

103  
REAUTHORIZATION OF THE FEDERAL GRAIN INSPECTION SERVICE; AND TO EXTEND THE AUTHORITY OF THE FEDERAL GRAIN INSPECTION SERVICE TO COLLECT FEES TO COVER ADMINISTRATIVE AND SUPERVISORY COSTS

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON GENERAL  
FARM COMMODITIES

AND THE

SUBCOMMITTEE ON FOREIGN  
AGRICULTURE AND HUNGER

OF THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

**H.R. 2689**

AUGUST 4, 1993

**Serial No. 103-31**



MAY 4 1994

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# REAUTHORIZATION OF THE FEDERAL GRAIN INSPECTION SERVICE; AND TO EXTEND THE AUTHORITY OF THE FEDERAL GRAIN INSPECTION SERVICE TO COLLECT FEES TO COVER ADMINISTRATIVE AND SUPERVISORY COSTS

WEDNESDAY, AUGUST 4, 1993

HOUSE OF REPRESENTATIVES; SUBCOMMITTEE ON GENERAL FARM COMMODITIES; JOINT WITH SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER; COMMITTEE ON AGRICULTURE,

*Washington, DC.*

The subcommittees met, pursuant to call, at 1:40 p.m., in room 1300, Longworth House Office Building, Hon. Tim Johnson (chairman of the Subcommittee on General Farm Commodities) presiding together with Hon. Timothy J. Penny (chairman of the Subcommittee on Foreign Agriculture and Hunger).

Present from Subcommittee on General Farm Commodities: Representatives Johnson, Volkmer, Minge, Pomeroy, Smith of Oregon, and Ewing.

Present from Subcommittee on Foreign Agriculture and Hunger: Representatives Penny and Allard.

Staff present: Glenda L. Temple, clerk; Anne Simmons, Jane Shey, Anne Keys, James A. Davis, John Riley, Neil P. Moseman and Lynn Gallagher.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. The General Farm Commodities Subcommittee and Foreign Agriculture and Hunger Subcommittee joint public hearing is called to order.

We are here today to discuss the reauthorization of the authorities of the Federal Grain Inspection Service to collect fees to cover administrative and supervisory expenses associated with grain inspection as well as fees for the testing of equipment utilized in performing official inspection, official weighing or supervision of weighing of grain. Also included in legislation are the authorities for the agency to invest these fees and for appropriations as are necessary to supplement the fees.

This bill was last authorized in 1988 and the reauthorization that was submitted to the committee by the administration also calls for a 5-year extension through September 30, 1998. Chairman

de la Garza, ranking minority member Pat Roberts, Mr. Penny, Mr. Emerson, Mr. Allard, and I introduced H.R. 2689 on July 21 at the request of the administration.

I look forward to working with my colleagues when we return from the August recess to expeditiously move this legislation. I am also looking forward to working with my fellow South Dakotan, Senator Tom Daschle on extending the authorities of the FGIS.

We will be hearing this morning from the administration with regard to the agency's mission and current status as well as from a panel of persons representing those who are approved by FGIS to carry out official inspections and those who utilize these inspections and export inspections made by the FGIS itself.

Ranking minority member Emerson, I understand, has a conflict, and Mr. Penny as well has a conflict, so other members may be coming and going throughout the course of this hearing, but I feel we should go forward with taking what I think is very important testimony for the record. Any prepared statements from the members will appear at this point in the record.

[The prepared statement of Mr. Smith of Oregon and H.R. 2689 follow:]

STATEMENT OF  
ROBERT F. SMITH  
BEFORE THE  
SUBCOMMITTEES ON  
FOREIGN AGRICULTURE AND HUNGER &  
GENERAL FARM COMMODITIES  
AUGUST 4, 1993

Mr. Chairman, I'd like to thank you for calling this hearing today on HR 2689, to extend the authority of the Federal Grain Inspection Service to collect fees to cover administrative and supervisory costs.

As you know, I have been a consistent and vocal advocate of maintaining and expanding the export of U.S. agricultural commodities. It is my long held belief that, since domestic markets of agriculture products will remain relatively flat, we must look to exports in order to enhance profitability for our nation's farmers and ranchers.

The role of grain inspection cannot be understated. Our Federal Grain Inspection Service, by accurately and consistently certifying quality and providing uniform inspection and weighing, ensure potential customers they are buying the product they have specified.

This is a vital service in Oregon, which exports about 70 percent of the wheat we grow. Last year, 621,910,000 bushels, or 15.6 percent of U.S. grain exports, went down the Columbia River.

On September 30th, next month, the authorization for the collection of fees by the FGIS will expire. Since only about one quarter of the agency's \$40 million operating budget is obtained through appropriations, Congress will have to act or activities will cease.

Natural conditions have proven disruptive to FGIS operations this summer. The recent and ongoing flooding on the Mississippi River has virtually halted barge traffic. Grain isn't moving, so grain isn't being inspected in New Orleans, and fees are not being collected. I hope we can explore the agency's response to this problem at a port that handles nearly 60 percent of our grain exports.

Again, Mr. Chairman, thank you conducting this hearing, I encourage you to act swiftly to reauthorize FGIS. I hope you are able to proceed with this process easily and without having to tolerate and mischievous actions by those who would take advantage of our looming deadline.

I look forward to the testimony of today's witnesses and the questions from Members of these Subcommittees.

103D CONGRESS  
1ST SESSION

# H. R. 2689

To amend Public Law 100-518 and the United States Grain Standards Act to extend through September 30, 1998, the authority of the Federal Grain Inspection Service to collect fees to cover administrative and supervisory costs, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 21, 1993

Mr. DE LA GARZA (by request) (Mr. ROBERTS, Mr. JOHNSON of South Dakota, Mr. PENNY, Mr. EMERSON, and Mr. ALLARD) introduced the following bill; which was referred to the Committee on Agriculture

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## A BILL

To amend Public Law 100-518 and the United States Grain Standards Act to extend through September 30, 1998, the authority of the Federal Grain Inspection Service to collect fees to cover administrative and supervisory costs, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
 2 *tives of the United States of America in Congress assembled,*  
 3 That section 2 of Public Law 100-518 (102 Stat. 2584)  
 4 is amended by striking out in the introductory clause "Ef-  
 5 fective for the period October 1, 1988, through September  
 6 30, 1993, inclusive," and inserting in lieu therefore "Ef-

1 fective for the period October 1, 1988, through September  
2 30, 1988, inclusive,”.

3 SEC. 2. Effective for the period beginning with the  
4 date of enactment of this Act or October 1, 1993, which-  
5 ever shall sooner occur, and ending September 30, 1998,  
6 the United States Grain Standards Act, as amended by  
7 the United States Grain Standards Act Amendments of  
8 1988 (Public Law 100-518; 102 Stat. 2584) is further  
9 amended;

10 (1) in section 7D (7 U.S.C. 79d) by striking  
11 out “for each of the fiscal years 1989 through  
12 1993” and inserting in lieu thereof “for each of the  
13 fiscal years 1989 through 1998”;

14 (2) in section 19 (7 U.S.C. 89h) by striking out  
15 “during the period beginning October 1, 1988, and  
16 ending September 30, 1993, to the extent that fi-  
17 nancing is not obtained from fees and sales of sam-  
18 ples as provided for in sections 7, 7A, and 17A of  
19 this Act” and inserting in lieu thereof “during the  
20 period beginning October 1, 1988, and ending Sep-  
21 tember 30, 1998, to the extent that financing is not  
22 obtained from fees and sales of samples as provided  
23 for in sections 7, 7A, 7B, and 17A of this Act”; and

24 (3) by striking out section 21 (7 U.S.C. 87j).

Mr. JOHNSON. Our first panel today is Mr. David Galliard, Acting Administrator of the Federal Grain Inspection Service, U.S. Department of Agriculture, accompanied by Robert E. Soderstrom, Director, Resources Management Division, and Mr. Neil E. Porter, who is the Director of the Compliance Division of FGIS.

Welcome. I think we will begin with your observations and your testimony. I would invite you to summarize your testimony in any way that you feel comfortable. Your entire written record is received in the record of this committee for examination by the other members and the staff, but I would invite you to go forward in the way that you think is most comfortable.

**STATEMENT OF DAVID R. GALLIART, ACTING ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY ROBERT E. SODERSTROM, DIRECTOR, RESOURCES MANAGEMENT DIVISION, DAVID ORR, DEPUTY DIRECTOR, FIELD MANAGEMENT DIVISION, AND NEIL PORTER, DIRECTOR, COMPLIANCE DIVISION**

Mr. GALLIART. Mr. Chairman, Mr. Neil Porter is with me, and also on the panel is David Orr, the Deputy Director of our Field Management Division. We appreciate the opportunity to discuss H.R. 2689, which authorizes the Federal Grain Inspection Service.

As you indicated, a full written statement has been submitted for your consideration.

With regard to reauthorization, on September 30, 1993 Public Law 100-518, which authorized FGIS to collect fees to cover administrative and supervisory costs, will expire. This provision was last extended by Congress in 1988. H.R. 2689 authorizes the provisions of the statute to continue the agency's programs to September 30, 1998.

A bit of information about our mission. FGIS was created by Congress in 1976 under the U.S. Grain Standards Act. The agency was charged with managing the national grain inspection system, which initially was established in 1916, and with instituting a national grain weighing program.

The mission of FGIS is to facilitate the marketing of grain, oilseeds, pulses, rice, and related commodities by:

Establishing and maintaining official U.S. standards for grain—when we talk about grain, I might mention that we refer to barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, and mixed grain; pulses, which are beans, peas, lentils; and rice;

Inspecting and weighing nearly all grain and related products for export markets and, upon request, for domestic trade; and

Supervising the official grain inspection and weighing system, which is a network of FGIS field offices and authorized State and private agencies. There are some 2,900 inspectors in the official system, of which about 480 are FGIS employees.

Under the act, almost all grain exported from the United States must be officially weighed and inspected. Essentially, FGIS inspects and weighs grain to certify that grain exported from the United States meets contract specifications. In addition, all U.S.

corn exports must be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required.

These mandatory official inspection and weighing services are provided by FGIS on a fee basis at 54 export elevators, and by 8 delegated States at an additional 21 export elevators.

Domestic inspection and weighing services are provided by 72 agencies that employ personnel licensed by FGIS. The official inspection and weighing of U.S. grain in domestic commerce are performed upon request and on a fee basis.

The United States has the most sophisticated and reliable grain marketing system in the world. We strongly believe that the official grain inspection system plays, and will continue to play, an essential role in that marketing system.

The official inspection system provides U.S. agriculture with two critical services—standardization and impartial service. The standardization process promotes fair and efficient trade. This includes grading standards which reflect a consensus of the market and serve as a common language for merchandising and standard testing procedures that promote the uniform application of the grading standards. The impartiality of the official inspection system ensures that everyone in the market has the opportunity to receive a fair and unbiased assessment of the quality and quantity of the grain that they are buying or selling.

It is essential that the national inspection system remain efficient, cost-effective, responsive, and productive. FGIS, with industry support, continues to explore new and innovative ways to respond to changing market conditions with improved service delivery, new procedures, and programs. One such program is the official commercial inspection service, which provides official agencies with the flexibility to tailor services for domestic trade to meet the needs of their applicants.

Since 1976, FGIS' weighing and inspection activities have been funded by user fees. This certainly has fostered efficiency. The agency has developed and applied numerous cost-effective operating procedures, from efficient employee scheduling and cross-utilization of personnel to tighter space management and improved inspection procedures. This has allowed us to cost-effectively serve both high-volume, as well as low-volume export locations, and to oversee the operations of official State and private inspection agencies.

In 1987, the FGIS export inspection and weighing programs cost the grain industry an average of 24 cents per metric ton. In 1992, this cost was only 22 cents per metric ton, despite inflation and salary increases.

In conclusion, the official grain inspection system plays, and will continue to play, a critical role in the successful marketing of U.S. grain, both in domestic and international markets.

Throughout the years, our records show that FGIS has responded to the financial and program challenges presented by the competitive market. Approval of H.R. 2689 will allow us to continue to meet future challenges.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions.

[The prepared statement of Mr. Galliard appears at the conclusion of the hearing.]

Mr. JOHNSON. I appreciate your testimony.

We had a notice for a vote going on, and I am weighing the wisdom of beginning some questions and then taking off and coming back; or whether I might be better off just to run over and vote and come back and begin the questions. I think there may be greater continuity if I were to recess the subcommittees momentarily, run across the street, vote, and come back; and then we can begin questions and not have further interruptions.

So with your patience, we will recess the subcommittees momentarily. I will come back, and we will pick up where we left off.

[Recess taken.]

Mr. JOHNSON. The subcommittees will be back in order. I regret the disruption, but votes on the floor are a fact of life around here and something we simply have to work around.

Again, Mr. Galliard, I wonder if you would share with the subcommittees your views on the status of the current advisory committee, its makeup, the number of meetings they are having, whether there are any producers that are on the committee, and how you think the advisory committee is working.

Mr. GALLIART. The advisory committee is made up of 15 members. They alternate, five members rotate off each year. There are five producers on the committee, and then the rest is a mix of handlers, merchandisers, members from academia, and a member from the association of grain inspectors. So it is a good mix of committee members who provide advice and counsel to the Administrator on grain inspection matters.

Mr. JOHNSON. How often do they meet?

Mr. GALLIART. We try to meet at least twice a year. There was a time we met more frequently than that. Because of funding, we are meeting even less. We have not met this year. We are hoping to have one meeting, and again because of funding, we think we can afford just the one.

Mr. JOHNSON. Do you think that the grain quality working group is a credible forum for discussion if the advisory committee is not continued?

Mr. GALLIART. It is a credible forum, Mr. Chairman, but if we get involved with that group, we probably would move toward an advisory committee kind of system anyway.

Mr. JOHNSON. Do you feel a need for some form of advisory committee over and above any dialog that you have with the grain quality working group?

Mr. GALLIART. The general thinking has been that the advisory committee has offered good counsel and guidance to the Administrator.

Mr. JOHNSON. As you are aware, there has been a great deal of discussion lately regarding the use of water in dust control in the grain elevators and handling facilities. It is my understanding that the agency is publishing today in the Federal Register a proposed rule for comment that would eliminate the addition of water to grain.



I wonder if you would comment on this proposed regulation since it has been published. I believe members have a copy. I inserted a copy of the notice for the record.

[The information follows:]

## Proposed Rules

Federal Register

Vol. 58, No. 148

Wednesday, August 4, 1993

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

### DEPARTMENT OF AGRICULTURE

Federal Grain Inspection Service

7 CFR Part 820

RIN 0580-AA25

#### Prohibition on Adding Water to Grain

AGENCY: Federal Grain Inspection Service, USDA.

