

Questions Submitted by Chairwoman DeLauro

Fiscal Year 2008 Budget

Grain Inspection, Packers and Stockyards Administration

Livestock complaints

Ms. DeLauro: Update the table that appears in last year's hearing record showing the number of complaints, the number of related investigations, and the number of related actions taken to address findings. Please include fiscal year 2006 actuals and fiscal year 2007 estimates. Add an explanation as to what action GIPSA takes in response to a violation.

Response: The information is submitted for the record.

[The information follows:]

Number of Complaints and Investigations, 1998 - 2007.

Fiscal Year	Number of Complaints*	Number of Investigations
1998	1,684	NA
1999	1,372	NA
2000	1,898	NA
2001	1,619	371
2002	1,600	380
2003	1,744	393
2004	1,923	161
2005	2,315	267
2006	310	288
2007	304	294

* The complainant may be a producer, anonymous caller, third party, or feedlot operator who may not be a producer. The 2005 and prior figures are based on the method of calculation used by GIPSA prior to changes made in response to the recommendations received from the USDA OIG report, and include regulatory monitoring actions and investigations initiated by GIPSA as a result of regulatory monitoring. Figures for 2006 and 2007 are actual complaints to GIPSA from outside parties.

Several enforcement actions are available to GIPSA in the event it finds a regulated entity in violation of the Packers and Stockyards Act (P&S Act), including notices of violation, stipulation agreements, and administrative or civil actions. Administrative and civil actions may be decided by a judge who issues a formal decision and order, or may be settled with a consent decision agreed to by both parties. In each of these instances the entity against whom a complaint has been filed is ordered to cease and desist from engaging in a specific unlawful activity and may be assessed a civil penalty or have their registration under the P&S Act suspended. Only dealers and market agencies are currently subject to suspensions under the P&S Act.

A stipulation agreement is a new enforcement tool available to GIPSA as of fiscal year (FY) 2007. In April 2007, GIPSA published changes to the Rules of Practice Governing Proceedings under the Packers and Stockyards Act (9 CFR 202) to allow the agency to resolve violation cases more timely. These procedures allow GIPSA to offer to settle a violation case with the respondent by means of an agreement whereby the respondent waives his or her right to a hearing and pays a civil penalty.

GRAIN FACILITIES

Ms. DeLauro: Update the table that appears in last year's hearing record showing the number of persons or companies who registered under current statues, and the number of grain facilities involved in export activities to include 2006.

Response: The information is submitted for the record.

[The information follows:]

<u>Year</u>	<u>No. of Registrants</u>	<u>Total Export Facilities*</u>
1998	86	62
1999	78	56
2000	79	57
2001	78	57
2002	87	56
2003	91	53
2004	103	54
2005	99	54
2006	123	54

- Includes only the elevators located at export port locations in the United States that export grain in waterborne carriers.

GRAIN INSPECTED AND/OR WEIGHED

Ms. DeLauro: Update the tables that appear in last year's hearing record, showing the grains inspected and/or weighed for export by country of destination for fiscal year 2006.

Response: The information is submitted for the record.

[The information follows:]

GRAINS INSPECTED AND/OR WEIGHED FOR EXPORT BY COUNTRY OF DESTINATION

FISCAL YEAR 2006 (OCTOBER 1, 2005-SEPTEMBER 30, 2006)

REPORTED IN METRIC TONS

COUNTRY	COUNTRY TOTAL	BARLEY	YELLOW CORN	WHITE CORN	FLAXSEED	OATS	SORGHUM	SOYBEANS	SUNFLOWER	WHEAT
AFGHANISTAN	28,950									28,950
ALGERIA	1,652,645	24,120	1,327,316							301,208
ANGOLA	4,297						4,297			
BANGLADESH	66,637							612		66,025
BARBADOS	97,123		41,403					22,277		33,443
BELGIUM	282,160				61,144			123,578		97,438
BELIZE	22,204									22,204
BOLIVIA	13,000									13,000
BOSNIA-HERC	6,402									6,402
BRAZIL	27,499									27,499
BULGARIA	21							21		
BURUNDI	13,900		13,900							
CAMEROON	17,821						220			17,601
CAPE VERDE	10,000		6,000							4,000
CHAD	15,450						6,450			9,000
CHILE	693,057		400,489							292,568
CHINA MAIN	10,286,321		58,475					9,980,338		247,509
CHINA T	7,478,867	35,802	4,732,898	38				1,777,050		933,080
COLOMBIA	3,693,835		2,775,505	113,073				242,460		562,797
CONGO (BRAZ)	52,510		9,940							42,570
COSTA RICA	1,175,485		621,041	48,064				253,133		253,247
CUBA	1,093,970		586,243					169,527		338,200
DENMARK	69,395							69,395		
DOMINICN REP	1,408,980		1,043,272	229						365,479
ECUADOR	426,160		336,080							88,080
EGYPT	6,214,825		4,421,325					448,631		1,344,869
EL SALVADOR	659,971		296,694	74,910						288,367
ERITREA	192,500						31,501			160,998
ETHIOPIA	412,164									412,164
FINLAND	23,175							19,927		3,247
FRANCE	60,212							60,212		
GEORGIA	8,000									8,000
GERMANY	314,775							314,775		
GHANA	82,794			6,264						76,530
GRENADA	6,762									6,762
GUATEMALA	1,248,684		768,894	53,544				18,277		407,970
GUYANA	24,434		10,891							13,542
HAITI	101,640									101,640
HONDURAS	586,423		356,238	38,594						191,592

COUNTRY	COUNTRY TOTAL	BARLEY	YELLOW CORN	WHITE CORN	FLAXSEED	OATS	SORGHUM	SOYBEANS	SUNFLOWER	WHEAT
HONG KONG	68,939		66,239					2,700		
INDONESIA	2,294,102		906,096					1,152,315		235,691
IRAQ	1,970,298		21,250							1,949,048
ISRAEL	1,186,803	8,991	720,963				16,179	213,882		228,789
ITALY	441,073									441,073
IVORY COAST	9,500									9,500
JAMAICA	445,846		256,380			9				189,257
JAPAN	24,255,091	59,544	16,860,127	61,516			1,208,153	2,986,710		3,069,041
JORDAN	423,166		330,741	67						92,358
KENYA	137,428		6,100	23,500			29,950			77,879
KOREA REP	7,507,922		5,826,786					533,611		1,147,524
LEBANON	166,416		154,416							12,000
LIBYA	172,846		172,846							
MADAGASCAR	28,810							15,000		13,810
MALAWI	8,780						8,780			
MALAYSIA	386,959		16,843					251,410		118,706
MALTA	11,376									11,376
MARTINIQUE	9,971		9,971							
MAURITANIA	24,497									24,497
MEXICO	14,864,403	3,135	5,688,216	289,351	914	7,120	2,520,874	4,116,831	10	2,257,952
MONGOLIA	25,000									25,000
MOROCCO	1,730,456		1,210,661				37,851	295,224		186,720
MOZAMBIQUE	112,728						9,000			103,728
NAMIBIA	39,049			5,592						33,457
NETHERLANDS	1,159,612							1,159,612		
NICARAGUA	241,227		128,455	4,708						108,064
NIGER	3,931						1,480			2,450
NIGERIA	2,757,038									2,757,038
NORTH KOREA	6,000							6,000		
OMAN	9,600		9,600							
PAKISTAN	246,856							40,000		206,856
PANAMA	453,696		309,211					4,400		140,085
PERU	603,235		393,529					3,300		206,406
PHILIPPINES	1,917,615		61,090					94,846		1,761,677
PORTUGAL	118,451							82,209		36,242
REP S AFRICA	165,505						72,209			93,295
RUSSIA	13,186		13,186							
RWANDA	7,240									7,240
SAUDI ARABIA	792,581	110,397	671,684							10,500
SENEGAL	9,122		9,122							
SIERRA LEONE	4,350									4,350
SINGAPORE	57,998									57,998
SOMALIA	132,879		11,120				121,759			

