSA has been asked by farmers, grain dealers, and foreign buyers to quantitatively measure aflatoxin, vomitoxin, zearalenone, and fumonisin. GIPSA currently measures aflatoxin and vomitoxin using commercial mycotoxin test kits that are of relatively low cost, rapid, and accurate. The accuracy of the test kits is monitored by a reference method involving complex instrumentation and lengthy test procedures. Future activities will include the development of reference methods for fumonisin and zearalenone, and the evaluation of commercially available test kits for these two mycotoxins.

New Official Moisture Meter

In FY 1996, GIPSA initiated the process of selecting new official grain moisture measurement technology. As an Authorized Laboratory under the National Conference on Weights and Measures' National Type Evaluation Program (NTEP), GIPSA completed NTEP testing and certification of six different instrument types. GIPSA is developing selection criteria for grain moisture meter technology that will enable the official inspection service to best meet its customers' needs. In FY 1997, GIPSA plans to select the new official technology from among that group of six NTEP-certified instrument types and begin implementing a new official moisture meter(s). Implementation will include development of moisture calibrations for all grain types that are officially inspected.

Pesticide Residue Analysis

A new method to test for the presence of ethylene dibromide (EDB) was developed in FY 1996. A sample can now be analyzed in less than 1 hour, rather than the overnight analysis required with the old method.

A new and more efficient method was developed to analyze pesticides in wheat. The new method, called Supercritical Fluid Extraction, results in substantial savings in time and chemical supplies. Over 600 wheat survey samples were analyzed using the new method. Results were shared with the Agricultural Marketing Service in support of the USDA Pesticide Data Program.

GIPSA and ARS scientists collaborated to develop methods to analyze newer pesticides that have been approved for use on soybeans. These methods will be used to expand the scope of GIPSA's pesticide analysis service. The goal is to develop one method to analyze 12 residues simultaneously. Development of the final method is expected to be completed in FY 1997.

Plans for FY 1997 include the expansion of the EDB analysis to include methyl bromide and aluminum phosphide residues. In addition, the new pesticide residue method for soybeans will be transferred from ARS to the pesticide analysis group at GIPSA.

Sprout Damage in Wheat

Pre-harvest sprouting is of great concern to the grain industry. GIPSA is working to improve the detection of sprouting in wheat. To that end, GIPSA is testing an instrument that detects the presence of an enzyme that accompanies sprouting. Preliminary laboratory tests in FY 1996 were encouraging, and GIPSA has placed two instruments in field offices for further useability and accuracy tests in FY 1997.

Vitamin Analysis

In 1995, the FSA requested that GIPSA develop quantitative methods for analyzing processed commodities for water-soluble vitamins. In response to this request, GIPSA scientists are developing a method for determining niacin in wheat flour. GIPSA anticipates that the analysis of wheat flour for niacin content can be offered as a service by the end of 1996.

Wheat Classification

GIPSA field offices continued to collect hardness data on wheat samples utilizing the Perten SKCS 4100, a single kernel hardness tester (SKHT). Information obtained from this sample collection will assist in the development of an objective classification system for wheat, offer the industry quantifiable evidence of the overall impact such a system would have on the marketing of wheat, and allow GIPSA to refine the classification definitions in the Standards for Wheat. GIPSA analyzed over 4,000 samples in FY 1996. The sample collection will continue in FY 1997.

GIPSA also offered single kernel characterization analysis for wheat as an official service in FY 1996. Three offices have received requests from industry for this service, including three export ships from the port of Duluth.

ARS and Perten continued research into developing "modules" for the SKHT that would differentiate red and white wheats based on color and measuring single kernel near infrared (NIR) protein.

Wheat End-Use Quality

GIPSA is committed to working with its customers to make its services as relevant and valuable as possible. Some segments of the grain industry are concerned that some current wheat quality measurements do not accurately reflect wheat's value. In FY 1996, GIPSA met with ARS and a cross section of the wheat industry to identify measurements that would be better indicators of wheat end-use quality. The information gained from those discussions will be used in FY 1997 and beyond in initiating and prioritizing ARS and GIPSA research regarding wheat quality measurements.

Standardization Activities

Harmonizing U.S. and Canadian Methods

GIPSA continues to work with the Canadian Grain Commission (CGC) to identify the differences between U.S. and Canadian grain quality assessments and to explore opportunities for reducing those differences.

In 1996, the CGC replaced the Kjeldahl with the combustion method as the chemical reference method for determining the protein content of grains. GIPSA pioneered the use of the combustion method for grains and adopted it as the GIPSA official protein reference method in 1993. Collaborative studies during FY 1996 showed GIPSA and CGC combustion methods to be in excellent agreement.

GIPSA initiated an analysis of the standardization of CGC and GIPSA Near Infrared Transmission (NIRT) wheat protein analyzers. The test resulted in improved standardization of one of the CGC master instruments.

In 1997, GIPSA and CGC will continue to explore differences in wheat protein calibrations and evaluate the potential for developing joint calibrations using recently developed mathematical techniques.

GIPSA conducted a research project to assess the differences between the U.S. official test weight method and the metric method specified by the International Standards Organization (ISO) for wheat. Canada uses a metric method that is related to the ISO method.

NIRT Standardization

GIPSA continues efforts to improve the performance of the NIRT instruments that it uses for official determinations of protein in wheat, and protein and oil in soybeans. During 1996, the statistical tolerances that GIPSA used to detect malfunctioning instruments were reduced to half of the previous values.

GIPSA developed new methods for assessing the differences among NIRT instruments. During FY 1997, GIPSA plans to apply those methods to improving official wheat protein, and soybean protein and oil determinations.

Standardizing Commercial Grain Inspection Equipment

GIPSA has continued to participate in the cooperative effort with NIST and the National Conference on Weights and Measures to standardize commercial grain inspection equipment as part of the National Type Evaluation Program (NTEP). GIPSA serves as the sole NTEP laboratory for grain inspection equipment. During FY 1996, one additional grain moisture meter model was certified as conforming to NTEP requirements, bringing to six the number of NTEP-certified models. The calibration data collected during FY 1995 and part of FY 1996 for the 1995 harvest were used as the basis for numerous grain moisture meter calibration changes to improve the accuracy and consistency of commercial grain moisture measurements.

GIPSA initiated the evaluation of NIR wheat protein analyzers by preparing calibration samples and soliciting interest in a pre-evaluation calibration data collection program from known manufacturers.

The NTEP Technical Sector dealing with commercial grain inspection equipment is preparing to develop specifications and tolerances for commercial grain test weight measurements. GIPSA is providing supporting technical guidance.

In FY 1997, GIPSA plans to support NTEP by continuing to evaluate grain moisture meters, collecting and evaluating moisture meter calibration data for the 1996 crop, collecting pre-evaluation calibration data for NIR wheat protein analyzers, evaluating NIR wheat protein analyzers, and providing technical assistance in developing specifications and tolerances for grain test weight apparatuses.

U.S. Standards for Grain

Barley. On April 26, 1996, GIPSA published in the *Federal Register* (61 FR 18486) its final rule revising the United States Standards for Barley to: (1) modify the classification system of barley to better reflect current marketing practices by establishing two classes, Malting barley and Barley; (2) revise procedures to permit applicants the option of requesting either the malting standards or barley standards for malting types; (3) revise the standards for Two-rowed Malting barley by removing the "U.S. No 1 Choice" grade designation; (4) amend the definition for suitable malting type to include other malting varieties used by private malting and brewing companies; (5) revise the dockage certification procedure by reporting results in half and whole percent with a fraction less than one-half percent being disregarded; (6) amend the definition of thins to require the use of a single sieve (5/64 x 3/4 slotted-hole) only in the class Barley; and (7) eliminate the numerical grade restriction for badly stained and materially weathered from the standards. The effective date for the revisions is June 1, 1997.