ACTION: Proposed rule.

**SUMMARY:** The Federal Grain Inspection Service (FGIS) is proposing to revise the regulations under the United States Grain Standards Act (USGSA) to prohibit the application of water to grain. This prohibition would be applicable to all persons handling grain, not just those receiving official inspection and weighing services under the USGSA. FGIS has determined that water, which is sometimes applied as a dust suppressant, can be too easily misused to increase the weight of grain. Additionally, externally-applied water has a significant potential for degrading the quality of grain. This action would foster the marketing of grain of high quality to both domestic and foreign buyers and promote fair and honest weighing practices.

**DATES:** Comments must be received on or before December 2, 1993.

**ADDRESSES:** Written comments must be submitted to George Wollam, FGIS, USDA, room 0619 South Building, P.O. Box 96454, Washington, DC, 20090-6454; telex users may respond to IRSTAFF/FGIS/USDA; telex users may respond to 7607351, ANS:FGIS UC; and telecopy users may respond to the automatic telecopier machine at (202) 720-4628.

All comments received will be made available for public inspection in room 0632 USDA South Building, 1400 Independence Avenue SW., Washington, DC, during regular business hours (7 CFR 1.27(b)).

**FOR FURTHER INFORMATION CONTACT:** George Wollam, address as above, telephone (202) 720-0292.

#### SUPPLEMENTARY INFORMATION:

##### Executive Order 12291

This proposed rule has been issued in conformance with Executive Order 12291 and Departmental Regulation 1512-1. This action has been classified as nonmajor because it does not meet the criteria for a major regulation established in the Order.

##### Executive Order 12778

This proposed rule has been reviewed under Executive Order 12778, Civil Justice Reform. This action is not intended to have a retroactive effect. The United States Grain Standards Act provides in section 87g that no State or subdivision may require or impose any requirements or restrictions concerning the inspection, weighing, or description of grain under the Act. Otherwise, this proposed rule will not preempt any State or local laws, regulations, or policies, unless they present an irreconcilable conflict with this rule. There are no administrative procedures which must be exhausted prior to any judicial challenge to the provisions of this rule.

##### Regulatory Flexibility Act Certification

David R. Gelliart, Acting Administrator, FGIS, has determined that this proposed rule will not have a significant economic impact on a substantial number of small entities. Most users of the official inspection and weighing services and those persons that perform those services do not meet the requirements for small entities as defined in the Regulatory Flexibility Act (5 U.S.C. 601 et seq.).

##### Information Collection Requirements

In accordance with the Paperwork Reduction Act of 1980 (44 U.S.C. chapter 35), the information collection requirements contained in the rule to be amended have been previously approved by OMB under control number 0580-0013.

##### Background

In the March 4, 1987, Federal Register (52 FR 6493), FGIS amended the regulations under the United States Grain Standards Act (USGSA) to establish provisions for officially inspecting and weighing additive-treated grain. These provisions were established to offer the grain industry the opportunity to utilize available dust

suppression technology, apply insect and fungi controls, and mark grain for identification purposes with Food and Drug Administration (FDA) approved additives.

Industry comments received during the rulemaking process supported the new provisions, but also expressed concern over the possible misuse of additives. A total of 15 comments were received. Three commenters were in favor of the then proposed regulations without any reservations. Two commenters were opposed to the proposed additive provisions, as related to dust-suppressing agents. They asserted, in part, that water may be added just to increase the weight of the grain. Additionally, three of the commenters who were in favor of the proposed provisions expressed concern about the potential for improper addition of additives for the purpose of adding weight to the grain. Applying any substance for the purpose of increasing weight is prohibited by the Food, Drug, and Cosmetic Act (see 21 U.S.C. 342(b)).

The final rule specified that if additives are applied during loading to outbound grain after sampling or weighing, or during unloading to inbound grain before sampling or weighing for the purpose of insect or fungi control, dust suppression, or identification, the inspection and/or weight certificate must show a statement that describes the type and purpose of the additive application. A statement was not required to be shown when additives are applied prior to sampling and weighing outbound grain or after sampling and weighing inbound grain. But, all incidents or suspected incidents of unapproved additive usage or improper additive application were required to be reported to the appropriate Federal, State, or local authorities for action.

Even after establishing the labeling provisions for officially inspected and weighed additive-treated grain, FGIS continued to receive complaints about high moisture grain and improper use of additives. In 1992, several foreign and domestic grain merchants expressed concern over potential quality degradation due to water application and emphasized that alternative dust control techniques are available that are practical and effective. They also contended that the primary purpose of

applying water is to increase the weight of the grain, and, hereby, gain a market advantage. Furthermore, they expressed deep concern about possible negative market reaction by both domestic and foreign buyers; i.e., buyer confidence in U.S. grain will decline if concerns develop over potential quality degradation caused by water and "peyng grain prices for water." Those who support allowing the application of water to grain contend that it is an effective method for reducing dust emissions.

In response to these concerns, FGIS recently amended sections 800.88 and 800.96 of the regulations under the USGSA to require a statement on official export inspection and weight certificates whenever water is applied to export grain at export port locations (58 FR 3211). The purpose of this action was to ensure that foreign buyers of U.S. grain are informed when additives have been applied to grain exported from export port locations. This action did not address non-export grain.

During and since development of the regulations requiring a statement on export grain certificates, numerous grain industry groups, including exporters, importers, millers, processors, and producers, have voiced their growing concern about the effect that the application of water has upon all U.S. grain, whether or not such grain is exported from the U.S. or even offered for official inspection and weighing services. They have stated—and available information confirms—that applying water to grain poses a risk to grain quality and can provide a strong incentive to improperly increase weight.

FGIS believes that the practice of adding water to grain indiscriminately may be occurring and that this practice not only adds weight but creates favorable conditions for microbial contamination of grain. Section 13(e)(1) of the USCGA (7 U.S.C. 87b) authorizes the Administrator of FGIS to prohibit the contamination of sound and pure grain as a result of the introduction of nonrain substances. Even though kernels of grain contain moisture, externally-applied water is a "nonrain substance." Therefore, FGIS proposes to prohibit the application of water to grain. This prohibition would apply to all persons handling grain—not just those receiving official services under the USGSA.

FGIS recognizes, however, that the amount of moisture in grain may increase due to natural environmental reasons during handling and storage. FGIS also realizes that water must be applied to grain during certain end-use processes. The proposed action does not

restrict either naturally-occurring moisture changes or the addition of water during milling, melting, or similar processing operations.

Although studies including research initiated by the National Grain and Feed Association which was conducted by the Department (see for example, Lai, F.S., Martin, C.R., and Miller, B.S., 1982, "Examining the Use of Additives to Control Grain Dust" and "Control of Grain Dust with a Water Spray") and industry experience indicates that applying water to grain can suppress dust, there are alternative dust control methods available and in use throughout the industry. Alternative methods such as pneumatic dust collection systems do not represent the same potential degradation of grain quality, and do not provide an equivalent incentive to increase weight.

Most elevators, including those that currently use water, already have pneumatic dust collection systems installed. Furthermore, many elevators that use water also have oil-based dust suppression systems in place that are more effective than water. These systems use either USP white mineral oil or food grade vegetable oil (e.g., soybean oil). Research has shown that water applied at a level of 0.3 percent to corn reduced the dust concentration by at least 80 percent on the gallery floor. At the same location, soybean oil or mineral oil applied at a level of 0.05 percent reduced dust by more than 90 percent.

Thus, even though water is more economical than mineral or vegetable oil (mineral oil costs over \$2 a gallon), far less oil is needed to control the same amount of dust. More importantly, oil is adsorbed (adheres) on grain, thereby providing long-term dust suppression. Water, on the other hand, is either absorbed (soaked-in) into grain or evaporates, and therefore, must be repeatedly applied. Consequently, FGIS believes that prohibiting water as a dust control method would neither increase the risk of elevator dust explosions nor have a significant economic impact on elevators that currently use water.

Proponents for applying water to grain suggest that the problem is merely the lack of enforcement of current FDA restrictions on applying any substance for the purpose of increasing weight. They have recommended that a licensing/permit program be established to allow firms to continue to use water, with certain restrictions. FGIS has considered this recommendation, as well as several other alternatives (e.g., require water weight to be deducted from grain weight, limit the rate of water application, and restrict water

applications to certain locations/conditions) and determined that any program for controlling or restricting water usage would be very difficult and expensive to administer. Testing and approving water application systems/equipment, controlling grain elevator inventories, monitoring the amount of water applied and the location of application, and prosecuting suspected violators would require a significant staff commitment and, even then, would be ineffective in preventing all abuses. Also, establishing any program that sanctions the use of water may create a perception of abuse that jeopardizes the reputation of all U.S. grain and undermines the grain industry's commitment to ensuring quality through good handling and storage practices.

FGIS believes that banning the use of water reflects current market needs and would have a positive economic impact on the U.S. grain industry. Furthermore, most of those that are currently applying water to grain are not small entities as defined in the Regulatory Flexibility Act (5 U.S.C. 601 et seq.). Therefore, this proposed action should have little or no impact on small businesses.

Comment, including data and views on this analysis and suggestions regarding any less burdensome or more efficient alternative that would accomplish the purposes described in this proposal, are solicited from interested parties.

#### Proposed Action

FGIS proposes to revise:

1. Section 800.61(b) to prohibit the addition of water to grain.
2. Section 800.61(d)(4) to exclude water as a dust suppressant.
3. Section 800.88(d) to eliminate the provision for adding water to export grain.
4. Section 800.96(c)(2) to eliminate the provision for adding water to export grain.

#### List of Subjects in 7 CFR Part 800

Administrative practice and procedure, Grain, Export.

For reasons set out in the preamble, 7 CFR part 800 is proposed to be amended as follows:

#### PART 800—GENERAL REGULATIONS

1. The authority citation for part 800 continues to read as follows:

Authority: Pub. L. 94-582, 90 Stat. 2857, as amended; (7 U.S.C. 71 et seq.).

2. Section 800.61 is amended to add a new paragraph (b)(3) to read as follows:

§ 800.61 Prohibited grain handling practices.

(b) \* \* \*

(3) Add water to grain for purposes other than milling, melting, or similar processing operations.

3. Section 800.61(d)(4) is revised to read as follows:

§ 800.61 Prohibited grain handling practices.

(d) \* \* \*

(4) *Dust suppressants.* Grain may be treated with an additive, other than water, to suppress dust during handling. Elevators, other grain handlers, and their agents are responsible for the proper use and application of dust suppressants. Sections 800.88 and 800.96 include additional requirements for grain that is officially inspected and weighed.

4. Section 800.88(d) is revised to read as follows:

§ 800.68 Loss of Identity.

(d) *Additives.* If additives are applied during loading to outbound, including export, grain after sampling or during unloading to inbound grain before sampling for the purpose of insect or fungi control, dust suppression, or identification, the inspection certificate shall show a statement showing the type and purpose of the additive application, except that no statement is required to be shown when the additive is a fumigant applied for the purpose of insect control.

5. Section 800.96(c)(2) is revised to read as follows:

§ 800.96 Weighing procedures.

(c) \* \* \*

(2) *Additives.* If additives are applied during loading to outbound, including export, grain after weighing or during unloading to inbound grain before weighing for the purpose of insect or fungi control, dust suppression, or identification, the weight certificate shall show the actual weight of the grain after the application of the additive for inbound grain or the actual weight of the grain prior to the application of the additive for outbound or export grain and a statement showing the type and purpose of the additive application, except that no statement is required to

be shown when the additive is a fumigant applied for the purpose of insect control.

Dated: July 27, 1993.  
D. R. Gallant,  
Acting Administrator.  
[FR Doc. 93-18300 Filed 8-3-93; 8:45 am]  
BILLING CODE 3410-EN-M

\* Elevators, other handlers of grain, and their agents are responsible for the additive's proper usage and application. Compliance with this section does not excuse compliance with applicable Federal, State, and local laws.

Mr. JOHNSON. Would you care to elaborate a bit on the water issue?

Mr. GALLIART. Mr. Chairman, you are right, it does appear in the Federal Register today.

Many months ago—perhaps it is years now—we started receiving comments from the domestic industry and also from our customers abroad, expressing concern over the potential for quality degradation due to adding water. There continues to be major concern about that. This is one of the reasons that we prepared this proposal to completely prohibit the addition of water to grain for dust suppression.

We have allowed quite a long comment period on the proposal because there are differences of opinion with regard to adding water to grain. The domestic market, in general, believes that this is not the thing to do, particularly because there is always a possibility of enhancing the weight.

So it is now out for comment. We will look at what direction we will go once comments have come in and then we will get ready to move into a final rulemaking.

Mr. JOHNSON. At this point, at least your initial view is that an outright prohibition on the use of water is preferable to efforts to regulate and police the use of water for dust control or to market grain on a dry weight basis?

Mr. GALLIART. Yes.

Mr. JOHNSON. The recently completed General Accounting Office report on the FGIS brought up several issues that I would like to go over with you. One is the ongoing debate of whether or not export inspections should be turned back over to the private official inspection agencies. For those of us who weren't around or involved in grain issues in the 1970's, could you give me a brief overview of why the Congress took the action it did to have FGIS become the official inspection agency for all grain exports? And how do you respond to those who would say that you are not as cost competitive as the private agencies in providing inspection services?

Mr. GALLIART. A bit of history with regard to the Federal Grain Inspection Service first, if I may. Before we became an agency, we were a division of a larger agency—as some refer to us, “the old grain division.” Our job at that time was to supervise the official agencies, which were made up of States and private entrepreneurs. Many of these agencies had been in existence since 1916 and our job at that time was to simply supervise their work.

In the mid-1970's when reports of fraudulent sampling in inspection and handling practices caused concern and erosion of confidence in U.S. agricultural grain products, Congress requested a GAO investigation into the allegations of misconduct. GAO reported a number of serious problems within the national inspection system which included intentional misgrading of grain, short weights, and loading unfit carriers.

I think, Mr. Chairman, at that time, we had seven or eight investigative committees looking into this matter, so it was well explored. In response to the GAO report and other information, Congress established the Federal Grain Inspection Service as an agency. We were to administer a national inspection and weighing sys-

tem, and set policies and procedures to promote uniform inspection and weighing services.

As a result of this, they revised the U.S. Grain Standards Act in 1976. Here are FGIS' basic responsibilities:

We were to be a semi-independent agency within the Department of Agriculture to provide for original inspection of grain at export; to provide Federal oversight of grain weighing operations; to tighten supervision of those activities that continued to be performed by private and State agencies under Federal supervision; and to improve Federal grain standardization efforts.