COUNTRY	COUNTRY TOTAL	BARLEY	YELLOW CORN	WHITE CORN	FLAXSEED	OATS	SORGHUM	SOYBEANS	SUNFLOWER	WHEAT
SPAIN	349,798						131,995	99,461		118,341
SRI LANKA	42,780									42,780
ST. VINCENT	11,476		5,094							6,382
SUDAN	271,617						244,817			26,800
SURINAME	23,360		19,468							3,891
SYRIA	812,017		630,840					181,177		
TANZANIA	149,734		16,890	132,844						
THAILAND	782,539							269,468		513,070
TRINIDAD	316,591		131,395					5,792		179,403
TUNISIA	493,577	21,000	424,126							48,451
TURKEY	667,991							647,639		20,352
UGANDA	55,709						12,230			43,480
UKRAINE	14							14		
UN ARAB EM	97,907		20,931					76,976		
UN KINGDOM	104,480							43,468		61,012
VENEZUELA	1,222,145		99,525					40,018		1,082,603
VIETNAM	33,501	1,010	16,409					1,929		14,153
YEMEN	699,312		53,003							646,309
ZAMBIA	48,999						44,500			4,500
ZIMBABWE	20,920						20,920			

GRAND TOTAL	109,798,893	263,999	53,080,917	832,293	62,058	7,129	4,523,165	25,834,207	10	25,195,115
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SHIPMENTS TO CANADA*	1,209,772		473,095					528,325		208,353
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*NOT INCLUDED IN TOTAL INSPECTION FOR EXPORTS

GRAIN SHIPPED FOR STORAGE IN CANADA IS REPORTED AT TIME OF SHIPMENT FROM ST LAWR SWY PORTS

GRAIN DUST EXPLOSIONS

Ms. DeLauro: Update the table that appears in last year's hearing record showing the number of explosions resulting from grain dust, including the number of deaths and injuries, to include fiscal year 2006. What is the reason for the increase in explosions in 2005 compared to 2004? What is GIPSA doing to keep these numbers down?

Response: The information is submitted for the record.

[The information follows:]

<u>Fiscal Year</u>	<u>Explosions</u>	<u>Injuries</u>	<u>Deaths</u>
1998	18	21	7
1999	11	15	0
2000	9	19	1
2001	8	7	1
2002	9	11	1
2003	7	7	2
2004	6	3	0
2005	10	3	1
2006	9	11	1

Since the industry is not required to report grain dust explosions to GIPSA, the Agency does not maintain a standard reporting mechanism for these occurrences. Instead, the Agency receives this information from a variety of news sources, including research experts, news clipping service, field office employees, and grain elevator managers. This information did not provide reasons for the increase in explosions in 2005 compared to 2004.

In the past, GIPSA has conducted major studies and implemented changes that have made our workplace safer. We issued safety and health directives which establish safety policies for all employees. An Occupational Safety and Health Administration (OSHA) hazard recognition course and first-aid training are given to employees in the field offices. Export elevators moved FGIS inspection labs to location at least 100 feet from the elevator headhouse. GIPSA funded, in part, explosion research by the National Academy of Sciences, testified at congressional hearings, funded a 2-year research project by Purdue University to study dust accumulation and various grain handling methods to develop ways to measure dust emissions and methods to decelerate grain with minimum damage and dust formation.

The grain industry has taken steps to decrease dust explosions. Throughout the years grain companies adopted advanced technology, and implemented new elevator design or retrofitted and modified existing facilities to preclude explosions. Although the volume of grain moving through export elevators has increased over the years, government, industry, union, and trade associations' efforts have lowered the incidence of explosions through the increased awareness of explosion preventive measures.

OSHA Standard CFR 1910.272 on Grain Handling Facilities has also played an important role in reducing injuries and fatalities in grain elevators. A regulatory review of the standard in 2003 found that since its implementation in 1988, there has been a 55 percent decrease in injuries and 70 percent drop in deaths due to grain dust explosions.

EXPORT GRAIN COMPLAINTS

Ms. DeLauro: Update the table that appears in last year's hearing record showing the number of complaints for exported grain that you received and the number of open cases to include fiscal year 2006 actuals and fiscal year 2007 figures to date. What is the reason for the increase in complaints in 2005 compared to 2004? What does GIPSA do to address complaints?

Response: The information is submitted for the record.

[The information follows:]

Fiscal Year	Number of Complaints	Cases Open
1998	15	0
1999	22	0
2000	13	0
2001	18	0
2002	9	0
2003	15	0
2004	4	0
2005	11	0
2006	10	0
2007 (5/17/07)	9	4

When an importer of U.S. grains reports a quality discrepancy, GIPSA analyzes samples retained on file from the original inspection and samples submitted from destination (if the buyer chooses to submit them) to evaluate whether the discrepancy was due to differences in samples, procedures, or an actual change in quality from the time of the original inspection. When an importer reports a weight discrepancy, we review detailed records from the original weighing service. The process verifies whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. GIPSA then issues a report outlining its findings and providing suggestions to avoid similar discrepancies in the future.

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

For the years 2004 through 2007 (to date), the complaints received represented about 0.1, 0.4, 0.3, and 0.2 percent, respectively, of grain exports by weight. The nature of complaints did not follow any pattern or trend, and we do not consider the differences among these years to be significant.

To provide more of an historical perspective, in the preceding 5 years (1999 to 2003) we received an average of 15.2 complaints per year, representing about 0.5 percent of U.S. grain exports by weight. Fourteen years prior (1985 to 1998), we received an average of 47.8 complaints per year, or about 1.9 percent of all U.S. grain exports by weight.

AFLATOXIN INSPECTIONS

Ms. DeLauro: For the record, please update the table that appears in last year's hearing record showing the number of aflatoxin inspections and a column that represents the violations in these inspections to include fiscal year 2006. What action does GIPSA take to address aflatoxin violations?

Response: The information is submitted for the record.

[The information follows:]

Fiscal Year	No. of Inspections	Violations
1998	54,923	0
1999	62,875	0
2000	62,701	0
2001	61,234	0
2002	66,062	0
2003	111,265	0
2004	102,251	0
2005	96,655	0
2006*	218,076	0

* Drought conditions in Iowa and Illinois during the summer of 2005 were likely the cause of the significant increase in tests.

There have not been any alleged aflatoxin violations of the U.S. Grain Standards Act or the Agricultural Marketing Act. If and when violations occur, appropriate corrective action will be taken. Corrective action could range from an informational letter to a reprimand letter to an administrative civil penalty, which will depend upon the findings of the investigation, the severity of the violation, the number of times that the person/company has been in violation. Every corrective action is administered on a case-by-case basis.

VIOLATION REPORT CALLS

Ms. DeLauro: How many violation report calls did you receive in fiscal year 2006? How many were investigated? What is the nature of violations reported? Please describe GIPSA's actions to address these violations.