Corn. On November 29, 1995, GIPSA published in the *Federal Register* (60 FR 61194) its final rule revising the United States Standards for Corn to: (1) report test weight to the nearest tenth of a pound and (2) eliminate the count limit on stones and reduce the U.S. Sample grade aggregate weight tolerance from more than 0.20 percent by weight to more than 0.1 percent by weight. The final rule also announced the availability of stress crack testing as official criteria. Stress crack testing was implemented on January 1, 1996. The effective date for test weight and stone count was September 1, 1996.

Oats. Several oat issues are under review with potential changes to the U.S. Standards for Oats possible. Oat issues under review include: (1) broadening the definition of oats to include hull-less oats; (2) separating foreign materials into three subfactors, wheat, barley, and other foreign material; (3) increasing minimum test weight requirements; and (4) including thin oats as a grade determining factor. GIPSA also is reviewing the Canadian oat standards to determine if harmonizing the standards would facilitate the international marketing of oats. GIPSA plans to publish a proposal to amend the United States Standards for Oats in FY 1997.

Wheat. In FY 1995, GIPSA initiated a 2-year study to determine if the wheat standards are current with respect to garlic tolerances. The study, which is being conducted at the University of Illinois, involves the collection of samples to evaluate the ability to remove garlic from wheat prior to milling, the negative financial impact of garlic on the milling process, and the potential economic implications of changing the current garlic tolerances for wheat. Sample collection from field offices and official agencies began in January 1996. A preliminary report on the progress of this project is due in the first quarter of FY 1997.

U.S. Standards for Pulses

Pea and Lentil Standards. In FY 1996, in response to market concerns, GIPSA initiated action to revise the United States Standards for Whole Dry Peas, Split Peas, and Lentils. Specifically, GIPSA plans to establish a new class, Miscellaneous peas; eliminate the classes Persian and Mixed lentils; and establish a new grading factor for lentils, "Conspicuous Admixture." GIPSA plans to publish the proposal to amend these standards in FY 1997.

Bean Standards. The Michigan Bean Commission and the Michigan Bean Shippers Association have requested that the U.S. Standards for Beans be revised to establish a separate grade chart for Cranberry beans. Currently, the grades and grade requirements for Cranberry and Yellow eye beans are shown together on one chart. These groups also asked that the class Black Turtle Soup beans be renamed as Black beans. To encourage uniformity and consistency in commercial practices, GIPSA plans to propose these changes to the U.S. Standards for Beans in FY 1997.

U.S. Standards for Rice

In FY 1996, GIPSA initiated a comprehensive evaluation of the United States Standards for Rice, and related inspection and grading policies. With the aid and support of the U.S. rice industry, GIPSA is now working to improve rice milling yield test methodology. In partnership with the industry, GIPSA hopes to develop more market-oriented rice standards and cost-effective inspection programs.

Wheat Dockage

Chess is a weed seed commonly found in some geographic areas where Hard Red Winter wheat is grown. GIPSA has maintained a longstanding special dockage procedure to be used when excessive quantities of chess are present in a wheat sample. During FY 1996, grain industry representatives and official inspection personnel voiced concerns that differences in the No. 9 chess sieves currently in use were causing results to vary significantly from one inspection location to another. These differences created an economic impact on both the buyers and sellers of wheat requiring the special dockage procedure.

In response, GIPSA implemented a standardized procedure for the No. 9 combination chess dockage sieve. The new procedure standardized all sieves to GIPSA's master sieve with a tolerance of ± 0.35 . All No. 9 chess dockage sieves used for official inspection are now providing accurate and uniform results. In addition, the sieve manufacturer is submitting all newly manufactured sieves to GIPSA for approval prior to selling them to the grain industry.

Compliance Activities

Management Accountability and Control Program

GIPSA's managers are responsible for the quality and timeliness of program performance; for increasing productivity, controlling costs, and mitigating adverse aspects of Agency operations; and for assuring that programs are managed with integrity and in compliance with applicable laws. GIPSA established and maintains, at all levels of the organization, an effective checks-and-balances system to help managers achieve their intended results, identify needed improvements, and safeguard the integrity of their programs. Agency programs, functions, and activities are reviewed and evaluated continually to ensure that they are fundamentally sound, are operating with sufficient controls and security measures, and comply with applicable statutes and regulations.

Compliance Reviews

Compliance reviews, a component of GIPSA's management accountability and control program, are third-party reviews of the FGIS field office circuits. During FY 1996, GIPSA personnel conducted compliance reviews of 7 field offices and 14 official agencies designated to provide official services to evaluate management effectiveness and procedural compliance. GIPSA found various noncompliances and procedural problems within the national grain inspection and weighing system; however, none of these findings appear to have affected the overall integrity of the Agency's programs, the inspection system, or the mission of the Agency. All identified problems have been or are being corrected. Overall, the field offices and official agencies are performing satisfactorily, thus meeting GIPSA's mission. GIPSA personnel also conducted six special reviews to gather information or address special situations.

In FY 1996, GIPSA initiated a new type of review -- program assistance teams (PAT) -- to help FGIS field offices in selected program areas. These teams are composed of highly trained experts who will provide, upon request from an FGIS field office, onsite assistance to strengthen and improve specific program areas. GIPSA personnel conducted seven PATs in FY 1996.

Delegation and Designation Program

Sixty-five State and private agencies are designated to provide official services at interior locations. Of these, eight are State agencies that are also delegated to perform official inspection and weighing services at export locations.

Under the triennial renewal procedures, 21 official agency designations automatically terminated in FY 1996. Twenty designations were renewed for 3-year terms after reviewing their performance. The designation of one agency was not renewed because of the absence of any official inspection business in their geographic area in the past several years. Another agency requested cancellation of its designation because it had incorporated. Instead, GIPSA designated the same, but newly incorporated, agency but only for a 1-year period because of procedural problems.

Pilot Programs

GIPSA implemented two pilot programs during FY 1996 which provided the Agency with information on the effect of allowing more than one designated official agency to inspect or weigh grain in a single area.

The first pilot program focused on improving timeliness of service provided to facilities from official agencies. The program allowed official agencies to provide services to facilities located outside of their assigned area on a case-by-case basis, when official services could not be provided within established timeframes. During FY 1996, 7 facilities received 41 such inspections; all were on barge or railcar movements.

The second pilot program established criteria for an “open season” during which official agencies could offer their services to facilities outside their assigned area if no official services had been provided there during the previous 6 months. During FY 1996, 19 facilities received 1,009 such inspections, of which 925 were on railcar movements.

During FY 1996, GIPSA personnel performed two onsite surveys to areas of the country where there was participation in the pilot programs, and received positive feedback on the program both from the industry and official agencies.

Conflicts of Interest

At the beginning of FY 1996, all four of the designated agencies granted discretionary conflict-of-interest waivers were operating without significant problems. The parent organization of one of these agencies is considering selling its interest in the grain inspection business. This would eliminate their conflict of interest.

Alleged Violations and Case Activity

At the beginning of FY 1996, 15 cases involving alleged violations of the USGSA and the AMA were pending further action. During FY 1996, 31 cases (26 alleged violations and 5 inquiries) were opened and 30 cases were closed, leaving 16 cases pending. Alleged violations included: deceptive practices, grain handling practices, filing false applications for official services, exporting grain without obtaining official services, performing official duties improperly, employee misconduct, misgrading grain, and altering official certificates.