It was quite an effort, because we were a unit with about 350 people, and we were not doing the original inspection work. We certainly were not doing weighing. It became a massive chore, to perform the new responsibilities.

As far as competitive cost is concerned, we think that we can provide the service as reasonably as the States or the private sector.

As far as the States are concerned, the GAO report did indicate that they could do it for less per bushel; but if you analyze a bit further, you find that the GAO report did not include some of the special services that we do provide.

We also recognize that in many instances the States provide for inbound inspection and we do not. The States use the same staff for the export work and the inbound inspection work. That allows them to utilize their staff very efficiently. As a result, they can do it for somewhat less. In the final analysis, we think we are about on par as far as cost is concerned with regard to States.

As far as the private sector is concerned, there is no question that the private sector can provide the service for less money. However, with the kind of oversight that we would need to develop, we doubt seriously the private sector could do it for less. When you think about it, the heaviest activity is in the gulf. Approximately 70 percent of the grain that is exported out of this country goes out of the gulf area. It is a very sophisticated, complicated, and very well-organized system. And in order for us to be assured that integrity is maintained with regard to inspection certificates that are issued, we would need a very competent and, quite frankly, rather large supervision staff. That would be costly.

Mr. JOHNSON. Mr. Galliard, the 1990 farm bill directed you to evaluate the economic impact on producers and on the grain trade if you were to tighten up grain cleanliness standards. I understand that the FGIS is in the process of tightening the limits of foreign material that can be in No. 1 and No. 2 soybeans.

I read an article in the Soybean Digest where a major Dutch oil buyer said we try to stay away from United States soybeans. He noted that from 1986 to 1990 the United States share of soybean imports into Europe decreased from 73 to 48 percent and said, "the decrease is dramatic, and the only reason is quality. Foreign material is our major concern."

And he also noted that South American beans are better quality beans than the United States. Then a Japanese oilseed processor association made a similar comment in the press, saying that United States soybeans are inferior to Brazilian soybeans in protein and oil; and the level of foreign material is lower, at 1 percent, as

opposed to the United States at 2 percent. With these kinds of comments being made, I would think that the entire soybean industry, farmers included, would want to lower the foreign material limits in soybeans; and I would be interested in what FGIS is doing and if there are any arguments for not lowering the foreign materials standards.

Mr. GALLIART. Mr. Chairman, we are looking at lowering the foreign material limits. The reason we haven't done as much on it to date is that we are waiting for the ERS report on what the economic impact will be.

Mr. JOHNSON. What is the timing of the report? When do you anticipate that that will be released?

Mr. GALLIART. We had hoped that it would be the end of this year. I am not sure now.

Mr. JOHNSON. One last question from me. In your view is it feasible to inspect corn at the export terminal for aflatoxin; is that a problem, that it is necessary for FGIS to inspect every export shipment? In other words, could FGIS implement a spot-checking when it feels a problem exists?

Mr. GALLIART. We think it is necessary. The risk of finding aflatoxin at that point is great. Actually, before we were mandated to provide this service, the industry, for the most part, had nearly all the shipments examined for aflatoxin.

Mr. JOHNSON. I will yield to the gentleman from Colorado, Mr. Allard, for any questions that you might have.

Mr. ALLARD. I think you have covered all the questions I was going to ask, so I will yield back the balance of my time.

Mr. JOHNSON. The gentleman from Oregon, Mr. Smith.

Mr. SMITH of Oregon. No questions, Mr. Chairman.

Mr. JOHNSON. I have one additional question.

Previous authorizations have given FGIS the ability to invest in interest bearing accounts. Could you give the subcommittees a brief overview of how you have proceeded with that and how that has gone?

Mr. GALLIART. I will let our chief budget officer respond to that question, Mr. Chairman.

Mr. SODERSTROM. Mr. Chairman, basically we started that in 1984, reauthorization process. In effect, it has gone quite well. We have invested in T-bills all this time which are of minimal cost as far as the investment process is concerned. We accumulate the interest back into the agency's revolving fund, which helps reduce our costs. So, in a nutshell, it has gone extremely well.

Mr. JOHNSON. Roughly how much do you have invested at any given time?

Mr. SODERSTROM. \$6 or \$7 million. The reserve is \$10 million and we keep enough liquidity on board, \$2 million, \$3 million at one time and invest the rest in T-bills, which we do almost monthly or quarterly.

Mr. JOHNSON. I thank the panel. Unless there are additional questions—Mr. Allard.

Mr. ALLARD. Thank you, Mr. Chairman. I would like to follow up on the budget question.

The interest that is earned from these accounts, does it go back to this fund to help pay for the inspection services? Does it go to the general fund or is it a nonappropriated item?

Mr. SODERSTROM. The interest earned goes back to the revolving fund to help defray the cost for the service. It does not go to the general fund. It is a nonappropriated fund.

Mr. JOHNSON. I want to thank Mr. Galliard, Mr. Orr, and Mr. Soderstrom for your participation. It is very helpful, and we will be sharing this with the rest of the committee and the staff.

I will call the second panel, which is comprised of Mr. Paul S. Weller, Jr., executive director of the American Association of Grain Inspection and Weighing Agencies of Washington DC; Mr. James Buchanan, vice president, Illinois Cereal Mills, Inc., Paris, Illinois, and chairman of the National Grain and Feed Association's Grain and Feed Safety, Quality, Grades and Weights Committee, also of Washington, DC, and Mr. Dave—I believe he is accompanied by Mr. Tom O'Connor—and David C. Lyons, vice president, government relations of Louis Dreyfus Corporation, Washington, DC, who appears on behalf of the National Grain Trade Council, North American Export Grain Association, and the Terminal Elevator Grain Merchants Association.

If you gentlemen would please come forward.

It has been called to my attention that the gentleman from Kansas, Mr. Glickman, has some questions that he would like to have submitted to FGIS for insertion in the hearing record; and I will be submitting those questions to FGIS, and with your cooperation, we would anticipate a response. Unless there is any objection, I will have those questions and responses submitted to the record for the committee.

[The material follows:]



Questions by Mr. Glickman  
Submitted to FGIS for Insertion in the Hearing Record

On July 1, 1993, the Wall Street Journal came out with a story about certain grain companies spraying massive amounts of water on grain supposedly for dust control. According to the story:

The water spray, as powerful as a bathroom shower at full blast, is controlled so precisely that the soybeans absorb the water without changing appearance. By the time an ocean-going vessel has been filled with them, the beans will be 177.5 metric tons heavier. That means \$37,000 worth of what the soybean buyers gets is added water.

1. Do you think this problem poses a serious threat to the integrity of our grain? Do you think this problem could affect buyers' decisions on whether to buy U.S. grain?

Yes. The indiscriminate application of water to grain is potentially a very serious threat to the integrity of U.S. grain. Elevators that add water to grain may gain an unfair market advantage. If the practice is not stopped, competitive pressures will force more grain handlers to consider applying water to their grain.

The practice of adding water to grain has already affected the export market. More and more foreign buyers are stipulating in export contracts that water cannot be applied to their grain. Since the vast majority of U.S. exporters are not currently adding water, this stipulation has not yet affected U.S. grain sales. But, should the practice become commonplace, there is every indication that U.S. grain would be placed at a competitive disadvantage.

2. How extensive is this practice in the U.S.? Have certain grain companies taken a stand against adding water and, if so, do they have other economically viable alternatives for controlling dust?

FGIS does not have firm data as to the total number of grain elevators that are presently using water. It is believed that the number of users is relatively small.

Many major grain companies and industry groups, including the National Grain and Feed Association, have voiced strong opposition to the practice of adding water to grain.

There are several alternative dust control methods available and in use throughout the industry. Most elevators, including those that currently use water, already have pneumatic dust collection systems installed. Pneumatic dust collection systems are not only an economically viable alternative, but may also improve the quality of grain by removing harmful impurities. In addition, many elevators that use water also have oil-based dust suppression systems in place. Oil-based systems, while not as inexpensive to operate as water-based systems, are much more effective.

3. It is my understanding that our government is investigating certain companies which it thinks are violating the law. Could you tell me which provision of the law they might be violating? Is the law clear or murky on this issue?

The USDA's Office of the Inspector General and the U.S. Justice Department currently are investigating several incidents involving water usage. It is my understanding that both the Food, Drug, and Cosmetic Act and the United States Grain Standards Act, and perhaps other statutes, may be involved. I cannot comment directly on whether the laws involved are clear on this issue since the investigation is ongoing.

4. Has FGIS come out with a regulation to thwart the addition of water to grain?

Earlier this year, FGIS amended sections 800.88 and 800.96 of the regulations under the USGSA to require a statement on official export inspection and weight certificates whenever water is applied to export grain at export port locations (58 FR 3211). The purpose of this action was to ensure that foreign buyers of U.S. grain are informed when additives have been applied to grain exported from export port locations. This action did not address non-export grain.

During and since development of the regulations requiring a statement on export grain certificates, numerous grain industry groups, including exporters, importers, millers, processors, and producers, have voiced their growing concern about the effect that the application of water has upon all U.S. grain, whether or not such grain is exported from the U.S. or even offered for official inspection and weighing services.

In response to these concerns, on August 4, 1993, FGIS proposed (58 FR 41439) prohibiting the application of water to grain except for processing purposes. The prohibition would apply to all grain handlers, not just those receiving official inspection and weighing services under the United States Grain Standards Act.

The public comment period on the proposed rule closes November 29, 1993.

5. I am thinking about adding an amendment to the Chairman's bill to prohibit the addition of water to grain for dust control. Would FGIS support this amendment and would it give you more teeth than you now have to punish offenders?

FGIS' current thinking on this issue is that prohibiting the use of water reflects current market needs and would have a positive economic impact on the U.S. grain industry.

However, we recognize that there are many divergent views regarding this issue. To ensure that all affected groups have an opportunity to comment on this important issue, FGIS published a proposed rule in the August 4, 1993, Federal Register that provides an extended comment period of 120 days. This docket, which proposes to prohibit the application of water to grain, invites commenters to recommend alternatives to prohibition. We believe that all comments and recommendations should be carefully studied before any final action is taken.

Mr. JOHNSON. We will proceed with Mr. Weller first, go through all of the testimony and then come back for questions from the members of the subcommittees; and in that way, I think we will expedite things and retain some continuity.

Mr. Weller, welcome, and please feel free to summarize your testimony or to deliver it in any way that you are comfortable. The full written statements of all of you will be received for the record by the subcommittees.

**STATEMENT OF PAUL S. WELLER, JR., EXECUTIVE DIRECTOR,  
AMERICAN ASSOCIATION OF GRAIN INSPECTION AND  
WEIGHING AGENCIES**

Mr. WELLER. Thank you, Mr. Chairman. I appreciate the opportunity, and my constituency appreciates the opportunity to appear before the subcommittees.

We appear here on behalf of the Nation's official grain inspection agencies, and I am Paul Weller, executive director of the American Association of Grain Inspection and Weighing Agencies. The private and State agencies of our association comprise the bulk of the Nation's official grain inspection system. Our national trade association was founded some 50 years ago as a professional association serving agencies that inspect, weigh, and grade the Nation's grain; and our members are located throughout the major grain-producing regions of the United States.

Nearly 2 years ago, our association reported that the official grain inspection system was in trouble, and since that time, through congressional efforts and the cooperation of the U.S. General Accounting Office, the Federal Government has taken a closer look at this ailing system and the Federal agency that supervises and regulates it. We want to thank Congress and GAO for making this study possible, and thank you for allowing us to present our current thoughts on this system and its operation.

As your subcommittee studies the reauthorization of the Federal Grain Inspection Service, we hope that you will evaluate the GAO report on the official grain inspection system. Since we were a part of that report, we would like to present our organization's observations and recommendations.

First of all, our association supports the reauthorization of the Federal Grain Inspection Service. We feel strongly that there is an important role for a Federal regulatory and supervisory agency in the operation of the official grain inspection system. We do, however, have some recommendations for your consideration.

On the budget, the fiscal year 1994 budget—and although this may not be as relevant today as it was several months ago—there has been a proposal by the administration to shift money from appropriations to industry-paid user fees, and these dollars would be used to fund standardization activities. We feel that because these are standardization activities affecting and benefiting the general public that they should remain, from appropriated funds.

We are also told by our customers, the grain trade, that raising user fees would be detrimental and would continue to possibly decrease the use of the official system. We sincerely believe that that would be a severe financial burden on all of us in the official system. So we oppose additional user fees.

We feel that a combination of additional revenues and further FGIS cost-cutting is a better solution, and it is our belief that additional revenue can be earned by FGIS, and we also believe that further cost-cutting would be possible.

We feel, for example, that FGIS-generated data should be made available to the using industry and using public through licensing annual fees, royalties or other revenue-producing techniques. As you know, these data are paid for currently by the official system, and then it is made available to the entire industry; and we feel that everyone using it should pay for it, and that is one way to generate some revenues.

We see a need to reduce the FGIS role in their official system. We think that it should be a regulatory and supervisory agency. We think that it should provide national standards and procedures. We think that it should protect the integrity of the Nation's grain inspection system.

We do not think that a Federal agency with taxpayer funding should be providing services that can be provided at lower cost by the private sector, and that includes our designated State grain inspection agencies.

We have been assured by GAO privately and personally that FGIS is certainly capable of providing proper supervision of the private agencies and protecting the public interest. Accordingly, we believe that it is time to return export inspections to the private and State sectors. So we would recommend, as GAO has indicated to us, that at least two pilot programs be established in the near future possibly on the west and gulf coasts to evaluate the cost and feasibility of returning export inspections to the private and State agencies.

It continues to be our belief that services currently provided by FGIS field offices could be provided at a cost savings by a central laboratory located at or near the existing FGIS facilities in Kansas City. We believe that savings would result from more efficient utilization of staff and equipment resources. We also think that it would provide greater accuracy and increased uniformity of inspection results through our national inspection system.

We further believe that cost savings could be realized by allowing existing agencies to perform services under the Agricultural Marketing Act. FGIS reports that it is currently running a deficit of \$703,000 for the first half of this current fiscal year for performing services under the AMA.

Many of our official agencies are staffed and equipped to perform these services. GAO's attorneys have indicated that such services can be legally open to our agencies through proper bidding procedures. We ask that our agencies be permitted the opportunity to bid on this new source of business that evidently has been costing FGIS money. It would, we think, increase our revenues and levels of efficiency in the private sector.

Finally, it is our belief that there would be further cost savings if official agencies' redesignation cycle would follow that of FGIS itself. If you redesignate and reauthorize FGIS every 5 years, we feel that the agency should be likewise. FGIS reports that they currently spend about \$450,000 dollars a year on triennial review and redesignation of official agencies. Funds could be saved, we believe,

and disruption of our agencies reduced by lengthening this cycle to the same 5-year cycle as FGIS itself.