Response: GIPSA maintains a hotline telephone number for receiving complaints and other inquiries from the public. During fiscal year 2006, GIPSA received 6 hotline complaints related to grain and 55 calls to report potential Packers and Stockyard (P&S) Act violations. One grain-related and thirty-one P&S-related complaints resulted in investigations. The nature of grain-related calls and actions taken included:

- Allegations that a company was fulfilling government contracts with inferior product. This hotline complaint was referred to Farm Service Agency (FSA) for investigation.
- Inquiring about the nature of a suspension letter. GIPSA was unable to contact source of complaint.
- Allegations that a licensee was not complying with existing aflatoxin testing procedures. GIPSA opened an investigation on this complaint.
- Concerns of odor and excessive insects coming into a home from an adjacent grain facility. GIPSA contacted and rendered an acceptable explanation of problem to complainant.
- Concerns that local elevators may not be accepting local farmer's corn due to low levels of aflatoxin. GIPSA was unable to contact source of complaint.
- Allegations that a company was putting packets of unspecified seeds into magazines and then shipping them via FedEx or UPS to an unspecified location. This hotline complaint was referred to California Department of Agriculture for action.

The nature of P&S-related calls included allegations of: failure to pay for livestock; bonding activities; poultry contract issues; unfair and deceptive business practices; restriction of competition; failure to remit sellers

funds; registration and jurisdiction matters, meat merchandising matters, inadequate or false records; posted tariff rates at markets; illegal inducements; and, requests for general information. GIPSA took appropriate actions when an investigation revealed possible violations of the P&S Act.

Poultry complaints

Ms. DeLauro: Please update the table that appears in last year's hearing record showing the number of poultry compliance complaints received in fiscal years 1996 through 2006 and the number of related investigations.

Response: The information is submitted for the record.

[The information follows:]

Number of Poultry Complaints and Investigations, 1996-2007.

Fiscal Year	Number of Complaints	Number of Investigations
1996	86	NA
1997	66	NA
1998	82	NA
1999	113	NA
2000	97	NA
2001	125	NA
2002	53	NA
2003	62	NA
2004	52	203
2005	36	53
2006	49	49
2007	42	42

Poultry complaints

Ms. DeLauro: What was the nature of the poultry complaints received in the most recent year? How many investigations were done in the most recent year? What were the results of these investigations?

Response: The information on number of complaints is submitted for the record. All poultry complaints through July 2007 led to an investigation.

Nature of Complaint	Number
Contract Poultry Arrangements	10
Failure to Pay	1
Grower Termination	12
Other	3
Preferential Treatment	2
Unfair/Deceptive Practices	10
Weighing Practices	4
Total	42

The 42 complaints have resulted in 9 violations, 11 non-violations, 5 informal settlements, 4 cases outside the Agency's purview, and 13 open investigations. Amendments to the P&S Act extending GIPSA's authority over breeder production and state licensing of weighers would be required for the Agency to pursue three of cases determined to be beyond GIPSA's jurisdiction. The fourth case involved game animal production which is outside the intent of the P&S Act.

Dealer/order buyer financial failures

Ms. DeLauro: Please update the table that appears in last year's hearing record showing dealer/order buyer financial failures to include fiscal year 2006. Provide the Committee with an explanation as to why the recovery rates have dropped drastically since 2000. Since the completion of the work of the Bond Task Force to improve the recovery rate, has GIPSA used its authority to increase the required bond amounts for any entity? Please provide details.

Response: The information is submitted for the record.

[The information follows:]

Dealer Financial Failures and Restitution, 1997-2007

Fiscal Year	No. of Dealer Failures	Total Owed Livestock	Recovery From Bonds	Recovery From Other Sources	Percent Total Recovery
1997	8	\$ 732,424	\$243,450	\$38,064	38
1998	10	\$685,726	\$133,345	\$61,435	28
1999	10	\$1,684,128	\$291,261	\$38,024	20
2000	11	\$1,464,733	\$324,979	\$91,800	28
2001	11	\$2,841,305	\$317,444	\$24,786	12
2002	11	\$3,271,962	\$618,764	\$60,000	21
2003	5	\$1,805,600	\$112,281	\$28,923	8
2004	3	\$770,860	\$95,000	0	12
2005	1	\$2,993,990	0	0	0*
2006	13	\$3,018,131	\$134,936	\$26,856	5*
2007	28	\$6,324,930	\$102,664	0	6*

* Final recovery rates may change pending final resolution.

Following review of the Bonding Task Force's work, GIPSA determined that an across-the-board increase in required bond amounts is not an economically efficient solution for the livestock industry due to increasingly stringent surety company requirements and consideration of the majority of financially stable and compliant entities. We are therefore exploring other potential solutions to the historically low recovery rates from financial failures in the industry.

Four firm concentration ratio

Ms. DeLauro: Update last year's table showing the four firm concentration ratio for steer and heifer slaughter, boxed beef, sheep and lamb slaughter, and hog slaughter to include data for 2005 and 2006.

Response: The information is submitted for the record.

[The information follows:]

Four-Firm Concentration as Percent Market Share of Livestock Slaughter by Type of Livestock, 1996-2006.*

Year	Steers & Heifers	Boxed Beef	Sheep & Lambs	Hogs
1996	79	82	73	55
1997	80	83	65	54
1998	80	84	68	56
1999	81	84	68	56
2000	81	85	67	56
2001	80	84	66	57
2002	79	83	65	55
2003	80	84	65	65
2004	79	82	65	64
2005	80	83	70	64
2006	79	NA	68	61

* Figures are based on calendar year Federally inspected slaughter except for boxed beef, which are based on firms' fiscal years as reported to GIPSA in annual reports. NA= Not yet available. Boxed beef data is on a delayed reporting cycle.

Auction market failures

Ms. DeLauro: Please update the table that appears in last year's hearing record showing the number of auction market failures, the amount owed for livestock each year, and the amount recovered from bonds and other sources during each year to include fiscal year 2006. Provide the Committee with an explanation as to why the recovery rate was so low in 2002 and 2003. As was the case in Dealer/Order Buyer Failures, the Bonding Task Force has made recommendations to improve the recovery rate. Please provide a status report.

Response: The information is submitted for the record.

[The information follows:]

Total Auction Market Financial Failures and Restitution, 1997-2007

Fiscal Year	No. of Auction Market Failures	Total Owed Consignors	Recovery From Bonds	Recovery From Other Sources	Percent Total Recovery
1997	5	\$258,768	\$182,029	\$13,473	76
1998	2	\$225,001	\$66,131	0	29
1999	3	\$862,666	\$60,000	\$424,589	56
2000	4	\$399,023	\$100,193	\$186,113	71
2001	4	\$1,104,985	\$133,745	\$519,265	59
2002	6	\$1,082,034	\$378,610	0	35
2003	6	\$1,187,979	\$211,464	\$138,848	30
2004	2	\$145,772	\$60,000	\$16,649	53
2005	3	\$336,006	\$85,000	\$201,840	78
2006	9	\$979,543	\$267,174	\$19,380	29*
2007	9	\$312,852	\$30,000	\$158,353	60*

* Final recovery rates may change pending final resolution.

The recover rates for 2002 and 2003 were lower due to the large amount owed relative to the bond coverage. In addition, there were insufficient sources of other funds beyond the mandatory bond coverage.

Following review of the Bonding Task Force's work, GIPSA determined that an across-the-board increase in required bond amounts is not an economically efficient solution for the livestock industry due to increasingly stringent surety company requirements and consideration of the majority of financially stable and compliant entities. We are therefore exploring other potential solutions to the historically low recovery rate from financial failures in the industry.

Livestock from captive supplies and/or forward contracts

Ms. DeLauro: Update the table that appears in last year's hearing record showing what percentage of the livestock that is slaughtered annually comes from captive supplies and/or forward contracts to include the most recent fiscal year data available.

Response: The information is submitted for the record.

[The information follows:]

Top Four (Five *) Packers' Packer-fed Cattle and Acquisition by Forward Contracts and Marketing Agreements as a Percentage of Total Steer and Heifer Slaughter, 1995-2006.