To address the 31 cases opened during FY 1996, GIPSA personnel conducted 10 onsite investigations, and the USDA's Office of the Inspector General reviewed 1 case. GIPSA referred three employee misconduct cases to another USDA agency for evaluation and addressed the remaining cases by reviewing information received from field personnel.

GIPSA took administrative action in 15 of the 30 cases closed during FY 1996. These actions included a \$3,500 and a \$20,000 civil penalty; 24 cautionary letters to various grain firms, official agencies, and licensed personnel; and issuance of a news release, a conduct reminder to all GIPSA employees, and a program bulletin to the grain industry. Fifteen cases were closed due to insufficient evidence to prove a violation. Official agencies initiated corrective actions in three cases that include terminating a licensee and accepting the resignation of another.

Registration Program

During calendar year 1996, GIPSA issued 87 Certificates of Registration to firms that exported grain from the United States.

Administrative Claim

In FY 1996, USDA's Office of the General Counsel (OGC) denied an administrative claim filed by farmers and elevator operators from Montana, North Dakota, and South Dakota who alleged that GIPSA's protein technology, introduced during 1993, resulted in losses of protein premiums. After OGC's action, on March 22, 1996, the attorneys for the plaintiffs initiated a suit, Gollenhon Farming et al. v. United States, in the U. S. District Court for the District of Montana at Great Falls. The suit currently is in the earliest stages of litigation. On July 12, 1996, the judge issued an order setting discovery and scheduled a status conference to be held on March 20, 1997.

**Field-Based
Investigative Team**

During FY 1996, GIPSA selected 10 field-based employees and trained them in investigative techniques. Some of these individuals assisted headquarters employees in conducting investigations of reported violations and market evaluations to ensure that grain facilities are complying with existing grain handling practices.

Grain Handling Practices

GIPSA conducted several market evaluations to ensure that grain facilities nationwide are complying with existing grain handling regulations. Such regulations do not allow (1) the addition of dockage and foreign material to any grain; (2) the blending of different kinds of grain unless such blending results in grain being designated as Mixed Grain as defined in the official standards; or (3) the addition of water to grain for purposes other than milling, malting, or similar processing operations.

GIPSA personnel visited grain elevators and discussed agency policies with industry personnel in North Dakota, Illinois, Indiana, Ohio, Tennessee, and Kentucky. The company representatives interviewed were knowledgeable about GIPSA policies and the Agency found no violations to existing guidelines. GIPSA personnel received positive responses from industry officials concerning the appropriateness of the statutes and regulations that govern the national inspection and weighing system.

In FY 1996, GIPSA published a bulletin clarifying its adding-water-to-grain prohibition to address the industry's practice of spraying water on belts to enhance grain movement. Briefly, GIPSA regulations forbid the treatment of belts with water during grain handling.

GIPSA plans to continue surveying the marketplace to learn the effects of its regulations on the grain industry. GIPSA believes that these surveys will serve to strengthen the overall integrity of the official system.

**Overview of
Compliance Activities
Fiscal Years 1994-1996**

| Item | Fiscal Years | | |
|--|--------------|------|------|
| | 1994 | 1995 | 1996 |
| Official agency designations at interior locations | 69 | 66 | 65 |
| Official agency designations renewed | 24 | 23 | 20 |
| State delegations at export locations | 8 | 8 | 8 |
| Registration certificates issued to export grain firms | 89 | 96 | 87 |

International Relations

Complaints from Importers

In FY 1996, GIPSA received 19 quality and 1 quantity complaints from importers on grains inspected under the U.S. Grain Standards Act, as amended. Complaints involved 25 lots loaded aboard 24 vessels.

Importers' complaints in FY 1996 involved approximately 654,319 metric tons, or about 0.6 percent by weight, of the total amount of grain exported during the year. The 1 quantity complaint and 27 quality complaints GIPSA received in FY 1995 represented approximately 1.4 percent of the total tonnage of grain exports.

Summary of Complaints Reported by Importers on Inspection and Weighing Fiscal Year 1996

| Complainant | Grain | Number of Complaints | Nature of Complaint |
|-------------------------------|----------|----------------------|-----------------------------------|
| Africa and Middle East | | | |
| Egypt | Soybeans | 1 | Weed seeds |
| | Wheat | 1 | Dockage, cotton seed |
| Morocco | Wheat | 1 | Infestation |
| South Africa | Corn | 1 | Caking |
| Asia | | | |
| China | Soybeans | 1 | Damaged kernels, foreign material |
| Japan | Barley | 1 | Moisture |
| | Soybeans | 1 | Weight |
| | Wheat | 1 | Heat damage |
| | | 1 | Protein |
| Kyrgyzstan | Wheat | 1 | Damaged kernels |
| Malaysia | Wheat | 1 | Protein |
| <i>continued</i> | | | |

| Summary of Complaints, continued | | | |
|---|----------|-----------|---|
| Europe | | | |
| Belgium | Corn | 1 | Infestation |
| Greece | Wheat | 1 | Quality |
| Netherlands | Soybeans | 1 | Foreign material |
| Poland | Wheat | 1 | Dockage, foreign material, shrunken and broken kernels |
| Latin America and the Caribbean | | | |
| Chile | Wheat | 1 | Wheat of other classes, contrasting classes |
| Colombia | Corn | 1 | Broken corn and foreign material |
| | Wheat | 1 | Test weight, dockage, foreign material, shrunken and broken kernels |
| Mexico | Sorghum | 1 | Infestation |
| | Wheat | 1 | Contrasting classes |
| TOTAL | | 20 | |

**Summary of Briefings
with Visiting Trade and
Governmental Teams,
Fiscal Year 1996**

In 1996, GIPSA representatives met with 77 teams from 41 countries, as shown below. Some countries were represented on several different teams.

| | |
|---|--|
| <p>Africa and Middle East Algeria Egypt Ethiopia Jordan Morocco Republic of South Africa</p> | <p>Europe Armenia Belarus Cyprus France Georgia Germany Israel Moldova Poland Romania Russia Slovenia Switzerland Ukraine</p> |
| <p>Asia Azerbaijan Indonesia Japan Kazakhstan Korea Kyrgyzstan Malaysia People's Republic of China Pakistan Singapore Taiwan Thailand Uzbekistan Vietnam</p> | <p>Latin America and Caribbean Argentina Brazil Bolivia Chile El Salvador Honduras Venezuela</p> |

**Summary of Activities
Involving International Travel
Fiscal Year 1996**

| Purpose | # of Visitors | Country Visited | Dates of Visit |
|---|--------------------------|----------------------------|-------------------------------|
| 1. To discuss vessel loading procedures with inspectors of the Canadian Grain Commission. | 1 | Canada | 10/2 - 10/4/95 |
| 2. To meet with officials of the Canadian Grain Commission to discuss stowage examinations. | 1 | Canada | 10/23 - 10/26/95 |
| 3. To attend a meeting with the Canadian Grain Commission to review and establish compatible U.S./Canadian weighing procedures. | 2 | Canada | 10/30 - 11/1/95 |
| 4. To attend a meeting with Mexican officials concerning the proposed regulations on importing grains from the United States and proposed joint border offices. | 1 | Mexico | 11/6 - 11/11/95 |
| 5. To attend a meeting with Mexican officials concerning the proposed regulations on importing grains from the United States. | 1 | Mexico | 12/3 - 12/5/95 |
| 6. To attend a national type evaluation program on automatic bulk weighing systems. | 2 | Canada | 12/11 - 12/13/95 |
| 7. To supervise and inspect ship loading facilities. | 5 | Canada | 1/9 - 1/10/96 |
| 8. To attend an open forum with government and industry officials on the proposed regulations on importing grains from the United States. | 1 | Mexico | 1/14 - 1/16/96 |
| <i>(continued)</i> | | | |