It has been brought to our attention through the GAO report that there is a wide disparity in fee schedules between neighboring official grain inspection agencies. Some of these differences, we believe, are due to lack of flexibility in the FGIS fee approval process. We were unable, for example, to tailor our fees to the needs of our individual customers, and in addition, our agencies suffer costly downtime at low-volume inspection points and must factor this particular downtime into the fee schedules and it results, of course, in higher unit costs.

Industry marketing practices, coupled with readily available third-party inspections, have created keen competition for grain inspection dollars. We agree with GAO that the cost of official inspection is not the primary reason for the decline in official inspection volume. Consolidation of the grain industry, a desire for in-house quality control, and reductions in grain stocks under USDA programs are primarily responsible for the reduction of inspection volume.

We are concerned that such industry trends require a more aggressive and flexible official inspection system with added emphasis on customers' costs and services. We feel right now that we are hamstrung on providing this flexibility, and we ask that the priorities of FGIS be likewise to allow us this flexibility.

It is our association's recommendation at this time that FGIS make no changes in their current policy of official agency territory. I understand maybe the Senate will be addressing that issue in their bill of opening up these official territories. We believe that adequate competition is there in the marketplace from such external sources as unofficial inspection agencies, in-house quality control personnel, and the option of having all these services performed at destination.

Finally, there has been some effort within FGIS to reduce or eliminate its official grain industry advisory committee meetings. As Mr. Galliard testified earlier this afternoon, there has been a reduction in these advisory committee meetings. This forum has been invaluable to bringing all of the segments of our industry together to advise and critique FGIS plans and programs. We ask this committee, the subcommittees and the Congress to request and properly fund, if necessary, the FGIS advisory committee process so that the meetings can be held at least semiannually.

In conclusion, the Nation's grain industry has indicated to GAO the need for a credible and viable official inspection system, and we of the official grain inspection agencies are dedicated to providing the most credible and efficient service possible, but we need the flexibility to respond to the marketplace. It is our belief that by providing official agencies with additional business opportunities under the auspices of a more flexible FGIS, that we can work together to serve the industry needs in a much better and more effective manner.

Thank you again for the opportunity to be here.

[The prepared statement of Mr. Weller appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Weller.

Once again we have the decision to make here about whether to go with further testimony or whether to break right now, vote and come back immediately. I think generally it works best, I think, to go ahead and break and vote rather than to break up questions to a particular witness or break up the testimony of a particular witness.

I think that we would be better off to recess, come back very quickly; and we will proceed on with testimony from Mr. Buchanan.

So we are in recess momentarily.

[Recess taken.]

Mr. PENNY [assuming chair]. Mr. Buchanan, if you want to get your testimony in the record while we are waiting to find out if there is another vote.

**STATEMENT OF JAMES B. BUCHANAN, VICE PRESIDENT, ILLINOIS CEREAL MILLS, INC., AND CHAIRMAN, GRAIN AND FEED SAFETY, QUALITY, GRADES, AND WEIGHTS COMMITTEE, NATIONAL GRAIN AND FEED ASSOCIATION, ACCOMPANIED BY THOMAS O'CONNOR, ADMINISTRATOR, GRAIN QUALITY WORKSHOP**

Mr. BUCHANAN. Thank you, Mr. Chairman.

Good afternoon. My name is James Buchanan. I am vice president, grain, for Illinois Cereal Mills, located in Paris, Illinois. My company is a dry corn miller and operates 12 full service country elevators. I am also serving as chairman of the National Grain and Feed Association's Grain and Feed Safety, Quality, Grades, and Weights Committee. I am here on behalf of NGFA today. My committee is charged with monitoring changes in, and developing NGFA policies related to, the official inspection system.

With me this afternoon is Tom O'Connor, who is with the staff of the National Grain and Feed Association. Mr. O'Connor administers the Grain Quality Workshop and assists me in fulfilling my committee responsibilities.

Mr. O'Connor has over 19 years experience in our industry and has extensive operational and marketing experience at grain elevators and processing plants.

The NGFA is an association of more than 1,000 grain, feed, and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process, and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. NGFA is unique in that its members represent a broad spectrum of commercial users of the official Grain Inspection and Weighing System, including country elevators, terminal elevators, exporters, processing firms, and feed mills.

We appreciate this opportunity to present our views on the reauthorization of the Federal Grain Inspection Service. The future direction, structure, and cost of the system is vitally important to our members and deserves careful consideration.

Recently, the U.S. General Accounting Office completed its study on the official inspection and weighing system which sounded an alarm bell for future viability of the official system in the interior market. It also confirms what our industry has known for some time: The use of the official system in the interior is declining be-

cause of its high cost, inflexible service, consolidation within the industry, and the increasing acceptance of unofficial grades by the marketplace.

Furthermore, our members are concerned about the future cost of the official inspection system not only in the interior markets but also in export markets. Although we note that H.R. 2689 does not contain authority to charge user fees for USDA FGIS standardization activities, however, we have been told by key Members of Congress that budgetary pressures will eventually force Congress to eliminate appropriated funds for FGIS standardization activities. However, raising inspection fees will only serve to further erode the already declining usage of the official system, unfairly burden exporters with a tax on exports and are likely to be passed back to producers.

Frankly, we believe the current system needs reform. Cost is a serious problem and this situation is only likely to get worse unless we are willing to take bold action in the near future.

Under guidance provided by NGFA leadership, my committee met recently to determine how to preserve the integrity and viability of the official system while ensuring that service can be provided in a cost-effective manner. I am proud to note that committee members are representative of the broad national spectrum of NGFA membership including country elevators, terminal elevators, export elevators, processing plants, and feed mills. After lengthy discussion, we endorse the following recommendations:

A. Congress should mandate that FGIS develop a plan to streamline the agency within 6 months of reauthorization with completion of the streamlining objectives within 18 months of reauthorization. The plan must include:

One, eliminating all facets of standardization activities not necessary for the maintenance of accurate and consistent grades. This should include a plan to shift FGIS research and development activities to another Government entity, consolidation of quality control and testing branch activities and board of appeals and review activities with a significant reduction in allocating staff years, the charging of fees for outside training and demonstration and fees for certifying new inspection equipment.

Two, exploring new ways to introduce a market-oriented approach to offering official services. For example, Congress should mandate a pilot program requiring FGIS to open up selected interior official territories to competitive bidding for services. The sole criteria for qualification should be whether the applicant agency and its personnel are qualified to inspect and weigh grain under the U.S. Grain Standards Act. New fee structures should be explored that will reflect the actual cost of providing a service to users. Congress should also mandate that FGIS explore the option of allowing designated official agencies to perform official inspections at export locations, consistent with affordability, service and the maintenance of integrity of the official inspection system.

Three, implementing cost-cutting actions. These actions should include reducing administrative and supervisory costs to no more than 25 percent of the costs of inspection and weighing activities, down from the current legislated ceiling of 40 percent. We believe the FGIS Administrator should possibly be a career official with



the elimination of the Deputy Administrator's position. Additionally, the cost of benefits of making FGIS a division of the Agricultural Marketing Service should be explored.

Furthermore, FGIS should evaluate closure of additional field offices where operating costs grossly exceed revenues. If the direct users in the region served by such field offices are willing to incur the additional cost of maybe containing these offices, they should be given the opportunity. Other cost-reduction considerations should include the costs and benefits of eliminating General Services Administration cost allocations.

We also support providing a one-time offer of credit for service to employees who were hired as part of the creation of FGIS in order to expedite early retirement as a means to reduce staff.

B. Congress should eliminate the requirement that all grain standards be reviewed every 5 years. In our view, U.S. grain standards should be reviewed only when a clear market need exists.

Time is short and swift actions are needed. If FGIS adopts the NGFA-recommended changes in standardization activities, annual costs should be reduced from the current \$7 million to \$5 million or less.

Importantly, with cost savings generated from other recommended changes, as well as permitting competition in interior markets, there is potential to significantly reduce overall cost of the official system to the marketplace.

In previous testimony, we supported a 1-year reauthorization for FGIS because of the uncertainty of user fees and the needed downsizing and reform of the agency. We are now willing to support a multiyear reauthorization, but only with the understanding that FGIS will begin immediately to streamline the agency and complete work within 18 months.

We agree with the provision in H.R. 2689 to eliminate the FGIS advisory committee. As currently structured and organized, it is duplicative. Input on FGIS activities, priorities, structure, and rule-making is provided by active participation by voluntary industry, producer, and other organizations. Also the Grain Quality Workshop, which has met regularly since 1985, provides the consensus views of a broad spectrum of producer, industry and other groups. Furthermore, elimination of the advisory committee would save the Government money and save administrative FGIS staff time now spent in preparation for meetings.

In closing, if this restructuring of FGIS is unsuccessful in controlling the cost of official grain inspection and weighing, industry and Government may have little choice but to shift even further in the direction of a self-regulated or privatized system as a means of controlling costs to stay competitive in world markets.

Mr. Chairman, this concludes my formal remarks. I would be happy to respond to questions from the subcommittees.

[The prepared statement of Mr. Buchanan appears at the conclusion of the hearing.]

Mr. PENNY. Thank you.

Mr. Lyons.

**STATEMENT OF DAVID C. LYONS, VICE PRESIDENT, GOVERNMENT RELATIONS, LOUIS DREYFUS CORP., ON BEHALF OF THE NATIONAL GRAIN TRADE COUNCIL, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, AND TERMINAL ELEVATOR GRAIN MERCHANTS ASSOCIATION**

Mr. LYONS. I appreciate being able to come and appear before you. I am representing North American Export Grain Association, National Grain Trade Council, and the Terminal Elevator Grain Merchants Association, all trade associations representing the grain trade.

The nature of the official inspection system has changed a lot since it was begun in 1916 by the passage of the Grain Standards Act, and FGIS, of course, came into existence in 1976, and we know some of the history of that.

The Grain Standards Act provides for mandatory inspection at export points, either done directly by FGIS or by delegated State agencies, and of course it provides for voluntary inspection at interior points done by so-called designated agencies, either of private enterprises or State agencies.

The FGIS activities, particularly in recent years, have been largely funded by user fees. In fiscal year 1992, about \$28 million of the \$40 million were user fees, or about 72 percent.

Our associations support this legislation which reauthorizes FGIS for the next 5 years. It is important that it be done quickly.

Our associations have always supported a national inspection system, and it is important that we have a third party inspection system that everyone can rely upon. Our export customers have confidence in the system and it is very important to us. We don't think inspections need to be mandated at domestic points, though.

We have several concerns and recommendations we would like to share with you, very briefly. Since the agency is funded by user fees, the cost of FGIS operations is extremely important to the grain trade. The cost of inspections in our industry is a major operating expense that we have. We are mandated to use the official inspection system and we are in a very competitive industry.

We are an industry that has been consolidating over the last few years. Those firms that have survived have cut costs, and the inspection fees, the services, have not gone down in costs. In fact, we believe that FGIS fees are higher than they probably should be and higher than they would be if they were done by private enterprise.

Mr. PENNY. Mr. Lyons, could you pause before you get to your one, two, three key recommendations?

Mr. LYONS. Sure.

Mr. PENNY. I think I am cutting you off at the point just ahead of those three.

Unfortunately, this is a 5-minute vote, and if I don't leave now I won't make this vote. Probably Mr. Johnson will be back before I will to pick up at that point.

Thank you for your cooperation. We will stand in recess.

[Recess taken.]

Mr. JOHNSON. We will call the subcommittees back to order.

Mr. Penny indicated that he was coming over to take over the subcommittees while I was tied up on the floor, but apparently the

gentleman was waylaid and I regret the votes have disrupted things.

Mr. Lyons, I believe that you were testifying or were in the process, and if you would be so kind as to continue your testimony.

Mr. LYONS. Thank you. Let me finish up very quickly.

We have three recommendations or suggestions that we would like to present. Several of these have come from the Grain Quality Workshop process.

The first one is that we think that FGIS, the Federal Grain Inspection Service, should develop some kind of a 5-year plan that would look at streamlining the agency, and basically look at how to make the agency competitive without jeopardizing the quality of inspection services. We think that is very important and we think that can be done and should be done.

Second, we think that Congress in this reauthorization ought to provide FGIS with the flexibility to improve their efficiency in order to try to lower costs. We have some specific ideas. There may be others. It has been mentioned that they should have the ability to enter into contracts in an easier way for acquiring and providing services. Allow for early retirement for some of their employees and to revise the work rules.

I always hear about the inflexibility of work rules from our one export elevator superintendent. There are probably several other things, but all have to do with improving the flexibility of what the agency can or cannot do.

Probably most importantly, we think that FGIS ought to—and FGIS is not unique in this respect, but I am sure there are a lot of Government agencies that should do this—they should step back a bit and focus on what their real core mission is and then decide what are those things that are lower in priority. Those are really the three very general suggestions that we have.

A comment or two about the standardization activities.

The Republican administrations, and now this administration, have wanted to move these activities toward user fees, and the problem—our objection to user fees, and it has been stated earlier, is that standards facilitate the trade of grain, the buying and selling of grain, and, really, benefit all segments of the grain industry, I think you could even argue that consumers get the benefits of that.

So user fees work best where you can directly determine that that particular user is getting the benefit of that service. So we think that standardization activities should still remain appropriated funds, and we are very happy that the Appropriations Committee agreed to do that.

Thanks very much for asking us to appear.

[The prepared statement of Mr. Lyons appears at the conclusion of the hearing.]

Mr. JOHNSON. Well, thank you for your testimony.

Mr. Weller, I was wondering what your comments would be relative to the GAO's comment about the impact in the decline of the number of official inspections, other than the obvious impact on the business of your members?

Are there other issues that the subcommittees should be concerned about that have resulted in this decline in the number of inspections?

Mr. WELLER. Mr. Chairman, one of the activities that we have had in our minds for some time is that we have about 4.2 million dollars' worth of user fees, private user fees, money in this trust fund at FGIS, and we would like to see a very small portion of that be used to educate the using public out there on the official system, the merits of the official system.

If all of us agree that we should improve our grain quality and services to our foreign as well as domestic customers, we need to enhance the official system. We think the official system has major problems. Part of it is the fact that it is not being utilized well, and we think part of that is a marketing effort, and our agencies feel that some of these funds that we have put into user fees ultimately ought to be used to market this system.

So that would be an idea that we would certainly put forth and ask your support for.

Mr. JOHNSON. Mr. Buchanan, I wonder if you would comment on your views on the water and dust issue, from your perspective, whether you think the FGIS is proceeding on the right track with their proposed regs or do you think there are other ways that this ought to be revised or looked at?