Year	Packer Fed Cattle	Cattle From Forward Contracts And Marketing Agreements	Total
1995	3.2	18.1	21.3
1996	3.4	19.2	22.5
1997	3.8	16.2	20.1
1998	3.5	18.9	22.4
1999	8.4	24.0	32.4
2000	9.1	29.1	38.2
2001	10.9	32.0	43.0
2002	9.6	34.8	44.4
2003	10.4	28.0	38.4
2004	8.3	26.8	35.1
2005	6.4	29.2	35.6

* Starting in 2006 GIPSA expanded its procurement audits to the top five fed cattle slaughters, and audited summary data are not yet available for 2006.

Companies subject to the Packers and Stockyards Act ("PSA")

Ms. DeLauro: Please update the table that appears in last year's hearing record showing the number of slaughtering and processing packers subject to the PSA to include fiscal year 2006. In last year's hearing record, GIPSA said it does not collect that data, except in the context of an investigation. Why is this?

Response: The information is submitted for the record.

[The information follows:]

Data on the number of non-slaughtering processing plants are no longer made available by the Food Safety and Inspection Service. The numbers of slaughter firms and plants are provided below.

Number of Slaughterers Subject to the P&S Act, 1997-2006

Year	Bonded Slaughter Firms	Non-Bonded Slaughter Plants*
1997	427	468
1998	399	513
1999	386	491
2000	359	502
2001	335	526
2002	336	497
2003	338	481
2004	314	485
2005	312	450
2006	302	NA

* Number of Federally Inspected (FI) slaughter plants minus the number operated by reporting packers. This is an estimate of the number of non-bonded slaughter firms (operating FI plants) that are not required to be bonded because they purchase less than \$500,000 of livestock per year (includes slaughtering plants that also do processing but excludes non-FI plants).
NA - data on number of non-bonded slaughter plants are not yet available.

GIPSA's primary use of annual reports is to ensure adequate financial protection for livestock sellers. Since processing-only plants do not purchase livestock and there is no potential harm to livestock sellers should a plant fail, they are not subject to the financial protection provisions of the PSA, including bonding and maintaining solvency. Even though GIPSA has authority to require annual reports of processing-only packers, there is little use for the information provided and therefore GIPSA does not have data on failure rates of processing-only plants. GIPSA does collect data directly from processing-only plants during the course of investigations of that plant or firm. Due to finite resources available to analyze the reports, GIPSA does not require processing-only plants to file annual reports.

Compliance audits

Ms. DeLauro: Update the table that appears in last year's hearing record showing the number of compliance audits conducted on custodial accounts, the number of markets with shortages, the total dollars involved, and the amount restored to include fiscal year 2006.

Response: The information is submitted for the record.

[The information follows:]

Number of Market Audits, Shortages Found, and Amounts Restored, 1998-2007

Fiscal Year	Market Audits	Markets with Shortages	Total Shortage	Amount Restored
1998	393	187	\$5,705,252	\$3,690,355
1999	233	103	\$4,294,368	\$2,701,091
2000	374	154	\$9,161,520	\$5,916,746
2001	322	156	\$8,966,218	\$6,313,383
2002	206	97	\$6,906,986	\$2,814,439
2003	262	92	\$4,984,315	\$2,055,203
2004	272	94	\$4,646,031	\$2,144,986
2005	252	102	\$6,712,420	\$5,269,525
2006	347	140	\$9,242,692	\$7,256,052
2007*	280	85	\$4,490,214	\$1,784,293

* Through June 2007.

Spending on competition, fair trade practices, and financial protection

Ms. DeLauro: Please provide a table showing the amount of funds spent on competition, fair trade practices, and financial protection to include fiscal years 2000 through the projected level for fiscal year 2008.

Response:

Total Regulatory and Investigation Expenditures, 2000-2008

Fiscal Year	Regulatory Activity*	Investigations		
		Competition	Trade Practices	Financial
(Dollars in thousands)				
2000	N/A	2,986	3,583	4,628
2001	N/A	3,431	4,117	5,318
2002	N/A	3,575	4,290	5,541
2003	N/A	3,755	4,506	5,820
2004	N/A	3,905	4,686	6,053
2005	N/A	4,050	4,860	6,277
2006	6,705	1,775	2,640	3,869
2007 **	7,142	1,488	4,259	3,419
2008 (est)	7,356	1,533	4,387	3,522

* N/A - Not available. Prior to fiscal year 2006, regulatory activities and investigations were not differentiated.

** Through June 2007.

INTERNATIONAL WHEAT MARKET

Ms. DeLauro: Why has the US share of the international wheat market declined significantly in the past 10 years? What is GIPSA doing to enhance importers knowledge of a system and support differentiating wheat quality?

Response: From FY 1999 to today, the U.S share of the global wheat market has fluctuated between 20 and 30 percent. Many market factors contribute to this fluctuation, including: the ability of newer competitors (for example, India and Black Sea countries) to consistently provide wheat; price; weather (i.e., key growing areas of the Northern Hemisphere including Europe and the Black Sea region are projecting weather related crop losses);

and other supply factors. Canada and Argentina are expected to export less wheat this year due partially to lower production. Consequently, the U.S. market share for the 2007 marketing year is projected to increase four percent over the previous year.

GIPSA has marshaled significant resources toward developing and implementing methods to differentiate wheat quality with the goal of enhancing the value and marketability of U.S. wheat by optimizing the use of U.S. wheat for specific end uses, and providing value transparency from the producer to the processor. One product of this initiative was the introduction of a wet gluten testing service on May 1, 2006. We continue to conduct internal research, and to collaborate with government entities and academia, to identify means of assessing the various aspects of protein quality in wheat. We are working in partnership with USDA's Agricultural Research Service on several wheat functionality research projects, and are funding extramural research with two land grant universities, with a goal of developing a rapid test of wheat protein functionality based on fundamental rheological measurements. We will continue to work with the Agricultural Research Service, universities, and other entities to develop standardized methods for describing the viscous and elastic properties of gluten more precisely and reproducibly.

GIPSA conducts extensive outreach programs to enhance importers knowledge about U.S. grain standards, and sampling and inspection procedures through the use of multimedia and printed material, available in several languages. Also, GIPSA has worked with the Foreign Agricultural Service and U.S. Wheat Associates to maximize our resources to educate importers about the credibility of the U.S. inspection system through seminars, workshops, and providing other technical assistance. Recent accomplishments include conducting a wheat grading seminar for the Iraqi Grain Board to facilitate their purchases of U.S. wheat; arranging for a delegation of Mexican flour millers to visit U.S. inspection sites; and placing an officer in Asia on extended assignment to meet with importers and their governments. These initiatives have enhanced our reputation and instilled confidence in the services GIPSA provides.

Economic and statistical analysis

Ms. DeLauro: Are there any legal actions pending that require economic and statistical analysis by the agency? If so, how many? Please summarize them for the record.

Response: As of August 2007, there were 36 competition investigations conducted by the Agency, 19 were closed during the year and the remaining 17 are currently under investigation. There are also a total of 45 regulatory actions involving competition related questions, 36 of these have been closed and 9 are currently open. Both the competition investigations and regulatory action are expected to require some degree of economic and statistical analysis.

Of the nine open regulatory actions, three examine anomalies in publicly reported livestock prices as part of our ongoing monitoring of fed cattle and hog markets and six were related to livestock procurement audits. Of the 17 open investigations, nine involved restriction of competition issues, four are looking at preferential treatment, two industry structure, and two apportionment of territory.

Dealer failures

Ms. DeLauro: How much of the amount of unrecovered losses in the livestock marketing chain was from dealer failures during fiscal year 2006?

Response: The amount of unrecovered losses in the livestock marketing chain from dealer financial failures during fiscal year 2006 was \$2,856,339.