Summary of Briefings, continued

| | | | | |
|-----|--|---|---------------------|-------------------|
| 9. | To give a presentation on feed grain inspection procedures, at the request of U.S. Feed Grains Council. | 1 | Peru | 2/6 - 2/9/96 |
| 10. | To participate in wheat marketing seminars at the request of U.S. Wheat Associates. | 1 | Morocco, Tunisia | 3/1 - 3/11/96 |
| 11. | To attend a meeting on implementing computer imaging at the request of the Canadian Grain Commission. | 1 | Canada | 3/20 - 3/22/96 |
| 12. | To participate in wheat marketing seminars at the request of U.S. Wheat Associates. | 1 | China | 3/22 - 3/31/96 |
| 13. | To meet with government and industry officials to discuss U.S. grain standards for barley, corn, sorghum, and wheat at the request of the U.S. Feed Grains Council. | 1 | India | 4/4 - 4/20/96 |
| 14. | To participate in a feed grain marketing seminar at the request of U.S. Feed Grains Council and the North American Export Grain Association; meet with flour millers to discuss U.S. wheat quality at the request of U.S. Wheat Associates; and to meet with the South African Agricultural Union to discuss developing a career path training program for their inspectors. | 1 | South Africa | 4/27 - 5/4/96 |
| 15. | To give presentations on U.S. rice inspection in Mexico at the request of USA Rice Federation, and to give a grain marketing seminar in Colombia at the request of U.S. Feed Grains Council. | 1 | Mexico, Colombia | 5/21 - 5/29/96 |

(continued)

Summary of Briefings, continued

| | | | | |
|-----|---|---|---------------------|----------------|
| 16. | To participate in grain marketing seminars and discuss U.S. standards and inspection methods and procedures for corn at the request of U.S. Feed Grains Council. | 1 | Malaysia, Indonesia | 5/23 - 6/8/96 |
| 17. | To participate on a job selection panel at the request of the Canadian Grain Commission. | 1 | Canada | 6/3 - 6/5/96 |
| 18. | To give a presentation at the 30th International Grain Industry Program at the request of the Canadian Grain Commission. | 1 | Canada | 6/11 - 6/14/96 |
| 19. | To attend the 1996 annual meeting of the Livestock Marketing Association. | 2 | Canada | 6/21 - 6/22/96 |
| 20. | To attend a computer software technical conference. | 1 | Canada | 6/24 - 6/28/96 |
| 21. | To give a 3-day wheat grading seminar to flour millers in Venezuela at the request of U.S. Wheat Associates, and to participate in grain marketing seminars in Brazil at the request of the U.S. Feed Grains Council. | 1 | Venezuela, Brazil | |
| 22. | To attend the International Oats and Barley Conference. | 1 | Canada | 7/29 - 8/3/96 |

(continued)

Summary of Briefings, continued

| | | | | |
|-----|---|---|-----------------|-------------------|
| 23. | To give presentations on U.S. rice inspection at the request of USA Rice Federation. | 1 | Peru, Brazil | 8/14 - 8/23/96 |
| 24. | To assist the Polish government develop grain standards. | 1 | Poland | 8/23 - 9/7/96 |
| 25. | To meet with Canadian Grain Commission officials. | 8 | Canada | 9/6 - 9/11/96 |
| 26. | To participate in the Market Access Forum of the U.S./South African Binational Commission. | 1 | South Africa | 9/6 - 9/20/96 |
| 27. | To participate in a soybean marketing seminar at the request of the American Soybean Association. | 1 | Mexico | 9/17 - 9/21/96 |

Grain Dust Explosion Data

GIPSA receives information on grain dust explosions through the cooperation of universities, insurers, trade groups, GIPSA personnel, and a news clipping service. The public sector is not required to report explosions to GIPSA, nor does GIPSA investigate grain dust explosions.

Summary of Reported Grain Dust Explosions, Fiscal Years 1992-1996

| | 1992 | 1993 | 1994 | 1995 | 1996 |
|----------------------|------|------|------|------|------|
| Number of Explosions | 7 | 4 | 17 | 10 | 15 |
| Number of Injuries | 6 | 4 | 27 | 6 | 26 |
| Number of Deaths | 1 | 1 | 1 | 2 | 1 |

Summary of Reported Grain Dust Explosions, Fiscal Year 1996

| Facility | Location | Date | Injuries | Fatalities |
|-------------------------|-------------------|----------|----------|------------|
| Cargill Rice Milling | Greenville, MS | 10/10/95 | 1 | 0 |
| Gerber and Sons, Inc. | Baltic, OH | 10/26/96 | 1 | 0 |
| Riceland Foods | Waldenberg, AR | 12/09/95 | 2 | 0 |
| Grain Processing Corp. | Muscatine, IA | 12/11/95 | 0 | 0 |
| Fasco Mills Company | Seward, IL | 12/17/95 | 3 | 0 |
| Riceland Foods | Jonesboro, AR | 1/29/96 | 0 | 0 |
| Fasco Mills Company | Seward, IL | 1/31/96 | 0 | 0 |
| Carroll Food Feed Mill | Warsaw, NC | 2/8/96 | 4 | 0 |
| National Food Corp. | Plankinton, SD | 5/6/96 | 0 | 0 |
| Grain Land Cooperative | Frost, MN | 5/19/96 | 0 | 0 |
| Latrobe Brewing Company | Latrobe, PA | 7/10/96 | 0 | 0 |
| Swaledale Elevator | Swaledale, IA | 7/17/96 | 0 | 0 |
| Western Sugar Co. | Scottsbluff, NE | 7/20/96 | 15 | 1 |
| Quaker Oats | Cedar Rapids, IA | 9/8/96 | 0 | 0 |
| ConAgra | Martins Creek, PA | 9/12/96 | 0 | 0 |

Packers and Stockyards Programs

Functions and Responsibilities

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

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

The Food Security Act of 1985 permits the States to establish central filing systems to prenotify buyers, commission merchants, and selling agents of security interests against farm products. It is GIPSA's responsibility to issue regulations for and certify those systems that meet the criteria in the statute.

Activities Under the P&S Act

The principal activities involved in administering the Act include:

- Investigating trade practices of packers, market agencies, and dealers to detect fraudulent transactions and guard against unfair trade practices detrimental to producers and the industry.
- Investigating packer meat merchandising and chain store buying to maintain prices established by fair and competitive marketing practices.
- Investigating the financial conditions and payment practices of market agencies, dealers, and packers subject to the Act to determine whether they are financially sound and capable of meeting their obligations.
- Maintaining the integrity of the statutory trust for cash sellers of livestock and poultry growers.
- Surveying marketing practices at public markets and geographical area markets to foster and maintain fair and effective competition and avoid conflicts of interest.

- Obtaining adequate surety bonds from auction markets, commission firms, dealers, order buyers, and meat packers (purchasing more than \$500,000 worth of livestock annually) to ensure payment for livestock purchased.
- Investigating poultry marketing practices to identify and correct those that are injurious to producers and operators in the industry.
- Checkweighing at auction markets, terminal stockyards, packer/poultry processors, and dealer buying stations to maintain integrity in the weights of subject transactions.
- Maintaining a surveillance program at stockyards to assure livestock are being handled and cared for properly.