Mr. BUCHANAN. I want to compliment FGIS for coming out with the regulation and the calling for a comment period. We, NGFA, quite a while ago encouraged, asked, requested that FGIS come out with this and get the comment period started so that it could be resolved.

The water issue, of using water as a dust control, is probably separate from the quality issue. Water, no question that it downgrades quality, and you cannot add water to every step that the grain goes through the marketing system. So I think it is going to be very helpful to FGIS, to everybody involved, the grain handling industry, to get this issue behind us.

Mr. JOHNSON. Are you comfortable there are alternative dust handling measures that can be taken that are cost efficient?

Mr. BUCHANAN. Yes, there are alternative dust control measures that are used. The issue is old. Are less efficient operations—are they worth spending the money to upgrade them with better dust control facilities?

Mr. JOHNSON. Mr. Lyons, the testimony here among everybody has been that H.R. 2689 does not continue the FGIS advisory committee, and some have talked about the grain quality working group that has been established by the industry and producer groups. I wonder if you would give us some assessment between being very important to really being not very important. Your feeling on the retention of the advisory committee and whether you think the working group provides sufficient dialog between users and beneficiaries of the agency.

Mr. LYONS. I think it is not very important to retain the specific FGIS advisory group. I think the Grain Quality Workshop's representatives, the grain organizations—the producer groups, is how I should say it—and the trade should serve the same function as whatever a FGIS advisory group should do, and it is funded by the

users. It is funded by the different members of the grain quality working group.

Mr. JOHNSON. Mr. Buchanan, would you hold a similar view?

Mr. BUCHANAN. Very definitely. My experience with the Grain Quality Workshop is it represents a much broader cross-section of producers and end users than the FGIS advisory committee, and the members of the Grain Quality Workshop have worked very hard to study issues and come up with recommendations that benefit the entire segment of the industry, all the way from the producers to the end users, and is a very effective organization.

Mr. JOHNSON. Mr. Weller.

Mr. WELLER. Mr. Chairman, we came out in our statement saying we would like to have the advisory committee, FGIS advisory committee, continued and enhanced. We would not disagree that there is a need probably for only one advisory committee. What we would caution is that if that tips to the Grain Quality Workshop, that the Grain Quality Workshop be open to all interested groups that have a role to play in the industry and not be a closed industry group. That is all we would ask.

Mr. JOHNSON. The gentleman from Oregon, Mr. Smith, any questions?

Mr. SMITH of Oregon. Thank you, Mr. Chairman.

Mr. Weller, tell me how you again would want to privatize FGIS.

Mr. WELLER. How we would want to privatize it?

Mr. SMITH of Oregon. Yes.

Mr. WELLER. We feel that the inspections, Congressman, would best be handled by the private sector, either the States or the private agencies. We do domestic inspections, as you know, but the export inspections are still done by the Federal Government, and so what we would do is to move back to have all inspections done by the private sector under the direct supervision and control of the Federal Government, FGIS.

Mr. SMITH of Oregon. There has been a 10-percent reduction in inspection, I guess volume, of commodities. Has there been a similar reduction in the employment of FGIS that you know of?

Mr. WELLER. I am not aware of that, if you are asking me—I think I would have to defer to the—

Mr. SMITH of Oregon. I am asking the wrong people. I am trying to get a handle on whether you think there are too many employees doing too little.

Mr. WELLER. I am not aware that they have reduced their employees to that extent. I know there have been reductions in the agency.

Mr. SMITH of Oregon. If we moved inspection to private contractors for exports, would that save money, in your opinion?

Mr. WELLER. We think we could do it for less money. In the case of the State of Washington, your neighbor, the State of Washington is doing export inspections now and have told us that they are doing them for a lesser cost than the FGIS equivalent; Federal Government.

I can't comment on the additional supervisory personnel that would be necessary, as Mr. Galliard testified, but we think we can do the inspections cheaper than they can do it because we have more flexibility in our hiring in our part-time contract help.

Also, if you give us more volume, we think we can become much more efficient in our own operations.

Mr. SMITH of Oregon. What are the reasons for keeping it under Federal Government control? Are there complications that arise for inspections in exporters, in private deals?

Mr. WELLER. My assumption, Congressman, is there were excesses in violations of law that were done and that brought, that gave rise to FGIS in the beginning, and from the private sector. This now has been addressed.

GAO says that FGIS has told them, at least, that they can properly supervise and make sure that these violations do not happen again, and we think it is time now to turn it back over to the private sector.

Mr. SMITH of Oregon. And you made a recommendation, I believe, on the reauthorization that we establish, what, a study group?

Mr. WELLER. Yes, sir, we made a recommendation that there be two pilot projects, one on the gulf and one on the west coast. Gulf of Mexico and one on the west coast.

GAO indicated to us they felt this was feasible at this time, and, indeed, that was their private recommendation to us. I don't know if they made that public, but they certainly made it to us privately, and we feel that a pilot project ought to be entertained and to see if indeed we could do it in the private sector.

Mr. SMITH of Oregon. Any of you other gentlemen have a comment on this discussion?

Mr. BUCHANAN. Yes, sir. I would just like to add that the members of my committee feel that the export inspection offices need the flexibility in staffing that the interior inspection, designated inspection agencies now have and are passing that cost savings on to the users and it flows down to the producers.

Mr. SMITH of Oregon. Anybody else? No? Thank you.

Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Ewing, any questions you might have?

Mr. EWING. Mr. Chairman, I want to apologize for not being here more today, during the hearing, particularly when I have a constituent on the panel. I always want to be sure people go home and say he was there working hard.

Well, we have been working hard, as you all know, and so I have not had the privilege of hearing the testimony that was made today, but, Mr. Buchanan, I am pleased to have you here, and I understand one of our major concerns is that we reduce the cost of grain inspection. You may have covered this or you may want to make some other comments.

Mr. BUCHANAN. Yes. As we pointed out, as the cost of grain inspections go up in the interior, more and more people opt to go to alternatives and the system is used less and less, and that much more of the burden is passed on to the export segment where you have mandatory inspections.

Mr. EWING. I hope that the panel has brought with it many ideas that will help us if we implement them and consider them to cut these costs.

Mr. BUCHANAN. Very definitely. The GAO study has to be analyzed and a lot of their recommendations looked at if we are going

to have and maintain the third party inspection system that we now enjoy.

Mr. EWING. Thank you very much. And thank you for taking time to be here.

Mr. BUCHANAN. Thank you.

Mr. JOHNSON. Any additional questions? Mr. Pomeroy, the gentleman from North Dakota, has requested that a prepared statement from the National Farmers Union, be placed in the record.

I want to thank this panel for your participation and cooperation with the subcommittees. We conclude this testimony, and your testimony has been very helpful. We will be working with all interested groups during the August recess to refine the pending legislation. I think it is important that we go forward in an expeditious fashion here.

When Congress reconvenes after the August recess, I look forward to your continuing participation and input and cooperation, and I am confident that by the time the late summer or fall is over that we will have made some significant progress.

Thank you again for your participation.

Mr. Smith, you have a statement?

Mr. SMITH of Oregon. For the record.

Mr. JOHNSON. Yes, without objection, it is received into the record, and with that, this joint hearing is adjourned.

[Whereupon, at 4 p.m., the subcommittees were adjourned, to reconvene, subject to the call of the respective Chairs.]

[Material submitted for inclusion in the record follows:]

Statement of  
David R. Galliard  
Acting Administrator  
Federal Grain Inspection Service  
U.S. Department of Agriculture  
before the  
Subcommittees on General Farm Commodities  
and Foreign Agriculture and Hunger  
of the House Committee on Agriculture,  
United States House of Representatives  
August 4, 1993

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to discuss HR 2689, which reauthorizes the Federal Grain Inspection Service (FGIS). I am David Galliard, Acting Administrator of FGIS.

The Administration supports HR 2689, with the technical correction identified below.

#### Reauthorization

On September 30, 1993, Public Law 100-518, which authorized FGIS to collect fees to cover administrative and supervisory costs, will expire. This provision was last extended by Congress in 1988. HR 2689 reauthorizes the provisions of the statute to continue the Agency's programs through September 30, 1998.



We recommend a technical change on page two, line two, to reference "September 30, 1998" instead of "September 30, 1988."

HR 2689 includes a change to current authority. This change would allow appropriated funds to be used to supplement fees for the testing of equipment in the event of a shortfall in collections. Such a shortfall is a very rare circumstance. Since this policy currently applies to all other fee-based activities, this amendment would allow for the consistent treatment of all fee-based activities and would have not direct effect on funding or service delivery.

#### Mission

FGIS was created by Congress in 1976 under the United States Grain Standards Act (hereafter, the Act). The Agency was charged with managing the national grain inspection system, which initially was established in 1916, and with instituting a national grain weighing program.

The mission of FGIS is to facilitate the marketing of grain, oilseeds, pulses, rice, and related commodities by:

- \* Establishing and maintaining official U.S. standards for grain (barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, and mixed grain); pulses (beans, peas, and lentils); and rice.
- \* Inspecting and weighing nearly all grain and related products for export markets and, upon request, for domestic trade, and
- \* Supervising the official grain inspection and weighing system. The official system is a network of FGIS field offices, and State and private agencies that are authorized by FGIS to provide official grain inspection and weighing services. There are some 2,900 inspectors in the official system. About 480 are FGIS employees; the remainder are personnel of private agencies, and delegated or designated State agencies.

Under the Act, almost all grain exported from the United States must be officially weighed and inspected, unless it is exported by train or truck to Canada or Mexico. Essentially, FGIS is responsible for inspecting and weighing grain for the purpose of certifying that grain exported from the United States meets contract specifications.

In addition, all corn exported from the United States must be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required. These mandatory official inspection and weighing services are provided by FGIS on a fee basis at 54 export elevators, and by 8 delegated States at an additional 21 export elevators.

Domestic inspection and weighing services are provided by 72 designated agencies that employ personnel licensed by FGIS to provide such services. The official inspection and weighing of U.S. grain in domestic commerce are performed upon request on a fee basis.

#### Outlook

The United States has the most sophisticated and reliable grain marketing system in the world. We strongly believe the official grain inspection system plays, and will continue to play, an essential role in that marketing system.

The official inspection system provides U.S. agriculture with two critically important services--standardization and impartial service. The standardization process promotes fair and efficient trade. This includes grading standards which reflect a consensus of the market and serve as a common language for merchandizing. It also includes standard testing procedures that promote uniform application of the grading standards. The impartiality of the official inspection system ensures that everyone in the market has the opportunity to receive a fair and unbiased assessment of the quality and quantity of the grain they are buying or selling.

In the domestic market, the official inspection and weighing system promotes fair marketing practices and minimizes costly disruption. Without an official inspection system providing an option to everyone in the market to obtain a standardized, impartial inspection, and an avenue for authoritative resolution, market competition could be severely disrupted.

The United States has built a worldwide reputation on the integrity of the official quality and weight certificates. Buyers and sellers alike have come to rely on these certificates.

Although exporters are required by the Act to have all exported grain officially inspected, they are not required to use official certificates and grades as a basis of trade. But, the marketplace has chosen to do so. The certificates issued by FGIS are the accepted, worldwide language for trading grain.

For many years, FGIS has educated international importers, millers, traders, and trade teams about the integrity of our export certificates and the role FGIS plays as an independent third-party entity. In the past 5 years, trade teams from such countries as Japan, Russia, and the People's Republic of China visited FGIS offices to study the U.S. inspection system. All of these teams were favorably impressed with the quality control provided by FGIS, and many have asked FGIS to train their inspectors. For example, Egypt and Guatemala have changed their inspection systems to reflect our procedures. This demonstrates the faith and trust they place in the U.S. inspection system and the certificates issued under it.

We recognize that the national inspection system must be efficient, cost effective, responsive, and productive. Under FGIS leadership and with industry support, we continue to explore new and innovative ways to respond to changing market conditions with improved service delivery, and new procedures and programs, such as Official Commercial Inspection Service. This service provides the official agencies with the flexibility to tailor official services for domestic trade to meet the needs of their applicants.

## User Fees

Since in 1976, FGIS has been funded by user fees for its weighing and inspection activities. The Agency has developed and applied numerous cost-effective operating procedures, from more efficient employee scheduling and cross-utilization of personnel to tighter space management and improved inspection procedures. These management actions have allowed us to serve high volume, as well as low volume, export locations, and to oversee the operations of official State and private inspection agencies. In 1987, the FGIS export inspection and weighing programs cost the grain industry an average of 24 cents per metric ton. In 1992, this cost was only 22 cents per metric ton, despite inflation and salary increases.

Our reliance on user fees means that changes in the volume of grain exported from the United States results in changes in our revenues. The past five years have been characterized by a decline in exports. Between fiscal years 1989 to 1991 alone, U.S. agricultural exports dropped from 117.1 to 97.1 million metric tons (MMT). In 1992, exports increased slightly to 105.7 MMT.

Concurrently, the number of official inspections performed decreased from 2.8 million in fiscal year 1988 to 2.4 million in 1992, and user-fee revenue declined by \$5.5 million (from \$34.5 to 29.0 million).

Economic conditions clearly dictated the need for an efficient and cost-effective national system. In response, the Agency has taken efficiencies which have reduced user-fee funded obligations by \$5.5 million (from \$34.8 to \$29.3 million). For example, administrative functions were consolidated; field offices closed; furloughs and reductions in force implemented; monies spent on travel, training, and equipment purchases have been strictly limited; and staffing levels trimmed from 975 in 1982 to 752 in 1990 to 646 today. Fee increases have been very limited throughout these years. These stringent cost controls continue into fiscal year 1993. We operate like a business, and we design our operations to meet the demands for our services.

#### Conclusion

The official grain inspection system plays, and will continue to play, a critical role in the successful marketing of U.S. grain, both in domestic and international markets.

FGIS and our partners in the official inspection system continue to offer accurate and unbiased inspection and weighing services to buyers and sellers of U.S. grain. Our standardization activities remain the backbone of the U.S. grain marketing system by helping ensure fair and efficient trade. The U.S. grain standards, developed and maintained by FGIS, are the common merchandizing language of the United States and many of our export markets.

Throughout the years, our record shows that FGIS has responded to the financial and program challenges presented by the competitive market. Approval of HR 2689 will allow us to continue to meet future challenges.

Mr. Chairman, this concludes my statement. I will be glad to respond to any questions you or other members of the committee may have.

Thank you.