Dealer failures

Ms. DeLauro: Please update the five-year table showing the total unrecovered losses from dealer failures compared to the total owed sellers of livestock at the time of failure to include fiscal year 2006.

Response: The information is submitted for the record.

[The information follows:]

Total Dealer Financial Failures and Restitution, 2002-2006

<u>Fiscal Year</u>	<u>Total Owed Livestock Losses Sellers</u>	<u>Unrecovered Losses</u>	<u>Total Percent Unrecovered</u>
2002	\$3,271,962	\$2,593,198	79
2003	\$1,805,600	\$1,664,396	92
2004	\$770,860	\$675,860	88
2005*	\$2,993,990	\$2,993,990	100*
2006	\$3,018,131	\$2,856,339	95**

* Restitution will be determined following resolution of ongoing litigation.

** Partial amounts on un-recovered losses made toward end of fiscal year 2007 and likely to be paid in 2008 will change the rate.

CODEX

Ms. DeLauro: Please provide an update on the work GIPSA is doing with the CODEX regarding contaminants in grain, and the amount of funds devoted to this effort for fiscal years 2006, 2007, and projected for 2008?

Response: A GIPSA employee serves as the Alternate U.S. Delegate to the Codex Committee on Methods of Analysis and Sampling (CCMAS). The CCMAS reviews and endorses a broad spectrum of methods, including methods for both nutrients and contaminants in foods and grains. Much of the work with respect to contaminants in grain would typically be done by the Codex Committee on Cereals, Pulses and Legumes (CCCPL), but this committee is currently inactive. The CCMAS has been focusing most recently on developing criteria for evaluating acceptable methods of analysis, revising analytical terminology for Codex use, and developing criteria for methods for the detection and identification of foods derived from biotechnology. GIPSA devotes approximately \$12,000 annually to Codex, but this is almost exclusively related to methods for biotechnology, not for contaminants in grain.

PESTICIDE DATA PROGRAM

Ms. DeLauro: What is GIPSA doing and how much did it spend in the Pesticide Data Program in fiscal year 2006? How much does the agency expect to spend in fiscal years 2007 and 2008?

Response: In support of the Pesticide Data Program GIPSA develops methods and analyzes various grains and grain products for a variety of pesticide, herbicides and fumigants. For example, in fiscal year 2006 GIPSA developed and validated two methods for the analysis of pesticide residues in peanut butter. GIPSA also analyzed 360 peanut butter samples for 79 residues, 306 soybean samples for 16 residues, and 974 wheat grain samples for 71 residues. In addition to developing the methods and analyzing the samples,

GIPSA also provides the sampling services for the wheat grain and soybean surveys.

In fiscal year 2007, GIPSA developed and validated two new methods for corn, analyzed 380 peanut butter samples and expects to analyze approximately 600 corn grain samples. In fiscal year 2008, GIPSA will continue to provide services to the USDA's Agricultural Marketing Service (AMS) to analyze various grains and grain products for residues. In fiscal year 2006 GIPSA supplied services to AMS in the amount of \$545,000 to support the Pesticide Data Program. In fiscal years 2007 and 2008 GIPSA expects to provide services to AMS in the amount of \$500,000 annually to support the Pesticide Data Program.

VIOLATION CASES

Ms. DeLauro: Were there any violation cases pending at the end of fiscal year 2006? What is the status of any violation cases pending at the end of fiscal year 2004 through 2006?

Response: At the beginning of FY 2006, 10 cases involving alleged violations of the USGSA and the AMA were pending further GIPSA action. During FY 2006, GIPSA opened 9 new cases related to numerous alleged violations, including: improper procedures, improper use of an FGIS license (false impersonation), attempting to cause the issuance of false official inspection certificates, deceptive loading, altering an official document, false or misleading export loading instructions, exporting corn without official aflatoxin testing service, and requesting official inspection services improperly. GIPSA took administrative action (informational letters) to close six cases during the year and closed a seventh case by issuing a cautionary letter due to insufficient evidence of a violation. Twelve cases were pending at the end of the fiscal year. These cases were either in the process of investigation or were awaiting administrative action.

Two of the open cases were referred for further action. GIPSA referred one case to USDA's Office of the General Counsel requesting the assessment of a civil monetary penalty. GIPSA's investigation revealed evidence that a grain company's actions knowingly caused the issuance of false official inspection certificates. In addition, the Office of Inspector General and the Justice Department are pursuing criminal action in another investigation which involves causing the issuance of false official inspection certificates.

Of the 12 violation cases pending at the end of FY 2004, GIPSA closed 8 cases during 2005. Of the 10 violation cases pending at the end of FY 2005, GIPSA closed 7 cases during 2006.

INTERNATIONAL MONITORING PROGRAM

Ms. DeLauro: One of the international monitoring program functions is to travel to other countries to explain the agency's inspection and weighing procedures. How many countries did staff travel to in fiscal year 2006, and how many are planned for fiscal year 2007? What is the total cost of this travel? How much do the participating entities contribute to these costs? Provide for the record a list of countries you traveled to in fiscal year 2006, and the amount of funding each entity provided. Also, provide for the record a list of countries you plan to travel to or have traveled to in fiscal year 2007, and the amount of funding each entity provided or will provide. Under what situations do private sector entities pay for GIPSA travel expenses?

Response: In fiscal year 2006, staff traveled to 25 countries (on 23 trips) to explain the Agency's inspection and weighing procedures, attend meetings with international government officials, attend conferences, and respond to grain quality discrepancies. A list of the destinations follows.

Belgium	Malaysia
Brazil	Mexico
Cambodia	Peru
Canada	Philippines
China	Singapore
Egypt	South Korea
Hong Kong	Syria
Hungary	Taiwan
India	Tanzania
Indonesia	Thailand
Italy	Uganda
Japan	United Kingdom
Kenya	

The total costs (and funding source) for fiscal year 2006 are summarized below.

<u>Funding Sources</u>	<u>Travel Costs</u>
GIPSA	\$86,205
Other USDA Agencies	17,163
Private Sector	74,284
TOTAL	\$177,652

In fiscal year 2007 (through May 17, 2007), staff traveled to 24 countries (on 23 trips) to explain the Agency's inspection and weighing procedures, attend meetings with international government officials, attend conferences, and respond to grain quality discrepancies. A list of the destinations follows.

Australia	Malaysia
Belgium	Mexico
Canada	Philippines
China	Singapore
Egypt	South Korea
Germany	Taiwan
Honduras	Thailand
Hungary	Trinidad
India	Turkey
Indonesia	United Arab Emirates
Italy	United Kingdom
Japan	Vietnam

The total costs (and funding source) for fiscal year 2007 are summarized below.

<u>Funding Sources</u>	<u>Travel Costs</u>
GIPSA	\$71,943
Other USDA Agencies	7,166
Private Sector	82,028
TOTAL	\$161,137

The private sector may pay for the travel expenses of a GIPSA employee when they have asked GIPSA to perform private consultative services that benefit that particular entity or fall outside the scope of the agency's own objectives. For example, on a number of occasions in FY 2006 and FY 2007, grain export companies have requested that a GIPSA employee observe Iraqi

inspectors sampling their wheat shipments in Syria and the United Arab Emirates. In these instances, the grain exporter paid a consulting fee and travel costs of the GIPSA employee.

INFORMATION TECHNOLOGY SPENDING

Ms. DeLauro: Please provide GIPSA's spending levels for IT hardware and software purchases and related contractual support in fiscal year 2006, and estimates for fiscal years 2007 and 2008?

Response: The information is submitted for the record.