The following table provides an overview of the livestock industry during FY 1996 and GIPSA's involvement in it.

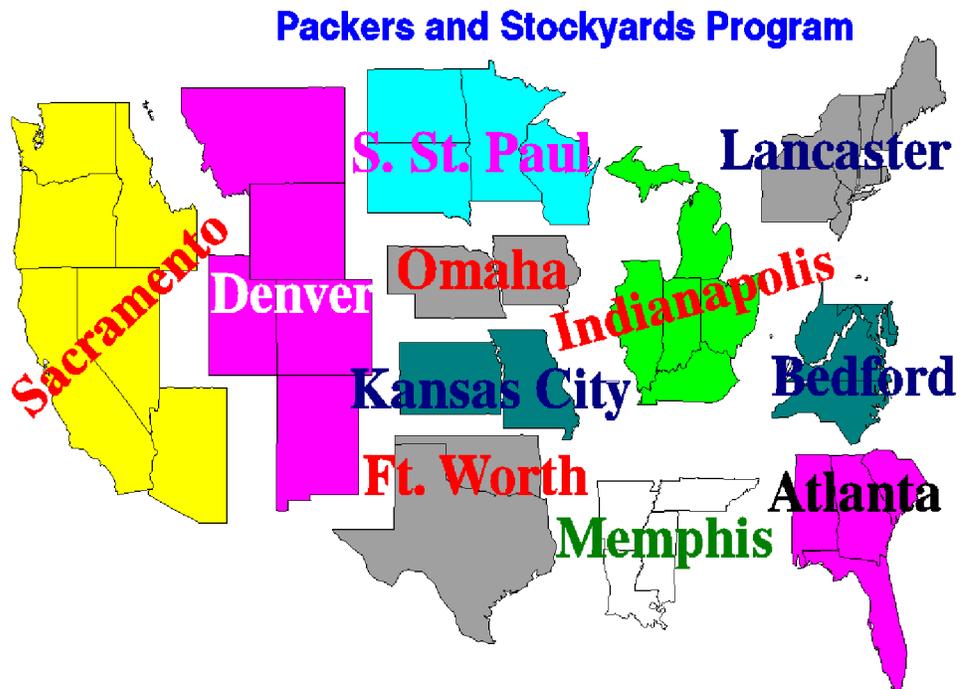
| 1996 | |
|--|-------|
| Investigations | 2,265 |
| Market Agencies/Dealers Registered | 6,988 |
| Stockyards Posted | 1,348 |
| Slaughtering and Processing Packers Subject to the P&S Act (estimated) | 6,000 |
| Distributors, Brokers, and Dealers Subject to the P&S Act (estimated) | 6,500 |
| Poultry Operations Subject to the Act | 224 |

The wholesale value of livestock, meat, and poultry products produced by firms subject to the P&S Act was approximately \$95 billion in FY 1996.

Organizational Structure

The headquarters office of the P&S Programs is located in Washington, D.C., with 11 regional offices located in Atlanta, Georgia; Bedford, Virginia; Denver, Colorado; Fort Worth, Texas; Indianapolis, Indiana; Kansas City, Kansas; Lancaster, Pennsylvania; Memphis, Tennessee; Omaha, Nebraska; Sacramento, California; and South St. Paul, Minnesota. As of September 30, 1996, P&S had 180 full-time permanent employees and 2 cooperative education students who work intermittent schedules; 135 of whom work in the regional offices.

Packers and Stockyards Programs Regional Offices



Major Accomplishments

Study of Concentration in the Red Meat Packing Industry

The Agency completed a congressionally mandated study of concentration in the red meat packing industry. Findings were released in February 1996; contractors' technical reports on the study were released in September 1996. The study defined relevant cattle and hog procurement markets; examined price determination in procurement of fed cattle; examined the role and effects of captive supplies in fed cattle procurement; examined the effects of concentration on prices paid for fed cattle; analyzed trends in vertical coordination in hog production; examined hog procurement patterns in the Eastern Corn Belt; and critically reviewed research literature relating to the structure and performance of the meat packing industry.

Financial Protection and Fair Business Practices

During FY 1996, GIPSA concentrated resources on providing financial protection and promoting fair business practices and a competitive marketing environment for livestock, meat, and poultry. The Agency conducted over 2,000 investigations, disclosing over 800 violations of the P&S Act. Formal actions were requested in 84 cases and 62 administrative or justice complaints were issued in order to bring firms into compliance with the P&S Act. Administrative decisions and orders were issued in 49 cases during FY 1996; however, most violations were corrected on a voluntary basis with several resulting in livestock and poultry producers receiving additional funds for the sale of their product.

Anticompetitive Practices

The Agency has undertaken several initiatives to increase enforcement activities in the area of anticompetitive-type practices involving the Nation's major meat packers. In 1996, a major investigation of fed cattle procurement practices in Kansas was completed. The investigation examined over 15,000 purchase transactions and 2 million head of cattle. The results, which were released in March 1996, did not disclose any anticompetitive practices. Supply and demand factors appear to have been the primary causes of price declines in the spring of 1995. The Agency initiated a major cattle procurement investigation in Texas that will examine over 37,000 purchase transactions and over 6 million head of cattle sold during 1995 and 1996. A major slaughter hog procurement investigation was also initiated during 1996. This investigation will examine approximately 50,000 purchase transactions and over 2.5 million head of slaughter hogs.

Investigations

A high priority is placed on investigating all complaints and further developing information received concerning the failure of livestock dealers, market agencies, or packers to compete for the purchase of livestock.

During FY 1996, GIPSA completed two separate investigations involving livestock dealers, market agencies, packer buyers, and slaughtering packers regarding alleged arrangements whereby the parties agreed not to compete for the purchase of livestock. Both cases are being reviewed for possible enforcement action.

False Weighing

False weights have an immediate and measurable impact on livestock producers' pay checks. During FY 1996, GIPSA issued administrative complaints against two meat packers, two livestock dealers, and one market agency selling on commission. These cases allege more than \$60,000 in losses to livestock sellers. Two other investigations were completed in which complaints will likely be issued during FY 1997.

Financial Investigations

Financial investigations during the year resulted in \$3.5 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. Packer and poultry trust activities also returned over \$400,000 to livestock sellers and over \$100,000 to poultry growers during the fiscal year. Dealers and market agencies are required to meet solvency requirements, a critical component of payment protection of the P&S Act. During FY 1996, 205 insolvent dealers and market agencies corrected or reduced their insolvencies by \$11.2 million.

Competition

One of GIPSA's major responsibilities under the P&S Act is to ensure open competitive marketing conditions for livestock and meat. Concerns surrounding enforcement in this area have been voiced by various producer organizations, and were the major topic of discussion and review by the Advisory Committee on Agricultural Concentration established by Secretary Glickman in 1996. To maintain a competitive and fair marketing system, buyers of livestock must actively compete in the procurement of livestock. GIPSA continually monitors the livestock industry for anticompetitive practices through various investigative activities and other tools.

Concentration and Industry Structure

GIPSA completed a major, congressionally mandated study of concentration in the red meat packing industry. Findings were released in February 1996; contractors' technical reports on the study were released in September 1996. The study defined relevant cattle and hog procurement markets; examined price determination in procurement of fed cattle; examined the role and effects of captive supplies in fed cattle procurement; examined the effects of concentration on prices paid for fed cattle; analyzed trends in vertical coordination in hog production; examined hog procurement patterns in the eastern Corn Belt; and critically reviewed research literature relating to the structure and performance of the meatpacking industry. The report was widely distributed and contributed to the already lively debate on concentration in meatpacking.