(Attachment follows:)





United States  
Department of  
Agriculture

Federal Grain  
Inspection  
Service

# Annual Report to Congress, 1992



**Authority**

The United States Grain Standards Act, as amended, requires the Administrator of the USDA Federal Grain Inspection Service to submit to the Senate and House Committees on Agriculture on December 1 of each year a report on the effectiveness of the official inspection and weighing system for the prior fiscal year, and to develop recommendations for legislative changes to accomplish the objectives of the Act.

The Act also requires the Administrator to submit a summary of valid complaints received from foreign purchasers and prospective purchasers of U.S. grain and of their resolution by the U.S. Department of Agriculture during the prior fiscal year. That summary is included as part of this Annual Report.

**Mission**

The mission of the Federal Grain Inspection Service is to facilitate the marketing of grain, oilseeds, pulses, rice, and related commodities by establishing descriptive standards and terms; accurately and consistently certifying quality; providing for uniform official inspection and weighing; carrying out assigned regulatory and service responsibilities; and providing the framework for commodity quality improvement incentives to both domestic and foreign buyers.



United States  
Department of  
Agriculture

Federal Grain  
Inspection  
Service

P.O. Box 96454  
Washington, DC  
20090-6454

December 1, 1992

Honorable E (Kika) de la Garza  
Chairman, Committee on Agriculture  
House of Representatives  
Washington, DC 20515

Honorable Patrick J. Leahy  
Chairman, Committee on Agriculture,  
Nutrition, and Forestry  
United States Senate  
Washington, DC 20510

Dear Mr. Chairmen:

In compliance with the United States Grain Standards Act, as amended, the Federal Grain Inspection Service (FGIS) is submitting its fiscal year 1992 Annual Report to Congress. This report summarizes the Agency's responsibilities, accomplishments, program activities, and financial status.

During fiscal year 1992, FGIS continued efforts to improve the national grain inspection and weighing system. The Agency's key accomplishments included:

- providing needed information by implementing new services, such as the official commercial inspection service;
- addressing the needs of domestic and international customers of U.S. grain by proposing that a statement appear on official certificates when additives, except fumigant applied for insect control, are applied to export grain, at export locations;
- enhancing the safety of the Nation's food supply by undertaking a pesticide residue testing program, and seeking new means of identifying mycotoxins other than aflatoxin;
- studying the quality of U.S. grain from export to destination by participating in collaborative studies with international cooperators;
- establishing U.S. Standards for Canola, the first new grain standard developed under the U.S. Grain Standards Act since 1984, to facilitate the marketing of an increasingly popular oilseed; and
- ensuring compliance with the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.



The Federal Grain Inspection Service  
is an agency of the  
United States Department of Agriculture

Honorable E (Kika) de la Garza  
Honorable Patrick J. Leahy

FGIS' operating revenues from fees during fiscal year 1992 were \$28.96 million, with obligations of \$29.25 million, yielding a negative net operating margin of \$290,000. Agency obligations decreased nearly \$1.2 million from fiscal year 1991 levels, revenues decreased by \$138,000, compared to the previous year.

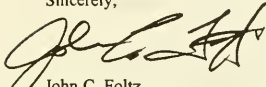
The total revenues included interest of \$188,948 on investments held in reserve. The revolving fund closed the fiscal year with an unobligated balance of \$9.4 million in the trust account.

Administrative and supervision costs represented 20 percent of total program costs, which is below the statutory limit of 40 percent. Appropriated obligations of approximately \$11.2 million, plus revolving fund obligations of \$29.2 million totalled \$40.4 million, \$400,000 under fiscal year 1991 total program obligations. The fee-supported activities ended fiscal year 1992 at 72 percent of the total obligations.

The FGIS Advisory Committee continues to provide valuable advice to the Administrator regarding the implementation of the U.S. Grain Standards Act. During fiscal year 1992, the group met three times to address issues affecting the grain industry and the Agency.

FGIS remains committed to quality and to ensuring that the official grain inspection and weighing system remains second to none.

Sincerely,



John C. Foltz  
Administrator

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*Italics denote graphics.*

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

December 1992

## Outlook 1993

## Grain Cleaning Study

In June 1990, the Federal Grain Inspection Service (FGIS) commissioned the USDA Economic Research Service to conduct a 3-year study to determine the costs and benefits of marketing cleaner corn, barley, sorghum, soybeans, and wheat. The study, which cost approximately \$924,000, is part of FGIS' ongoing effort to evaluate how grain standards and inspection procedures, especially as related to grain quality, should interact with the marketplace. The study also is a basis for implementing the requirements of Section 2005 of the Grain Quality Incentives Act of 1990 (7 U.S.C. 71 et seq. as amended by Title 20 Public Law No. 101-624).

The study is designed to (1) identify and quantify the benefits and costs of cleaning grain, by geographic area and cleaning method, (2) determine appropriate limits for cleanliness factors based on economic benefits and costs to the grain industry, (3) assess the need to establish new, or revise current, factors relating to grain cleanliness, (4) determine economic losses due to the lack of cleanliness of government stocks, and (5) develop a database on the costs and benefits of improving the cleanliness of grain.

FGIS should receive reports on the benefits and costs of marketing cleaner wheat, corn, and soybeans during fiscal year 1993. Reports on sorghum and barley are expected in late fiscal year 1993 or early in fiscal year 1994. Upon receipt of these reports, FGIS will review the findings and determine if action is needed to amend or revise the grain cleanliness standards.

## Reauthorization

Public Law 100-518, enacted October 24, 1988, extended FGIS programs through the end of fiscal year 1993. FGIS has recommended legislation to reauthorize the sunset provisions of the statute to continue the Agency's programs through September 30, 1998.

## Wheat Classification

FGIS, the Agricultural Research Service (ARS), the Agricultural Marketing Service (AMS), and the industry-sponsored Wheat Classification Working Group (WCWG) continue to develop an objective wheat classification system. The new system will be based on objective single kernel hardness tests, rather than subjective visual inspections that determine kernel color and morphology.

Through a cooperative agreement with ARS, a single kernel hardness tester (SKHT) suitable for commercial production and sale was developed. Prototype instruments were delivered to FGIS in August 1992 for evaluation.

In 1993, FGIS will evaluate single kernel hardness reproducibility and repeatability under field conditions. During the study, FGIS will collect 500 market samples from various wheat classes over a 10-week period. Five FGIS field offices will be equipped with SKHT prototypes and will conduct analyses of the samples. Data generated will be used to assess the "real world" performance of the prototype instruments and their ability to objectively determine wheat class. AMS will provide statistical support. The WCWG will review the data when the study is completed.

In the 1991 Annual Report to Congress, FGIS anticipated a 1-year market adjustment period, and implementation of an objective classification for hard and soft wheat in 1994. Unexpectedly slow progress in evaluating the SKHT, and insufficient market sample hardness data prompted FGIS to delay the implementation schedule by 1 year. Consequently, allowing for a 1-year market adjustment period, an objective wheat classification system will not be implemented before 1995.

(The complete report is held in the committee files.)

**STATEMENT OF  
AMERICAN ASSOCIATION OF GRAIN  
INSPECTION & WEIGHING AGENCIES  
BEFORE THE  
SUB-COMMITTEE ON GENERAL FARM COMMODITIES  
AND FOREIGN AGRICULTURE & HUNGER  
U.S. HOUSE OF REPRESENTATIVES  
WEDNESDAY, AUGUST 4, 1993**

Mr. Chairman, I appreciate the opportunity to present this statement before your sub-committee on behalf of the nation's official grain inspection agencies. My name is Paul S. Weller, Jr., Executive Director of the American Association of Grain Inspection and Weighing Agencies.

I represent AAGIWA, whose private and state agencies comprise the bulk of the nation's official grain inspection system. Our national trade association was founded nearly a half century ago, as a professional association serving agencies that inspect, weigh, and grade the nation's grain. Its member agencies are located throughout the major grain-producing regions of the U.S. Our members adhere to the 75-year old U.S. Grain Standards Act, which mandates a national, uniform grain grading program.

Nearly two years ago, we reported that the official grain inspection system was in trouble. Since that time, through Congressional efforts and the cooperation of the U.S. General Accounting Office, the federal government has taken a closer look at this ailing system and the federal agency that supervises and regulates it. We want to thank the Congress and GAO for making this study possible, and thank you for allowing us to present our current thoughts on the system and its operation.

As your sub-committee studies the re-authorization of the Federal Grain Inspection Service, we hope that you will evaluate the GAO report on the official grain inspection system. Since we were a part of that report, we would like to present our organization's observations and recommendations.

AAGIWA supports the re-authorization of the Federal Grain Inspection Service. There is an important role for a federal regulatory and supervisory agency in the operation of an official grain inspection system. We do, however, have recommendations for its administration.



**FGIS FY94 Budget**

USDA's initial FGIS FY94 budget called for a shift of \$7 million from appropriations to industry-paid user fees. These dollars would be used to fund standardization activities. The development of reference standards, maintaining equipment calibrations, measuring intermarket differences, and the review of national industry standards benefits everyone from consumers to producers. We feel that appropriated funds should continue to be used for activities that benefit such a wide array of public programs. And we sincerely believe that placing this added financial burden on a small segment of the grain industry will ultimately be counter-productive, and will add to the further decline in use of our official system. We oppose additional user fees.

We feel that a combination of additional revenues and further FGIS cost-cutting is a better solution. It is our belief that additional revenue can be earned by FGIS by licensing or otherwise charging for the use of its standards data. Although the official system has been expected to pay for developing these standards and procedures, many other groups receive the data without cost. FGIS-generated data should be made available through licensing, annual fees, royalties, or other revenue-producing techniques.

**Reduction of FGIS Role**

We feel that FGIS' major role should be that of a regulatory and supervisory agency, providing national standards and procedures, and protecting the integrity of the nation's grain inspection system. We do not think that a federal agency with taxpayer funding should be providing services that can be provided at like or lower costs by the private sector and/or the delegated/designated state grain inspection agencies.

We have been assured by the General Accounting Office that FGIS is capable of providing proper supervision of private agencies, and in protecting the public interest. Accordingly, we believe that it is time to return export inspections to the private and state sector. We recommend that at least two pilot programs be established in the near future on the West and Gulf coasts, to evaluate the cost and feasibility of private/state agencies performing export grain inspection services.

It continues to be our belief that services currently provided by FGIS field offices could be provided at a cost savings by a central laboratory located near existing FGIS facilities at Kansas City. The savings would result from more efficient utilization of staff and equipment resources. It should also provide greater accuracy and increased uniformity of inspection results throughout the national inspection system.

Mr. Chairman, we believe that still further cost savings would be realized by allowing existing agencies to perform services under the Agricultural Marketing Act. FGIS reports that it is currently running a deficit of \$703,000 for the first half of this current fiscal year for performing services under the AMA. Many of our official agencies are staffed and equipped to perform these added services. GAO's attorneys have indicated that such services can be legally opened to us through proper bidding procedures. We ask that our agencies be permitted the opportunity to bid on this new source of business -- that has been costing FGIS money, but which could increase our revenues and levels of efficiency.

Finally, it is our belief that there would be further cost savings if official agencies' re-designation cycle would follow that of FGIS itself. In other words, we recommend that re-designations be increased from every three years to either four or five years. FGIS reports that they currently spend \$450,000 annually on triennial review and re-designation of official agencies. Funds could be saved, and disruption of our agencies reduced, by lengthening this cycle to the same five-year cycle as FGIS itself.

### **Agency Efficiency and Service**

It has been brought to our attention through the GAO report that there is a wide disparity in fee schedules between neighboring official grain inspection agencies. Some of these differences are due to the lack of flexibility in the FGIS fee approval process. We are unable to tailor our fees to the needs of our individual customers. In addition, our agencies suffer costly down-time at low volume inspection points, and must factor this into their fee schedules. This results in higher unit costs, and higher fees.

Industry marketing practices, coupled with readily available third party inspections, have created keen competition for grain inspection dollars. We agree with the GAO

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report that the cost of official inspections is not the primary reason for the decline in official inspection volume. Consolidation of the grain industry, a desire for in-house quality control, and reductions in grain stocks under USDA programs are primarily responsible for the reduction of inspection volumes. Such industry trends require a more aggressive and flexible official inspection system, with added emphasis on customers' costs and service. Our agencies are dedicated to these changes. We ask that the priorities of FGIS be likewise.

It is our association's recommendation at this time, that FGIS make no changes in its policy of official agency territories. We further believe that there is adequate competition in the market place from such external sources as unofficial inspection agencies, in-house quality control personnel, and the option of having these services performed at destination.

Finally, there has been some effort within FGIS to reduce or eliminate its official grain industry advisory committee meetings. This forum has been invaluable in bringing all segments of the industry together to advise and critique FGIS plans and programs. We strongly request that the FGIS Advisory Committee be retained, and that funding be made available to support at least semi-annual meetings.

### **Conclusion**

Mr. Chairman, the nation's grain industry has indicated to GAO the need for a credible and viable official inspection system. We of the official grain inspection agencies are dedicated to providing the most credible and efficient service. But we need the flexibility to respond to the market place. It is our belief that by providing official agencies with additional business opportunities -- under the auspices of a more flexible FGIS -- that we can work together to serve the industry needs.

Thank you again for this opportunity to present our comments on this important grain industry matter.

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## National Grain and Feed Association

### Statement of the National Grain and Feed Association

Before the

Subcommittees on General Farm Commodities and

Foreign Agriculture and Hunger

U.S. House of Representatives

August 4, 1993

The National Grain and Feed Association appreciates the opportunity to submit this statement concerning legislation, H.R. 2689, to reauthorize the Federal Grain Inspection Service (FGIS) to collect fees to cover administrative and supervisory costs through September 30, 1998. The future direction, structure and cost of the system is vitally important to our members and deserves careful consideration.

The National Grain and Feed Association has a long history of leadership in the nation's grain inspection and weighing system. The need for uniform grades was one of the driving forces that led to the NGFA's creation in 1896. More recently, the NGFA played a major role in advising Congress during the transition of the inspection and weighing activities of the Federal Grain Inspection Service (FGIS) from appropriated funds to user fees.

Ours is the national nonprofit trade association of 1,100 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. The NGFA is unique because it is the only organization whose members represent a broad spectrum of commercial users of the official grain inspection and weighing system. Our broad membership includes exporters, terminal operators, country elevators, processing firms and feed mills. Our membership also consists of 37 affiliated State and Regional Grain and Feed Associations whose members include more than 10,000 grain, feed and processing facilities nationwide.

The NGFA also manages a system of widely used Trade Rules and Arbitration services that are important components in maintaining integrity, standardization and efficiency in the commercial U.S. grain marketing system.

There have been several significant changes to the U.S. Grain Standards Act since its enactment in 1916. But seldom has there been the confluence of major issues concerning the future of the official grain inspection and weighing system that there is today.