[The information follows:]

IT HARDWARE AND SOFTWARE PURCHASES

	FY 2006	FY 2007	FY 2008
Equipment (purchases/leases)	\$380,000	\$375,100	\$375,100
Software (purchases/leases)	\$395,000	\$486,700	\$486,700
Contractual Support	\$2,150,000	\$2,075,000	\$2,075,000

IT BUDGET

Ms. DeLauro: What is the total IT budget for GIPSA? Provide a subtotal for each program: Grain and Packers and Stockyards.

Response: The total IT budget for FY 2007 is \$7.1 million, \$4.6 million for the Federal Grain Inspection Service and \$2.5 million for the Packers and Stockyards Program.

IT PURCHASES

Ms. DeLauro: How much does GIPSA plan to spend on IT purchases in fiscal year 2007 and fiscal year 2008? How much did the Agency spend on IT purchases in fiscal year 2006? Include specific amounts requested for e-gov activities. Of these amounts, what has been spent on the application modernization project?

Response: The information is submitted for the record.

[The information follows:]

	Actual FY 2006	Estimated FY 2007	Proposed FY 2008
IT purchases	414,000	737,000	737,000
E-gov	2,511,000	2,200,000	5,070,000

The amounts requested for E-gov activities and application modernization projects are one in the same for GIPSA. GIPSA's application modernization project encompasses all activities related to E-gov.

TRANSFER OF FUNDS

Ms. DeLauro: Did GIPSA transfer any funds to the OCIO or CCE in fiscal year 2006 or reimburse either of those offices that year? If so, when, for what purpose, and in what amount? Does GIPSA have any plans to take such actions in fiscal years 2007 or 2008?

Response: GIPSA did not have any transfer of funds for fiscal year 2006. There are no plans for funds transfers or reimbursements to OCIO or CCE in fiscal years 2007 or 2008.

Anti-competitive behavior

Ms. DeLauro: How much did GIPSA spend in fiscal year 2006 to identify anti-competitive behavior? Are any funds currently being targeted to identify anti-competitive behavior and to examine competitive implications of contract livestock production for fiscal year 2007 and 2008? If so, how much?

Response: GIPSA spent approximately \$1,533,000 on investigations of potential anti-competitive behavior in fiscal year 2006 (see also response to question 16 above). GIPSA employs economists and legal specialists in each regional office to focus on competition concerns. In fiscal year 2007 economists engaged in a variety of regulatory and investigative enforcement actions. This included providing information to the Commodity and Futures Trading Commission and the Department of Justice in their surveillance of livestock market competition and merger analysis responsibilities and conducting complex investigations of potential anti-competitive behavior in the marketplace.

Rapid response

Ms. DeLauro: How much is GIPSA currently spending on rapid response teams? How much is planned for FY 2008? Please describe what the rapid response teams do.

Response: Rapid response investigations are initiated when there is a strong potential for immediate and irreparable financial harm to livestock sellers from the actions of a livestock dealer, market, or packer. Most often, but not always, GIPSA is alerted to situations warranting rapid response investigations when a livestock buyer fails to meet prompt payment requirements to multiple sellers. Bank checks with insufficient funds along with shortages in custodial accounts maintained for livestock seller proceeds tend to be leading indicators of a firm's financial failure. Rapid intervention in securing firm assets on behalf of livestock sellers frequently is the best action to ensure their payment when a firm fails. In fiscal year 2007, GIPSA spent approximately \$1 million on rapid response investigations. Projecting FY 2008 expenditures is complicated by ongoing economic conditions relative to increased operating loan costs and the effect this may have on firm economic health. Regardless, GIPSA expects to spend no less than in FY 2007.

Rapid Response

Ms. DeLauro: How many GIPSA staff years were used for rapid response in fiscal year 2006 and how many are estimated for rapid response in fiscal year 2007?

Response: In fiscal year 2006, GIPSA initiated 20 rapid response investigations and 18 in fiscal year 2007 as of August 14. A typical rapid response investigation takes 2 auditors approximately 1-2 weeks of on-premise audit work and an additional 4 weeks of GIPSA office activity reconciling firm

accounts, validating livestock seller claims, and preparing a case file. These activities may extend over 9 months while waiting for responses from the industry. In each of the fiscal years approximately 7 staff years were dedicated to rapid response investigations.

Live weight livestock purchases

Ms. DeLauro: Please update the table from last year that provides data regarding the numbers of livestock purchased based on live weight to include the most recent data available. In addition to this data, please add the most recent data available on "carcass-based" purchases. Please define "live weight" purchases. Define "carcass-based" purchases versus "live weight" purchases. Are there additional purchasing mechanisms? Please describe.

Response: The information is submitted for the record.

[The information follows:]

Live-Weight Purchases By Class Of Livestock, Slaughter Packers Reporting To GIPSA, 1995-2005 Reporting Years.

Year	Cattle		Calves		Hogs		Sheep & lambs	
	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter
	Thous.	Percent	Thous.	Percent	Thous.	Percent	Thous.	Percent
1995	18,086	53.5	633	49.2	52,318	57.1	2,354	54.0
1996	18,837	52.7	607	43.8	40,338	48.3	1,801	48.2
1997	18,413	52.5	734	59.5	32,821	37.4	1,773	56.3
1998	19,049	55.9	656	56.6	27,448	29.9	1,899	57.9
1999	17,545	50.5	504	47.6	24,823	25.3	1,513	47.6
2000	17,102	48.4	495	51.3	24,711	26.3	1,323	44.1
2001	14,932	44.2	479	54.7	26,883	28.0	840	30.1
2002	12,541	37.2	492	57.3	25,077	25.8	1,062	39.6
2003	14,116	40.2	553	59.4	22,413	23.1	1,023	47.0
2004	15,112	46.6	351	49.6	23,092	23.4	1,329	53.9
2005	13,663	43.7	415	63.7	21,453	21.2	948	47.7

Carcass-Weight Purchases By Class Of Livestock, 2005 Reporting Year.

Year	Cattle		Calves		Hogs		Sheep & lambs	
	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter	Head	Share Of Total Slaughter
	Thous.	Percent	Thous.	Percent	Thous.	Percent	Thous.	Percent
2005	17,591	56.3	236	36.3	79,730	78.8	1,040	52.3

A "live weight" purchase is a purchase of livestock in which the price is quoted, and the final payment is determined, based on the weight of the animals while they are still alive. A "carcass-based" purchase is a purchase in which the price is quoted, and the final payment is determined, based on the weight of each animal's carcass after it has been slaughtered and eviscerated.

While there is variation in the details of livestock purchase mechanisms, essentially all are variations of live weight or carcass-based methods. Transactions that use some variation of live weight purchase are usually on an "as-is" basis with a single price used for the entire transaction. The price may be fixed by negotiation in advance, or the price may be established from prices reported by a market price reporting service after the animals are

delivered or slaughtered. In some instances provisions may be made for paying different prices for animals that differ significantly from other animals in the transaction (for example, animals that are much smaller than the average for the transaction may receive a lower price).

Variations in carcass-based purchase methods frequently involve provisions for premiums or discounts based on the quality or other characteristics of the animals in each transaction. In some transactions, prices are adjusted for non-quality factors such as time of delivery and number of animals in the transaction. Some carcass-based purchases, often known as "carcass merit" purchases, include a base price that applies to all carcasses in the transaction, and premiums or discounts for individual carcasses based on the quality or other attributes of each carcass, such as quality grade, yield grade, yield, or percentage of lean meat in the carcass.

Some carcass merit transactions use USDA grades to determine carcass quality. A growing number of transactions include price adjustments for quality characteristics that are not covered by USDA grades, such as percent of lean meat in the carcass and size of rib eye. The cattle, hog, and sheep industries are exploring ways to measure and reward producers for additional carcass quality factors, such as pH levels, meat tenderness, and palatability. Packers measure or estimate these carcass characteristics using various carcass evaluation technologies. The use of carcass evaluation technologies to determine payment to producers is increasing.