GIPSA prepared a statistical report on the meatpacking industry covering the years 1991-1994. The report shows concentration ratios, plant size, packer purchases by region through public and non-public markets, the extent of packer feeding, and other information on the structure of the industry.

Anticompetitive Arrangements

GIPSA places a high priority on investigating all complaints and further developing information received about the failure of livestock dealers, market agencies, or packers to compete for the purchase of livestock. During FY 1996, GIPSA conducted investigations involving livestock dealers, market agencies, packer buyers, and slaughtering packers regarding alleged arrangements whereby the parties agreed not to compete for the purchase of livestock.

During the late spring of 1995, prices for fed steers and heifers fell over \$10 per hundredweight. Many livestock producers voiced concerns to GIPSA that the use of cattle purchased through forward contracts, packer feeding arrangements, or marketing agreement/formulas (all of which are also referred to as captive supplies or non-cash purchases) by the major packers was the probable cause for this price decline. In response to these concerns, a major investigation was initiated in Kansas involving the top four steer and heifer slaughter firms in the United States. Kansas is the only State in which each of the top four firms has a steer and heifer slaughter plant. In 1995, these plants slaughtered over 99 percent of the Kansas steer and heifer slaughter, which was 24.5 percent of the U.S. total. GIPSA obtained procurement data covering the months of February, March, April, and May 1995 that included over 15,000 livestock purchase transactions representing over 2 million head of cattle. The analysis of over 10,000 cellular phone calls from approximately 40 cattle buyers also was included in the investigation. The primary cause of the price decline during the timeframe appears to be the result of supply and demand factors.

The Kansas investigation began in the summer of 1995 and was completed in early 1996. GIPSA currently is conducting a similar but much broader investigation in the Texas Panhandle. The Texas investigation was initiated in the summer of 1996 and will include 16 months of procurement data, over 37,000 transactions, and over 6 million head of cattle. This investigation, which is scheduled for completion in 1997, will include a variety of statistical analyses such as the relationship between livestock prices and the various different "formulas" used to purchase livestock.

GIPSA also is currently conducting an investigation of slaughter hog procurement in the central United States. The investigation will include an analysis of contractual arrangements between packers and hog producers, and analyze the effects of hog quality and seller size on price. The data also will be analyzed to ensure that the firms are actively competing and to gain a better understanding of all aspects of each firm's procurement operations. This investigation involves procurement data from 11 major hog slaughter plants and over 2.5 million head of slaughter hogs.

Fair Trade Practices

Livestock Care and Handling

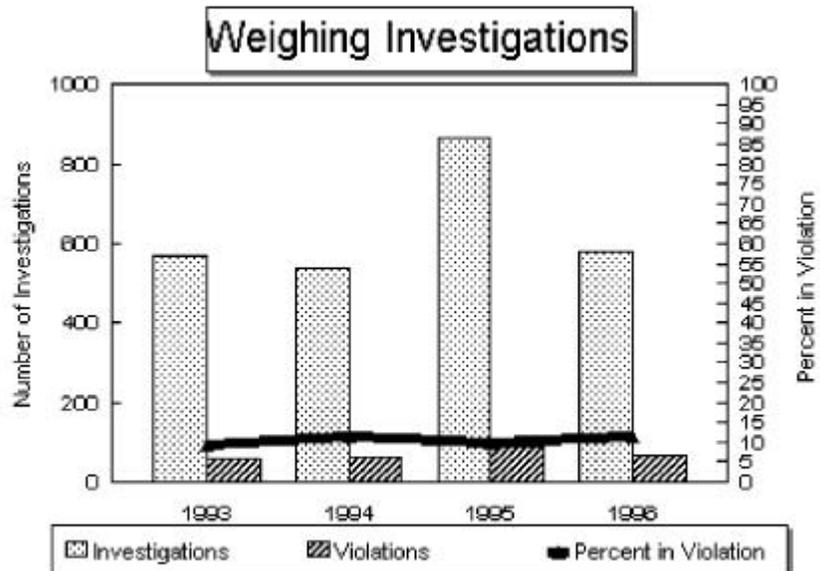
The handling of livestock at stockyards has received considerable attention from the media and special interest groups. To address this issue, GIPSA initiated a surveillance program to review the handling practices, services, and facilities at stockyards to ensure that livestock are handled and cared for properly. The surveillance program indicated that the majority of participants who are involved in moving livestock through marketing channels followed reasonable care and handling practices. However, some problems in the care and handling of livestock were found. GIPSA is continuing its program to investigate stockyards' handling practices and procedures to ensure the proper care and handling of livestock. In July 1996, GIPSA published proposed guidelines on the appropriate care and handling of livestock at stockyards and, in particular, the handling of downed animals. The proposed guidelines are intended to assist the industry in complying with the provisions of the Packers and Stockyards Act.

Accurate Weights

GIPSA's mission in this area consists of two elements that affect the integrity of subject transactions: (1) the accuracy of the scales used for weighing livestock, meat, and poultry, and (2) the proper and honest operation of scales to ensure that the weight on which a transaction is based is accurate.

GIPSA's major emphases in the enforcement of the program are the monitoring of scale tests and the detection of improper and fraudulent use of subject scales. In most cases, the scales are tested by State and private testing agencies, following standards developed in cooperation with the National Conference on Weights and Measures (NCWM). GIPSA conducts training schools for test agencies with NCWM National Training Program certified instructors. Test reports are analyzed and tests are periodically supervised to ensure that they accurately reflect the performance of the scale under normal use conditions. Since 1988, 21 training schools provided technical instruction to 327 officials from 36 States. Informal instruction is routinely provided upon request to State and private test agencies. Ninety percent of the scales tested complied with performance requirements. Equipment that was not found in compliance was adjusted, repaired, replaced, or removed from service.

False weights have an immediate and measurable impact on livestock producers' paychecks. During FY 1996, GIPSA issued administrative complaints against two meat packers, two livestock dealers, and one market agency selling on commission. These cases alleged more than \$60,000 in losses to livestock sellers. Two other investigations were completed in which complaints will likely be issued during FY 1997. GIPSA investigators reviewed the results of approximately 10,000 scale test reports and conducted an extensive weighing investigation program in FY 1996, including livestock, carcass, and poultry checkweighing. Approximately 14,000 head of livestock were checkweighed at auction markets and buying stations. Nearly 170 meat and poultry packing plants were visited by GIPSA personnel for the purpose of checkweighing carcasses. Over 70 checkweighing investigations were conducted at poultry packing plants. Approximately 11 percent of the investigations disclosed false or incorrect weighing and resulted in corrective action.