Truly, the official grain inspection and weighing system stands at a major crossroads. The recent General Accounting Office (GAO) study on the official inspection and weighing system has sounded the alarm bell on the future viability of the official system in the interior market. And there is serious apprehension in the grain industry over whether FGIS and its official designated and delegated agencies can continue to survive and provide the quality of official services required in a cost effective fashion if current trends continue.

The NGFA believes that these developments make it incumbent upon Congress, the users of the official system who pay the vast majority of FGIS' budget, and other beneficiaries of the U.S. grain standards to undertake a serious reassessment of the mission and structure of FGIS and the entire official inspection and weighing system. In the grain marketplace of the 1990's, what should FGIS' mission be and what can we afford? Are there better ways to control the costs and improve the structure and efficiency of the official system -- both at export and in the interior market? Is the decline in the use of official services cause for concern by government or the marketplace and, if so, what can be done to reverse it?

Earlier this year, the NGFA surveyed the members of its Grain and Feed Safety, Quality, Grades and Weights Committee to obtain their views on FGIS reauthorization and the current status of the official grain inspection and weighing system. Several of the findings are noteworthy:

- Industry considers the cost of the official system to be excessive.
- There is little industry support for funding most of what FGIS currently considers to be its standardization activities.
- There is a strong belief that the entire marketing chain -- from producer to processor/end user to consumer -- benefits from FGIS' activities to maintain a standardized system of grading.
- There is a widely held view that the integrity of the official system must be maintained.
- There is a strong belief that the increase in the use of unofficial grades and in-house grades is considered a positive development.

These industry concerns are also reflected in the GAO's recent study, entitled "*Grain Inspection: Industry Views on the Decline in Official Inspections and Inspection Costs.*". The GAO report provides a very useful review of the major issues surrounding the current state of the official inspection system. It confirms what our industry has known for some time: The use

of the official system is declining because of its high costs, consolidation within the industry, and the increasing acceptance of unofficial grades (either in-house grades or the use of unofficial agencies) by the market. As an aside, we were pleased to note that the report stated that neither industry nor FGIS believes that the integrity of the official system has been impaired because of the decline in the use of official services in the interior market.

Besides viability, another area of deep industry concern is related to the future cost of the official system. Specifically, the continuing controversy over the extent and strength of Congressional commitment to continue to provide funds to support FGIS Standardization Activities raises our desire to see quick and decisive action taken to reduce agency costs in this area. Although we believe that Congress acted wisely in rejecting the Administration's proposal to shift the \$7 million represented by FGIS Standardization Activities from appropriated to user fees this year, we think the on-going budget crisis will continue to place pressure on Congress to shift the cost of government programs to the private sector.

All of these issues are intertwined and must be considered as part of a total package, not treated separately. Obtaining well-reasoned, objective answers to these and other issues will require serious study by Congress and by all who use and benefit from the U.S. grain standards and the official inspection and weighing system. NGFA has carefully considered these questions in committee discussions over the past several months and respectfully submits these comments and recommendations for Congressional consideration.

#### **User Fees for FGIS Standardization Activities**

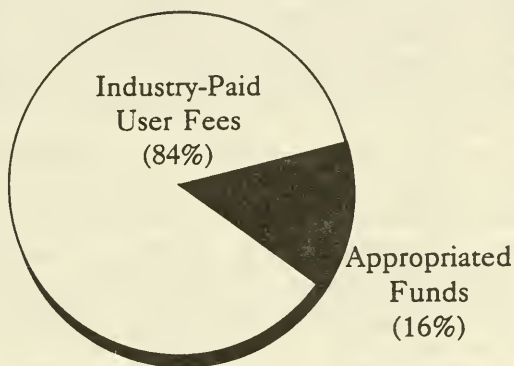
As the GAO indicated in its report, user fees already fund approximately 72 percent of FGIS's budget. But that only accounts for direct fees paid by users to FGIS. When one considers the additional user fees paid by the industry to FGIS- delegated and designated official agencies, user fees actually fund approximately 84 percent of the total cost of maintaining the official grain inspection system. *(See accompanying pie chart on page 4.)*

The NGFA's Board of Directors has adopted a policy by which our Association evaluates user fees for government services. (See appendix.) The NGFA believes that shifting the full cost of current FGIS Standardization Activities to the users of the official system would cause an even more serious erosion in the use of the official system in the interior and further damage our ability to be competitive in export markets.

#### **Standardization Activities: Who Benefits and Who Should Pay?**

As noted previously, the NGFA believes that the principal objective of FGIS standardization should be to ensure an accurate, consistent system for objectively evaluating grains and oilseeds. Seen in this light, the primary impact of FGIS standardization as it applies to the fungible grain marketplace is to make it more cost-efficient. When market efficiency is improved in a competitive market setting, gains largely are passed through to the final consumer (taxpayer) in the form of lower prices. (A competitive marketplace ensures that no single

## Who Pays for the Official Inspection System?



### Fiscal Year 1993

Total Industry-Paid Fees	\$57.3 million
• Direct Inspection and Weighing Fees Paid to FGIS:	\$19.2 million
• Fees Paid to Designated Official Agencies:	\$29.4 million
• Other Industry-Paid Fees:	\$ 8.7 million
Appropriated Funds:	<u>\$11.2 million</u>
Grand Total:	\$68.5 million

\*Source GAO Report

market participant has the market power to capture pure economic benefits and withhold them from the ultimate consumer.) Further, since the United States confronts a single price in international trade, U.S. farmers also reap benefits from FGIS Standardization Activities since lower costs of handling and marketing grain mean that the derived farm gate price will be greater than it would be in a less efficient market.

Consumers benefit. Farmers benefit. But how much do grain handlers benefit? In all likelihood, less than either the consumer or the producer. As noted previously, a competitive market prevents an individual merchant from capturing much of the benefits of economic efficiency – the competitive market spreads the benefits throughout the marketing system. In addition, it is unclear whether the grain merchant/handler really has interest in all activities associated with FGIS Standardization Activities. For example, the merchant that both buys and sells the commodity must be concerned about the consistency of the grading system – grades must be repeatable for both the buy- and sell-side of a completed transaction. There is less focus on potential grading bias, as long as that bias consistently exists throughout the marketplace. In contrast, the producer (who wants to be paid on the basis of true value) and the end-user (who wants to purchase on the basis of accurate valuations) receive dual benefits of standardization activities through a high level of consistency and a high degree of accuracy.

But determining the distribution of benefits from standardization is even more complicated. Consider the fact that 25 to 30 percent of U.S. corn never enters commercial market channels, but is fed to livestock or directed to industrial uses. Much of that corn probably is never graded unofficially, much less officially. Producers of those bushels certainly receive less benefit from a high degree of standardization than the grower whose grain is moved to major markets and subjected – sometimes repeatedly – to grading.

From the processor's vantage point, grain standards ensure an efficient marketing system (and therefore the lowest possible delivered price), as well as greater reliability in the accuracy of the description of purchased grain. Further, many processors are increasing their use of special tests that are outside the scope of the grain standards (such as starch analysis, protein analysis, oil content, etc.), and therefore may rely less on official grading as the most accurate determinant of value.

Given the very broad distribution of the benefits from standardization, and the fact that consumers (and thus taxpayers) probably receive the greatest benefits in the form of lower food prices, we believe that bulk of the costs of FGIS standardization functions should be financed through government-appropriated funds. Importantly, this view is not only held by our industry but by producers and others. At its June 24/25, 1993 meeting, the Grain Quality Workshop adopted the following resolution:

"Nearly all aspects of FGIS Standardization Activities are truly "public goods" and, therefore, it is inappropriate to transfer the cost of these activities to inspection fees. However, FGIS should be authorized to recover costs from those activities that have direct individual benefits."



The Grain Quality Workshop is a broad consortium of groups representing producers, handlers, exporters, processors and other end users. Leading academic researchers and government officials also attend these meetings as advisors and experts on certain issues.

Although we realize that the legislation before us today does not contain language either proposing or setting the stage for latter imposition of user fees on industry to pay for FGIS Standardization Activities, we recognize that there will be continued pressure to shift these costs to the private sector. We believe that Congress should clearly state its desire that user fees should not be used as a mechanism for haphazardly shifting the cost of government to the private sector, with little or no consideration of whether the service is really necessary, who the true beneficiary is, or whether government efficiency can be improved to reduce total costs. Finally, we think that Congress should take this opportunity to determine whether costs can be reduced and consider ending selected programs, if appropriate.

#### What Standardization Activities Should be Covered by User Fees?

Currently, FGIS Standardization Activities consist of: 1) compiling and evaluating data to develop and to update grading and weighing standards; 2) developing or evaluating new methodology for determining grain quality and quantity; 3) providing reference standards for official grading methods; 4) reviewing official results through the use of a quality control and weight monitoring program; 5) conducting training and demonstration projects for such "outside" groups as farmers and students; 5) collecting information on foreign complaints; 6) testing for pesticide residues; and many other areas.

The rather far-flung nature of FGIS' current standardization activities raises a legitimate question about which activities should continue, considering the need to reduce government costs. It is the NGFA's view that the principal objective of standardization should be to provide consistent, reliable and up-to-date standards that facilitate the orderly marketing of grain. Clearly, current FGIS Standardization Activities go well beyond this objective. NGFA's Grain and Feed Safety, Quality, Grades and Weights Committee has studied FGIS Standardization Activities and offers the following guidelines in defining a more narrow scope of standardization activities:

- A. FGIS should maintain standards, approve inspection equipment, maintain uniform application of grain standards and provide for official inspection and weighing at export and interior locations.
- B. FGIS should only review official grade standards on an "as-needed" basis and only maintain those standards that have universal application.
- C. FGIS should approve inspection equipment. This activity should be restricted to the development of performance standards, approval of prototypes and the check testing of official equipment.

- D. FGIS should continue to train and monitor the performance of official inspection personnel. FGIS should also maintain the integrity of inspection and weighing equipment. (The committee supports current FGIS compliance activities, although changing some aspects of the designated agency program may be warranted.)

For other activities now being pursued by the agency under the broad umbrella of its standardization activities, we recommend the following actions:

- A. Congress should consider the benefits of consolidating FGIS research activities now taking place at the FGIS Technical Center, Kansas City, Mo. with another USDA entity engaged in similar research activities, such as to the Agricultural Research Service (ARS) Grain Marketing Research Laboratory (USGMRL), Manhattan, Kan. USGMRL is engaged in research similar to the type being performed by FGIS Technical Center. For example, USGMRL reports in its 1992 progress report that it has done work on equipment designed to measure grain quality characteristics-such as Near-Infrared Reflectance (NIRR) and Transmittance (NIRT) technology; digital image analysis; grain handling sensors and measurement technology; and automation of characterization data for hardness, moisture, size and weight. According to its 1992 progress report, USGMRL has been engaged in developing the technology needed to implement a "Total Quality Grain Marketing System." There would seem enough similarity of efforts that consolidation of functions could yield a synergistic effect while streamlining administrative and research positions. According to information provided to the committee, shifting R&D activities to another agency with similar responsibilities could save FGIS between \$687,000 and \$1,101,000.
- B. Congress should consider consolidating the activities of the Quality Control and Testing Branch (QCTB) and the Board of Appeals and Review (BAR) with the objective of reducing these activities to a the few essential functions necessary to maintaining market efficiency. According to recent information provided to the committee, these two activities consume approximately 47 staff years or \$2,193,789. After reviewing these combined activities, the committee thought FGIS should be able to consolidate both functions, which could result in the elimination of up to 27 staff years and savings up to \$1,260,262.

With these changes in R&D, QCTB and BAR, the committee believes that FGIS could save a minimum of \$2 million in the cost of conducting Research and Development, Quality Control and Testing activities and Board of Appeals and Review functions. There may be other savings in field and headquarters staff as a result of taking these streamlining actions.

For other activities now being pursued by the agency under the broad umbrella of its standardization activities, the NGFA believes FGIS should reassess their value and viability. If they merit continuation, FGIS should establish separate fees to direct beneficiaries to fully

fund these services. For example, FGIS -- as part of its standardization activities -- should be charged with reviewing the specifications and performance of grain-testing equipment. Privately developed equipment should be submitted to FGIS for statistical performance evaluation and approval. And the agency, in turn, should evaluate the new equipment on the basis of established performance criteria. But rather than assessing user fees on the grain industry, the agency should pass the costs for conducting such equipment performance testing on to the commercial manufacturers who stand to benefit through sales of such equipment in the marketplace. If new equipment has potential commercial viability, private enterprise should -- and will -- incur the investment, development and testing costs associated with bringing such equipment to the marketplace.

This concept is already well established in other agencies of the federal government. For example, FDA makes no direct analysis of new drugs or chemicals developed for the market. Instead, it obtains and reviews the integrity and efficacy of industry-submitted data. We submit that FGIS should function in a similar manner, thereby saving considerable costs.

As another example, if FGIS believes that educational activities have value, the agency should also make those activities self-funding through separate user fees assessed on those who receive the service. This could be achieved through registration fees for grading schools or through some other means. Frankly, many of these educational activities are already being performed by land-grant universities for producers and industry groups.

#### FGIS Relations with Delegated States/Designated Agencies for Interior Markets

FGIS is authorized under the U.S. Grain Standards Act to grant to a state or private agency an exclusive territory in which that entity is authorized to provide official inspection and weighing services. Two principal reasons have been cited by the agency for granting these exclusive territories: 1) a concern that official services be provided to all locations within a territory that might request it (which is a precondition for obtaining FGIS delegation or designation as an official agency); and 2) the concern that users of official services, if offered more than one service, might "shop" for grades more attractive to their business.

But the current FGIS policy of granting geographical franchises for inspection and weighing services has had several negative results:

- **Wide Variation in Fees:** For one, the GAO report referenced previously in this statement found wide variations in fees charged by official agencies in adjacent territories (e.g., truck inspection fees varied from 0.7 to 2.2 cents per bushel), despite the requirement that FGIS determine the "reasonableness" of fees by comparing fees assessed in adjacent areas for similar services. GAO's findings appear to indicate that fees charged by FGIS- delegated and designated official agencies do not conform to the definition of "reasonable," as required by law.

In addition, with the exception of the new "commercial official" service, there is no latitude for individual users of official services in the interior market to negotiate fees. Some interior users of official services also report that they receive poor or unresponsive service from their official agency. This likely is a direct result of the FGIS policy of granting exclusive geographic franchises to one designated agency.