Carcass merit purchasing technologies

Ms. DeLauro: What are carcass merit purchasing technologies? How are they used in the various livestock sectors? Please provide an update on GIPSA's work in this area.

Response: Carcass merit purchasing technologies are used by packers to evaluate specific carcass characteristics in order to determine final purchase price and to make business decisions. Carcass merit purchasing technologies provide both packers and producers with information on the value of individual carcasses, allowing packers to make business decisions on procurement needs and meat marketing opportunities, and producers to make business decisions regarding their livestock production operations and marketing choices.

GIPSA continues to work with the industry in implementing voluntary standards for the use of these technologies, and is also working to update regulations in response to the newly adopted standards which will ensure uniform application of technologies addressed in the standards. Currently, GIPSA monitors the equipment and its output (lean percent) to determine if any deceptive practices are occurring. GIPSA inspects a sample of carcass weighing and evaluation instruments based on a random sample of packers to determine industry compliance levels and detect violations.

Measures of carcass quality

Ms. DeLauro: Please provide some examples of some internally assigned measures of carcass quality using modern and complex technologies and how those contrast with weight and grade measures used in the past? Does the GIPSA have any data that shows that producers have been treated to unfair or unjust discriminatory practices?

Response: Two of the most widely used carcass merit measuring technologies are:

Ultrasound Technology. The measuring principle of the whole carcass ultrasound system is a digitalized three-dimensional scanning of the entire carcass. The

system provides information about the total lean meat percent, the lean meat percent in the ham, loin, shoulder, and belly of a hog carcass. The percent of lean meat is then used as a factor in determining payment.

Vision Camera Technology. The vision based instrument measures beef carcass yield grade. The instrument must meet certain performance requirements for accuracy and repeatability in the prediction of the yield grade of the carcasses.

Other technology is under various stages of development and use that will measure other desirable carcass traits. Emerging technologies include pH measuring devices and palatability technology.

These technologies are relatively new and GIPSA began systematically inspecting these instruments in fiscal year 2006. In fiscal year 2007, results of random packer inspections of scales and carcass evaluation devices indicate a compliance rate of 61 percent. GIPSA expects the compliance rate will improve as inspections continue and the industry recognizes.

USER AND LICENSING FEES

Ms. DeLauro: The budget proposes legislation for GIPSA to convert to user fees in standardization activities and licensing fees in Packers and Stockyards activities. Please provide to the Committee data and/or analysis utilized in estimating the total cost recovery of \$21,200,000 from grain standardization user fees and Packers and Stockyards program licensing fees. Has GIPSA begun work with the authorizing committee relating to these two fees? If so, please provide a copy of the proposed legislation for the record. How much support does the fee have, and what likelihood is there that that money will be available to you?

Response: The user fee legislation proposes to collect fees for grain standardization activities and licensing fees for regulated entities under the Packers and Stockyards Act for one year without spending authority. This will allow a reserve fund to be established in advance of actual spending. We will seek spending authority after sufficient funds are available to cover program costs. This will diminish or eliminate the need for appropriated funding for these programs in future years.

Proposed legislation for shifting standardization to user fees in the Grain Program and for license fees to recover the costs of the Packers and Stockyards Programs is being developed in cooperation with OMB and will be sent to Congress shortly. GIPSA intends to work with the authorizing committee when the committee receives the legislation for consideration.

CARTEGENA PROTOCOL

Ms. DeLauro: Please update the Committee on GIPSA's participation in the Cartagena Protocol. With respect to this, please indicate what travel costs GIPSA incurred in fiscal year 2006 and what costs are estimated for fiscal year 2007 and budgeted for fiscal year 2008.

Response: GIPSA has had limited involvement in activities related to the Cartagena Protocol since the last meeting of the parties in March 2006. At that meeting, there was a positive outcome to the most contentious issue, which related to documentation requirements for international shipments of living modified organisms intended for food, feed, and processing. New, onerous requirements were not adopted, the preferred U.S. outcome. The next meeting of the parties will take place in 2008, and GIPSA's involvement in preparations began recently.

During FY 2006, GIPSA incurred \$4,223 in travel costs related to the Protocol (to attend the 3rd meeting of the parties). GIPSA will incur no

costs in FY 2007, but we anticipate spending approximately \$10,000 in FY 2008 leading up to, and including, the 4th meeting of the parties.

PACKER OWNERSHIP STUDY

Ms. DeLauro: Please provide a summary of the GIPSA study on packer ownership released last February.

Response: GIPSA conducted a Congressionally-mandated study of issues surrounding the use of packer feeding and other marketing arrangements in the livestock and meat packing industries. The study examined marketing arrangements that are being used to transfer cattle, beef, hogs, pork, sheep and lamb through the production and marketing system.

GIPSA contracted with RTI, International Inc. (RTI) of Research Triangle Park, North Carolina, to conduct the study. RTI delivered an interim report in July 2005 that described alternative marketing arrangements and reasons industry participants give for using alternative arrangements. RTI delivered a final report in the late fall of 2006, and GIPSA publicly released the report in February 2007 after briefing Congress on the results of the study. It provided a quantitative analysis of prices, costs, and benefits of alternative marketing arrangements. The second report also assessed the implications of potential future changes in the use of various types of marketing arrangements, including packer feeding.

The study found that alternative marketing arrangements provide net benefits to producers, packers, and consumers, and that net economic losses would result from restrictions on the use of such arrangements.

In particular, the study found that packers and consumers receive better quality and consistent product as a result of alternative arrangements, and producers receive value for better quality livestock. All parties are better able to set delivery/sale dates. The arrangements help to stabilize flow of supply, and provide cost savings for the price discovery process. In general, the use of alternative marketing arrangements provide buyers and sellers with improved risk management options that lower costs or allow for the creation and capture of greater value.

GIPSA has given several briefings and presentations of the results of the study. Additional information about the study, including a set of Questions and Answers prepared by GIPSA, is available on GIPSA's web site:

<http://www.gipsa.usda.gov/GIPSA/webapp?area=home&subject=lmp&topic=ir-mms>

PACKER STUDY COSTS

Ms. DeLauro: How much of the \$4.5 million appropriated for the study was spent? Please provide a complete and detailed accounting for the record.

Response: A balance of \$387 remains of the \$4.5 million appropriated for the packer study. A detailed accounting follows:

Accounting of Packers Study

AVAILABILITY:		
FY 2003 Appropriation		\$4,500,000
Less: Recission (.65%)	(29,250)	
Subtotal, Availability		4,470,750
OBLIGATIONS:		
Salaries and Benefits	(147,750)	
Travel	(3,276)	
Research Triangle Institute Contract	(4,319,337)	
Subtotal, Obligations		4,470,363
Balance		\$387

CORN GROWERS ASSOCIATION

Ms. DeLauro: In Fiscal years 2003 through 2006, Congress provided \$500,000 to establish a cooperative relationship with corn growers associations to conduct a pilot program for the development of production protocols. Please provide an update on this program for the record. Was this funded in 2007? Is it requested in FY 2008?

Response: This funding has been used in years past to develop a manual, training material, and a pilot process verified program (PVP) to assist corn producers and others in the marketing chain to create a quality-assured supply chain. Now that the manual, training material, and model program are complete, it is available to producers and others to be adopted for use at their discretion. The program was not funded in FY 2007 and funding is not requested in FY 2008. No further Federal funding is needed.

DIGITAL TECHNOLOGY

Ms. DeLauro: Please provide an update on what digital technology GISPA is using for grain inspection.

Response: GIPSA has developed digital inspector calibration content which has been made available to the Official Inspection system and Industry via the internet. GIPSA personnel have collected thousands of digitized images of various grain defects. These images have been incorporated into inspector training modules distributed via the internet for use in calibrating all individuals currently grading grain.