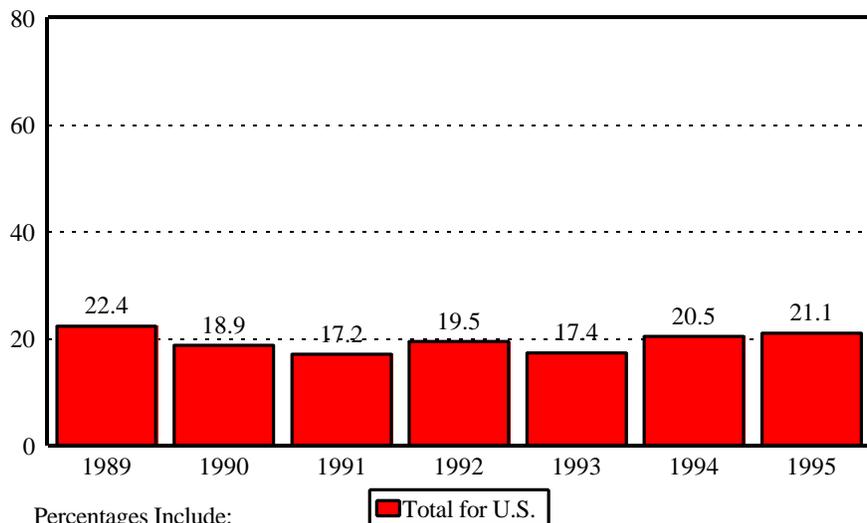
Livestock Procurement Practices

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

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

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

Steer & Heifer Procurement Analysis Top 15 Firms



1. Cattle purchased through a Forward Contract.
2. Packer owned and/or Fed.
3. Cattle purchased through a Marketing Agreement/Formula.

The 1995 steer and heifer slaughter totals indicate that the Nation's top 15 steer and heifer slaughter firms accounted for nearly 96 percent of the commercial steer and heifer slaughter. The percentage of cattle obtained through a contract, packer feeding arrangement, or marketing agreement/formula priced purchases in 1995 was 21.5 percent, up slightly from 20.5 percent in 1994.

Contract Poultry Arrangements

During FY 1996, GIPSA investigated the operations of 80 live poultry dealers. While many of the investigations conducted resulted from a specific grower's complaint, GIPSA is continuing its in-depth analysis of larger poultry firms for indications of discriminatory treatment of poultry growers. Continuing concerns about large variations in tare weights of poultry live haul vehicles have prompted extensive on-site investigations of live weighing procedures at several poultry complexes. Weighing practices were investigated through unannounced checkweighings at 71 poultry complexes in FY 1996. A complaint was issued in U.S. district court against a South Carolina poultry firm for delayed weighing of live poultry and falsification of weighing records.

A number of discrepancies between poultry growers and integrators were mediated as the result of investigation of growers' complaints. GIPSA's mediation of one dispute resulted in an agreement to place poultry with a grower after the integrator had discontinued placements.

Two regional meetings were held between poultry growers and GIPSA to discuss concerns related to contract production of poultry. Several areas of concern to poultry growers are being addressed through proposed rulemaking notices that will afford all interested parties an opportunity to comment on the proposed rulemaking. An extensive review of feed handling and weighing practices by live poultry dealers was initiated during FY 1996. Information gathered will help determine the need for specific regulations dealing with feed scales, weighing, and feed delivery.

A large share of the complaints and concerns the Agency receives from contract poultry growers falls into three areas: (1) grower payments based on performance compared with other growers for a specified time period (usually all growers whose birds are killed within a 1- or 2-week period); (2) accuracy of feed weights and feed delivery and pick-up procedures; and (3) procedures for weighing live birds picked up for slaughter and the accuracy of the weights. The Agency is concerned that contract poultry growers are in an unequal bargaining position with the integrated poultry companies and considering the need for issuing substantive regulations to provide growers with assurance that their settlements will be equitable. An Advance Notice of Proposed Rulemaking will be published in the *Federal Register* early in FY 1997, seeking comments on the need for regulations and the content of such regulations.

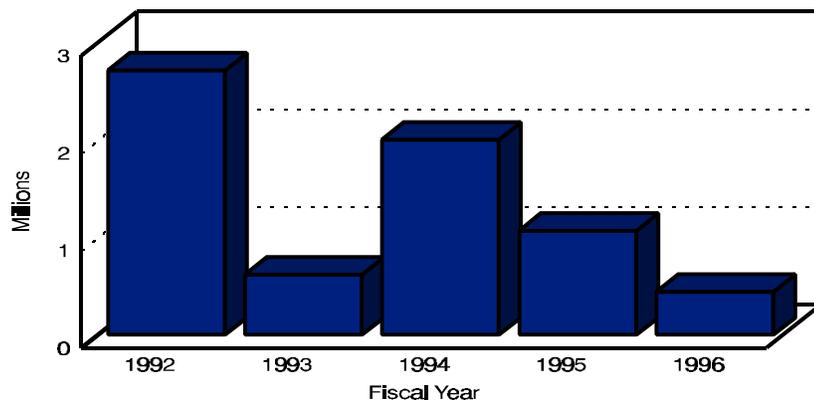
Financial

Packer Trust

Payment Protection. It is important that producers receive timely and full payment for the livestock they market. Payment protection is provided directly under the P&S Act by statutory requirement of full and prompt payment, by packer bonding requirements, and by the packer trust provisions. Packers also are required to file annual reports of their operations with GIPSA and to maintain a solvent financial condition. Prompt payment is a significant element of the financial protection afforded producers under the P&S Act and is an integral part of the packer trust which provides protection to producers who fail to receive payment from meat packers.

Packer Trust Activities. Since the 1976 amendments to the P&S Act, livestock sellers have been paid \$48.4 million under the statutory trust provisions. Packer trust payouts generally track market conditions with fewer trusts and smaller payouts when the supply is adequate and prices are down.

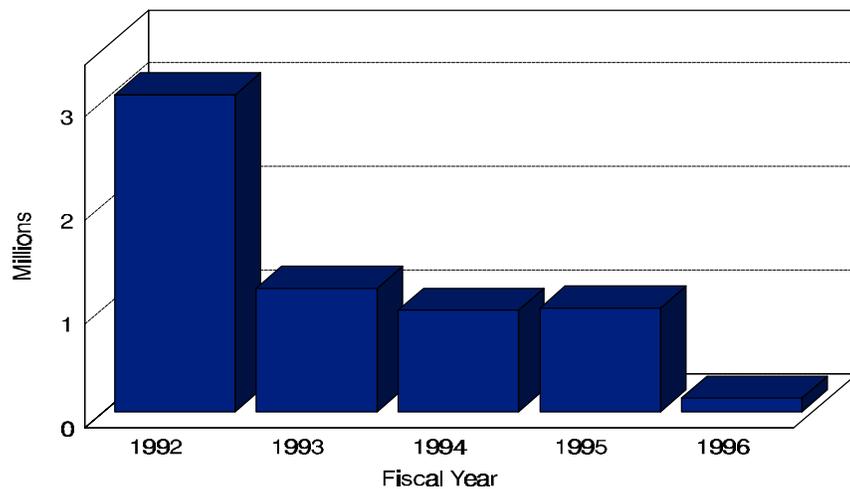
Packer Trust Payouts



Poultry Trust

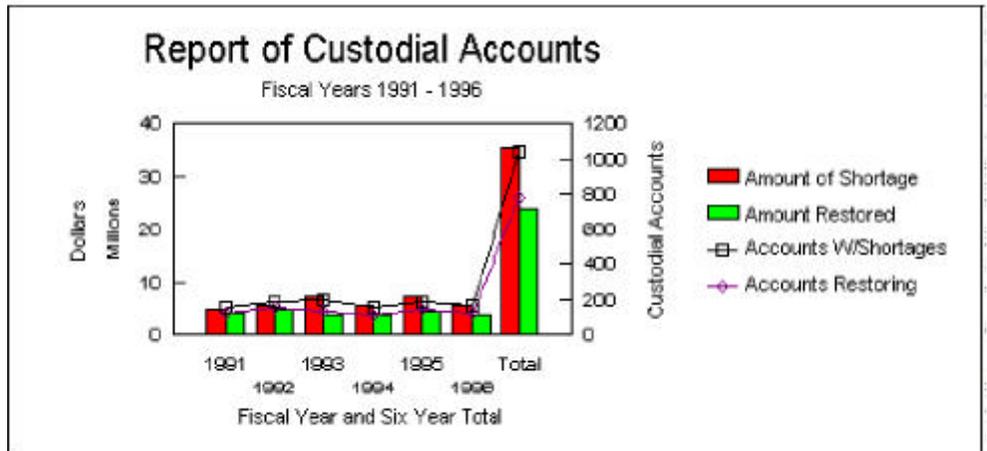
Live Poultry Trust Activities. In February 1988, the P&S Act was amended to include a statutory trust provision similar to the packer trust giving payment protection to live poultry growers and sellers. Since the 1988 amendments, live poultry producers have been paid \$7.4 million under the statutory trust provisions. The amount of poultry trust payouts have declined and has trended downward in the past several years, reflecting a robust poultry industry.

Poultry Trust Payouts



Custodial

Payment protection for the sellers of livestock is an integral part of the P&S Act and of extreme importance to GIPSA. To ensure compliance with the financial and payment protection provisions of the Act, GIPSA audits and investigates the regulated industry. Market agencies that sell livestock on a commission basis are required to establish and maintain, for the benefit of livestock sellers, a Custodial Account For Shippers' Proceeds bank account. In FY 1991, GIPSA inaugurated a compliance surveillance program designed to audit each of these accounts at least once every 3 years. Since its inception, GIPSA has audited 3,328 of these accounts. Shortages totaling \$35.6 million were found in 1,047 accounts. Of those markets with custodial account shortages, 785 restored a total of \$23.9 million, thereby averting potential catastrophic losses to livestock sellers. During FY 1996, compliance audits conducted on 510 custodial accounts disclosed that 165 markets had shortages totaling \$5.4 million in their accounts. Because of the audit program, 126 markets restored \$3.5 million.



Solvency

Dealers and market agencies are required to meet the solvency requirements, a critical component of payment protection of the P&S Act. In the past 4-fiscal-year period, 715 dealers and market agencies found to be insolvent either corrected or reduced their insolvencies, in the aggregate, over \$51.1 million as a result of GIPSA compliance activities. Of the 715, 631 completely corrected their insolvencies. During FY 1996, 205 insolvent dealers and market agencies corrected or reduced their insolvencies by \$11.2 million.

Bonding

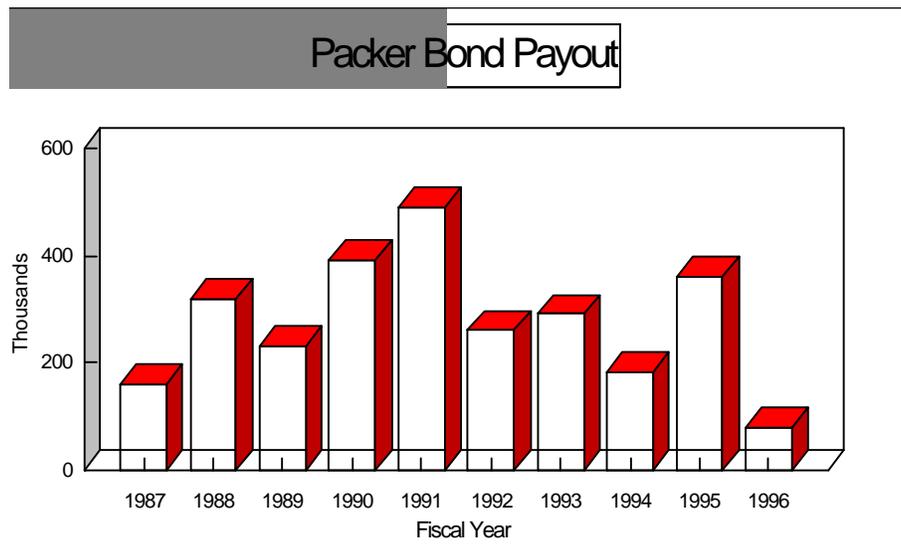
The P&S Act and regulations require that each market agency and dealer operating in commerce be registered. To comply, a firm must file an application simultaneously with a surety bond or its equivalent. The following table shows the number of registrants and value of their bonds for the past 3 fiscal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

| | FY 1996 | FY 1995 | FY 1994 |
|---------------------------|---------|---------|---------|
| Posted Stockyards | 1,348 | 1,386 | 1,404 |
| Market Agencies/ Dealers | 6,988 | 7,078 | 7,308 |
| Packer Buyers | 2,169 | 2,103 | 2,215 |
| Value of Bonds (millions) | \$247.1 | \$256.2 | \$268.6 |

In FY 1996, 23 claimants recovered \$145,000 out of \$727,722 in claims filed during the fiscal year against the surety bonds maintained by dealers and market agencies that failed financially. Claims totaling approximately \$127,354 are pending and expected to be paid to claimants.

Packer Bonding. The 1976 amendment to the P&S Act made provision for packer bonding as an additional means of payment protection to livestock sellers. All packers purchasing more than \$500,000 worth of livestock annually must be bonded. The bond provides payment protection for unpaid livestock purchases not otherwise recovered through the packer trust. Consequently, the percent of bond payout to total bond value is consistently less than 1 percent.

| Packer Bonding Activity | |
|---|-------|
| Value of bonds (\$ in millions) | 284.3 |
| Number of packers bonded | 433 |
| Number of packer bonds called on | 5 |
| Value of packer bonds called on (\$ in thousands) | 395 |



Corrective Actions

Voluntary

Most violations of the P&S Act found in investigations initiated by GIPSA are corrected voluntarily by the individuals or firms when the violation is brought to their attention. Taking disciplinary action to correct a violation is the last resort after every effort has been taken to obtain voluntary compliance. During FY 1996, dealers and market agencies found to be insolvent voluntarily corrected or reduced their insolvencies by \$11.2 million. Upon finding shortages in the custodial account of market agencies that sell livestock on a commission basis, 126 market agencies voluntarily restored \$3.5 million to their custodial accounts. Livestock producers and poultry growers often ask the Program's help in settling disputes that arise in marketing their products. In such transactions, the Agency often acts as an intermediary by bringing the parties together to solve the disputes informally.

Disciplinary

When violations of the P&S Act are not corrected voluntarily by subject firms, formal disciplinary action is often necessary. During FY 1996, 62 administrative or justice complaints were issued in order to bring subject firms into compliance with the P&S Act. The following is a list of violations of the P&S Act alleged in complaints issued and/or in decisions rendered in FY 1996:

- Restriction of competition in the purchase of livestock.
- Misrepresenting the weight and price of livestock.
- Accounting to and paying livestock sellers on the basis of false and inaccurate carcass weights.
- Delayed weighing of poultry.
- Failure to pay for livestock.
- Failure to pay promptly for livestock.
- Shortage in custodial or trust account.
- Dissipation of trust assets.

- Failure to timely remit trust assets.
- Engaging in unfair or unreasonable practices in connection with holding, feeding, watering, and overall handling of livestock at a stockyard.
- Insolvency (liabilities exceeded assets).
- Operating without adequate bond.
- False records.

Clear Title

The Federal Agriculture Improvement and Reform Act of 1996 amended the Clear Title program through which States may establish central filing systems enabling lenders to provide notice of liens against farm products. The amendment permits lenders to file financing statements with State Secretaries of State electronically. The Secretary of Agriculture has responsibility for certifying that States' central filing systems comply with the applicable Federal statutes. GIPSA published interim rules for implementing the 1996 amendment.