Currently calibration is based on corrections to defect interpretations of individual samples reviewed. The adjustments are verbally transmitted from the Board of Appeals and Review through a chain of intermediary Quality Assurance Specialists to field inspectors. When fully implemented, this new system will allow all personnel (whether Official Inspectors or industry inspectors) to be calibrated against an independent standard. The ultimate objective is to improve the consistency of subjective measurements. The technology also has the potential to significantly shorten the time required to train inspectors and to identify grading weaknesses requiring hands on training.

Digital media technology has already had a significant impact on our International Programs. The production and worldwide distribution of grain grading tutorial CDs, visual grading reference mats for all grains, oilseeds, and edible commodities translated into several languages, and availability of these training tools on the GIPSA web site has proven to be very beneficial to our overseas customers. Digital media has helped to harmonize inspection procedures in other countries and encourages others to establish grain inspection laboratories that mirror GIPSA inspection labs.

The use of digital media also helps to reduce the number of costly disputes over grain quality between U.S. exporters and overseas buyers and reduces the number of discrepancies that GIPSA must investigate. This allows our International Affairs staff to focus their time on more productive marketing issues.

GIPSA implemented digital technology in the Rice program several years ago. Although the technology was successful in the Official Inspection system, it was not commercially viable and the company discontinued manufacture of the equipment. GIPSA continues to monitor technology development with respect to digital imaging, and will investigate technology that appears to have the potential to automate and/or replace subjective grading practices.

DUTY OFFICE IN ASIA

Ms. DeLauro: The budget requests funding for a permanent duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in inspection results and to develop personal relationships with customers. The budget request includes an increase of \$400,000 for the position. Is that the total cost? How much will be spent on the temporary duty officer in Asia in FY 2007? Please provide a detailed breakout for each year.

Response: In FY 2006, GIPSA spent \$135,000 and in FY 2007 (through 5/17/07) GIPSA spent \$155,000 to station a representative in Asia for two 4-month assignments. During these temporary assignments, the USDA's Foreign Agricultural Service provided an office and logistical support at no charge. The proposed increase in funding will cover salary, benefits, and travel costs for the full year. It also includes the anticipated cost we will incur for embassy space and support (including security), which we have not been required to pay in the past with our temporary assignments.

OBJECT CLASS - OTHER SERVICES

Ms. DeLauro: What expenses are included in line 25.2 of the Object Class table, titled "Other Services"? Please provide a detailed breakout for fiscal years 2006-2008.

Response: The expenses in line 25.2 of the Object Class table, titled "Other services" include charges for contractual services that are not otherwise classified. A detailed breakout of Object Class 25.2 for fiscal years 2006 through 2008 follows.

Major Cost Category	FY 2006	FY 2007	FY 2008
Contractual Services Performed by Federal Agency	\$4,397,258	4,347,000	\$7,217,000
Training, Tuition Fees, & Other	172,529	173,000	333,000
Repair, Alterations, or Maintenance	170,153	170,000	263,000
Other Contractual Services	60,935	61,000	68,000
Agreements	168,367	143,000	235,000
ADP Maintenance Contracts	216,003	191,000	305,000
Miscellaneous Services	203,432	195,000	335,000
Fees	20,236	20,000	24,000
TOTAL	\$5,408,913	\$5,300,000	\$8,780,000

OIG audit report

Ms. DeLauro: Please update the response from last year regarding the OIG audit report on the Packers and Stockyards Programs in December 2005.

Response: USDA's Office of the Inspector General (OIG) initiated an audit in April 2005 of GIPSA's management and oversight of the Packers and Stockyards Program (P&SP). OIG issued report 30601-01-Hy-Grain Inspection, Packers and Stockyards Administration's Management and Oversight of the Packers and Stockyards Programs, on January 10, 2006, citing four major findings and providing 10 recommendations: P&SP concurred with the findings and recommendations; and during Fiscal Years 2006 and 2007, initiated and implemented significant progress in improving management controls and in strengthening the program policy and delivery. OCFO accepted final action on all recommendations, as follows:

- recommendations 1, 5, and 8 were closed May 8, 2006;
- recommendations 3, 4, 6, and 7 were closed August 10, 2006; and
- recommendations 2, 9, and 10 were closed March 16, 2007

On March 16, 2007, the OCFO notified GIPSA that all of the planned corrective actions were completed and that no further reporting to the Office of the Chief Financial Officer (OCFO) was necessary for this audit.

In response to OIG's call to agencies for FY 2008 audit and investigation planning, GIPSA recommended that OIG conduct a follow-up audit of the P&S program. On May 23, 2007, OIG notified GIPSA that they agreed an audit is warranted and tentatively scheduled a follow-up review to begin in early 2008.

GRADING AND INSPECTION SEMINARS IN CHINA

Ms. DeLauro: Mr. Knight's testimony this year said that GIPSA conducted grain grading and inspection seminars in several countries, including China. Were these seminars designed to teach Chinese inspectors how to grade U.S. grain coming into the country or did they teach about inspection more generally?

Response: The grain grading seminars were conducted to familiarize Chinese inspectors with the grain inspection procedures used at loading in the United States. The training was designed to demonstrate U.S. inspection procedures in both a general and a specific manner to increase familiarity with U.S. inspection procedures and reduce differences in interpretation when U.S. grain cargoes arrive in China.

Ms. DeLauro: Do you have any observations about the Chinese government's inspection systems that would help us evaluate the problems we faced with the distribution in the U.S. of gluten products from China that were contaminated with melamine?

Response: We have no observations regarding Chinese governmental inspection systems or procedures which would provide information on this subject. Our discussions with Chinese inspection and quarantine officials have, for the most part, focused on their programs for inspecting U.S. grain shipments imported into China.

Audit of four largest beef meatpackers

Ms. DeLauro: In requesting funds in FY 2004 for an audit of the four largest beef meatpackers, GIPSA said it had never audited a large packer. In 2005, it stated in response to a question for the record that: "GIPSA has not conducted a complete financial audit of any of the four largest beef packers. The FY 2004 funding request was intended to permit GIPSA to verify financial information underlying the summary information submitted by packers in required annual reports. Absent a complaint or obvious omission, GIPSA relies on the accuracy of summary information submitted in annual reports to ascertain whether a large packer is complying with the Packers and Stockyards Act financial requirements."

- Have you requested funding for this pilot program since FY 2004 and if not, why not?

Response: GIPSA has not requested funding for a program to audit the largest beef meatpackers since FY 2004. The largest beef meatpackers undergo regular audits by internal auditors and/or large public accounting firms. We review and rely on the information contained in these audit reports, in conjunction with the annual reports required to be filed with GIPSA, to evaluate the packers' compliance.

- Have you spent any funding for this initiative through other funds available to GIPSA or USDA?

Response: In FY 2007, GIPSA used appropriated funds to initiate a financial audit of a large packer, but terminated that audit when the packer was purchased by another firm with an infusion of capital sufficient to resolve any potential funding concerns. The audit was triggered by information we obtained in the routine monitoring of industry data.

- Should we consider funding this in 2008?

Response: GIPSA has sufficient funding at the FY 2008 requested level to conduct financial audits of large packers if the need arises.

- What have you done in the absence of funding to ensure the information is correct and the packers are in compliance with the law?

Response: GIPSA conducts various compliance reviews and investigations of the largest packers on a regular basis. These activities include audits of payment practices to ensure livestock sellers are receiving payment timely, review of annual reports to ensure the meatpacker is solvent and inspections of scales and carcass evaluation devices to determine whether producers are being paid the proper amount for the livestock they sell.