- **Limited Competition:** GAO also reported that "... competition for charters has been limited."<sup>1</sup> The report stated that designated agencies paid FGIS \$1.5 million in user fees and charged their customers an additional \$28 million (not counting travel and other miscellaneous charges) in fees for official services. These findings raise serious questions concerning the fee approval system and the method used to stimulate competition for providing official services in a specific geographic area.
- **Lack of Awareness About "Commercial Official" Alternative:** The GAO also found, somewhat surprisingly, that many industry members were unfamiliar with the new "commercial official" inspection program, which was designed specifically to provide FGIS- delegated and designated agencies with greater flexibility in competing, on a price basis, with unofficial grades.

FGIS should reevaluate its method for approving the fee schedule submitted by designated agencies. The U.S. Grain Standards Act requires that an agency designated by the FGIS Administrator to perform official services in a certain location "will not charge official inspection fees which are discriminatory or unreasonable." Yet, as was mentioned in the GAO report, wide disparities in fees were found even for agencies located in adjacent territories. There was also no apparent correlation between fees and size of the agency or other competitive factors. Clearly, agency costs should not be the sole factor in determining fees as that will only guarantee high agency costs. The fallacy of this method of rate setting was long ago discovered by officials engaged in overseeing the fee schedules of utilities and other natural monopolies.

On a related matter, the NGFA questions whether "grade shopping" really would be a legitimate concern if FGIS is doing an adequate job of supervising the inspection and weighing results issued by its official agencies, a function already paid for by industry user fees. If official agencies truly were made accountable for inaccuracies of inspections, there would be an incentive to be accurate, regardless of who paid for the service. However, there is a lingering concern within the industry that, without proper supervision, "grade shopping" may undermine the credibility of the official system. On balance, when considering the potential benefits of optimum service at affordable prices, we believe we should work for a competitive system where

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<sup>1</sup> GRAIN INSPECTION: Industry Views on the Decline in Official Inspections and Inspection Costs, U.S. General Accounting Office, GAO/FRY-93-147, p.41, (April 1993).

the risks of "grade shopping" can be minimized, consistent with the needs of the market, by utilizing the existing compliance system.

We believe the time has come for FGIS to reevaluate the rationale for granting exclusive service agreements for territories in light of marketplace trends, and the guidelines under which official agencies must offer service. For example, if a system could be developed that would permit active competition among firms providing official services, FGIS review of agency fee structures would be unnecessary. And, as a general rule, competition is much preferable to price controls over agency fees.

There are other advantages of competition. Increased competition could enhance the responsiveness of agencies to those who obtain official services. Areas not located in close proximity to central markets could receive adequate service if there were sufficient applicants for providing official services. All of these issues need to be explored fully and frankly so that our official inspection system remains a credible, service oriented and cost effective way to facilitate the orderly and efficient marketing of U.S. grain.

### Official Inspections at Export

The U.S. Grain Standards Act requires that all U.S. export grain, where the quality is described using a U.S. grade standard, must be officially inspected. Currently, about 82.8% of official export grain inspections are performed by FGIS personnel. The remaining official inspections are performed by delegated state agencies.

Over the past several years, the cost of performing official inspections has become an increasing source of frustration for exporters. Although the GAO found that FGIS fees to grade and weigh export grain averaged an estimated .47 cents per bushel (states averaged .41 cents per bushel, 13% less), this only represents part of the cost incurred by exporters. Another factor in the cost of performing official inspections which is not reflected in this figure is the loss in efficiency due to government work rules. In our opinion, this factor, which is not revealed in official fee schedules, is a very real part of the true cost of performing official inspections at export. We believe it is time for FGIS to explore other ways of providing cost effective official inspection services at export locations.

Since its creation in 1976, FGIS has developed increasingly sophisticated monitoring and compliance mechanisms to oversee inspection and weighing at export elevators. Furthermore, FGIS, in our view, should provide primarily a supervisory function and secondarily a work function. Therefore, we think it is time for FGIS to maximize the use of that technology to reduce the significant cost incurred by U.S. exporters in paying for a multitude of FGIS personnel involved in performing on-site official inspection and weighing.

Furthermore and consistent with our recommendation that FGIS explore ways to introduce competition into the domestic official system, the NGFA believes the benefits and

costs of contracting with designated agencies to provide official services at export locations should be seriously evaluated. The feasibility of a competitive fee structure should be an integral part of this evaluation. When exploring this option, FGIS should determine whether there should be exclusive territories at export locations or whether official services at export points should be subject to continuous competition (as we suggested for interior official grades).

If it is found that it is feasible to allow designated or delegated agencies to perform official services at export points, FGIS should be required to develop a definition of export supervision that ensures affordability and provides adequate assurance of legal compliance. One possibility would be to assign one full-time FGIS employee on site at export facilities during all phases of loading.

#### FGIS Administrative Costs

The U.S. Grain Standards Act limits FGIS administrative and supervisory costs for performing official inspection and weighing to 40% of the costs of such services. When legislation originally created FGIS as a separate agency, this percentage was set at 35%. It was later raised in the early 1980's to its current levels.

Since that time, the private sector has undergone a significant restructuring to improve efficiency and reduce costs in order to remain competitive in both domestic and export markets. One aspect of this transformation has been a significant reduction in administrative costs. However painful, this action was necessary to maintain U.S. international competitiveness. It also had the salutary benefit of reducing internal bureaucratic roadblocks that hindered flexibility and ability to quickly meet new customer needs.

We agree with President Clinton and Vice President Gore that it is now time to "re-invent" government. The government must join the private sector in its quest for vigorous economic growth by taking actions to lift the excessive regulatory cost burden. It must have the courage to challenge old thinking and vested interest groups so that it can better serve the interests of the entire United States. One way it can meet this objective is to take actions that will reduce the cost of providing government services. The private sector has led the way in this effort and we believe our country is now reaping the benefits of a more competitive and responsive business community. It is now time for government to heed the lessons from the private sector and reorganize itself with the objective of providing cost effective service with no loss in efficiency. Therefore, we recommend that Congress mandate that FGIS reduce administrative and supervisory costs to no more than 25% of official grading and weighing costs.

#### Conclusion

The NGFA believes that this is a watershed period for the official inspection and weighing system. The use of the official system is declining and costs are a problem. Users are raising basic questions about the structure and mission of the present system.

Clearly, it is time to evaluate all options carefully and systematically. Unfortunately, that process has only just begun. In our testimony before the Senate Subcommittee on Agricultural Research, Conservation, Forestry and General Legislation (Chairman Senator Tom Daschle, D-SD) on May 13, 1993, we urged Congress to consider the merits of a one year reauthorization because of the uncertainty of user fees and the needed downsizing and reform of the agency. However, we are willing to consider the 5-year reauthorization contained in H.R. 2689 provided the following actions are taken:

- **Congress mandate that FGIS develop a plan to streamline the agency consistent with the following recommendations within 6 months of reauthorization with completion of the reorganization objectives to be within 18 months of reauthorization.**
  1. **Eliminate all facets of standardization activities not necessary for the maintenance of accurate and consistent grades.** This should include a plan to shift R&D to another government entity as articulated above, a consolidation of QCTB and BAR activities with a commensurate reduction in allotted staff years (we suggest 20 staff years as a goal), the charging of fees for outside training and demonstrations and fees for certifying new inspection equipment;
  2. **Explore new ways to introduce a market-oriented approach for offering official services.** For example, Congress should mandate the agency to open up selected interior official territories to competitive bidding for services on a one-year pilot program basis. The sole criteria for qualification should be whether the applicant agency and its personnel are qualified to inspect and weigh grain under the U.S. Grain Standards Act. New fee structures also could be explored that will reflect the competitive market cost of providing service to users. FGIS also should explore the option of allowing designated official agencies to perform official inspections at export locations, consistent with affordability, service and the maintenance of integrity of the official inspection program;
  3. **Implement cost-cutting actions.** These actions should include reducing administrative and supervisory costs to no more than 25 % of the costs of inspection and weighing activities. Congress should consider amending legislation to permit appointing a career official to the Administrator's position with the elimination of the deputy administrator's position. Additionally, the costs and benefits of making FGIS a division of the Agricultural Marketing Service (AMS) should be explored. Furthermore, FGIS should evaluate closure of additional field offices where operating costs grossly exceed revenues. If direct users in the region served by such field offices are willing to incur the additional costs of maintaining the field office, they should be given the opportunity to pay the added costs.

Other cost-reduction considerations should include the costs and benefits of getting out from under General Service Administration cost allocations. We also support providing a one-time offer of credit for service to employees who were hired as part of the creation of FGIS in order to expedite early retirement as a means to reduce staff.

- Congress should eliminate the requirement that all grain standards be reviewed every five years. In our view, the U.S. grain standards should be reviewed only when a clear market need exists.

The NGFA agrees with the provision in H.R.2689 to eliminate the FGIS Advisory Committee. Given the ongoing nature of the Grain Quality Workshops as well as the active participation of voluntary industry, producer and other organizations in FGIS rulemaking activities, we think the Advisory Committee has become duplicative. Its elimination would save the government money and would save administrative FGIS staff time now spent in preparation for meetings.

As we mentioned earlier, we are encouraged that Congress has provided funds to support current FGIS Standardization Activities. However, we have been told by key members of Congress charged with appropriating responsibilities that this situation is likely to face increased scrutiny in future years as Congress and the Administration seek ways to reduce the federal budget deficit. Unfortunately, as unfair as it may be, we fear that agricultural producers and our industry will be an easy target for future user fees. That is why FGIS must act immediately to reduce its costs. Regardless of who pays the bills, the message from the American people is clear --- we can no longer afford as much government and must take actions now to reduce government cost. Time is short and swift actions are needed. If FGIS adopts NGFA-recommended changes in its standardization activities, annual costs should be reduced from the current \$7 million to \$5 million or less. With cost savings generated from other recommended changes, as well as permitting competition in interior markets, there is potential to significantly reduce overall cost to the industry even if Congress subsequently decides to mandate users fees to pay for standardization costs. If that occurs, we reiterate that because of the wide distribution of benefits of standardization, it is wholly inappropriate to assess increased fees only on direct users of the grading system, even after necessary cuts are made.

Ultimately, if this restructuring of FGIS is unsuccessful in controlling the costs of official grain inspection and weighing, the industry and government may have little choice but to shift even further in the direction of a self-regulated or privatized system as a means of controlling costs to stay competitive in world markets.



## Appendix

### National Grain and Feed Association Policy on Government User Fees

The Board of Directors of the National Grain and Feed Association has adopted the following policy regarding user fees for government services:

**User fees:** Where government programs benefit a specific segment of industry or the public, user fees may be an acceptable revenue source. However, user fees should not be implemented as a means of shifting the cost of government to the private sector, with no evaluation of whether continuation of such government services is necessary or whether government efficiency can be improved to reduce total costs. Before implementing user fees, a careful evaluation should be made to: 1) assess whether costs can be reduced; 2) measure total benefits and the distribution of benefits; and 3) consider ending programs if appropriate. When large increases are proposed, they should be phased in over a period of years to permit adjustment.

Any user fee imposed should not be excessive, only commensurate with the actual level of benefits realized. Excessive fees will force an under utilization of the service being provided and create distortions in the economy that serve to reduce overall economic efficiency and unfairly favor one industry over others. Therefore, the government should avoid the temptations to impose fees on a particular business or consumer sector simply because that segment can be conveniently assessed (rather than assessing fees according to direct realized benefits). If the government believes that a particular business sector is the only beneficiary of a government program or service, the government should first address the question of why government should even be involved. To the extent that the government can shift programs and services to entities in the private sector, there is a greater likelihood that a competitive marketplace will control costs and maintain operating efficiency that will benefit the entire economy.

(Attachment follows:)

# GQW

Grain Quality Workshops

*Producers, Elevator Operators,  
Processors, Exporters, End Users, and Academia  
Addressing Grain Quality Issues*

**Statement of the Grain Quality Workshop**  
**Before the**  
**Subcommittees on General Farm Commodities and**  
**Foreign Agriculture and Hunger**  
**U.S. House of Representatives**  
**August 4, 1993**

The Grain Quality Workshop, which has a keen interest in the future cost and viability of the official grain inspection system, respectfully requests that the following information be made part of the official record of the Subcommittee's hearing on legislation to reauthorize the Federal Grain Inspection Service, H.R.2689.

The Grain Quality Workshop is a consortium of representatives from more than 20 organizations that have met periodically since December 1985 to consider and address grain quality issues. Participants (see attached list) in the Grain Quality Workshop include producers; grain elevator operators; exporters; domestic processors; millers and other domestic users; land grant universities; and domestic grain inspection agencies. Federal government agencies with an interest in grain quality issues participate in an advisory role but not as voting members.

At its June 24/25, 1993 meeting, the Grain Quality Workshop passed the following resolutions:

"FGIS should be reauthorized. In concert with this reauthorization, FGIS should develop a 5-year strategic plan within the first year, which is acceptable to the Senate and House Agriculture Committees, which deals with the issues of standardization activity funding and inspection fees and fully addresses both improved operating cost efficiency and cost recovery mechanisms."

"FGIS should be authorized to conduct pilot programs to increase efficiency, flexibility and speed and to reduce cost of service."

1201 New York Ave., N.W., Suite 850, Washington, D.C., 20005, (202) 289-0873

"FGIS management must be given the ability to streamline the agency and improve its operating efficiency. The tools needed to do this may include such things as enhanced contract authority, early retirement provisions and the revision of work rules which hinder the adoption of cost efficient inspection technologies."

"FGIS should be granted authority to offer special services on a fee basis to meet market needs."

"The FGIS Administrator should utilize his authority to expand the use of contracts entered into with persons and private companies to carry out certain services if such contracts will reduce costs."

"Nearly all aspects of FGIS general standardization activities are truly a "public good," and therefore, it is inappropriate to transfer the cost of these activities to inspection fees. However, FGIS should be authorized to recover costs from those activities that have direct individual benefits."

If you would like to discuss this information, please feel free to contact Chairman of the Grain Quality Workshop Richard McWard, (314) 872-3030 or Tom O'Connor, National Grain and Feed Association, (202) 289-0873.

**GRAIN QUALITY WORKSHOP****A. FULL MEMBERSHIP****PRODUCERS****American Farm Bureau Federation**

225 Touhy Avenue  
Park Ridge, IL 60668

- \* David Miller
- \* Steve Oman
- \* Warren Schildroth

**American Soybean Association**

540 Maryville Centre Drive, Suite 400  
St. Louis, MO 63141

- \* Ann Rehme

**National Association of Wheat Growers**

415 2nd Street, NE, Suite 300  
Washington, DC 20002

- \* Bruce Knight
- \* Reggi Wycoff

**National Barley Growers Association**

415 38th Street, NW  
Fargo, ND 58103-1113

- \* Brian Aanstad

**National Corn Growers Association**

RR 1, Box 33  
Galt, IA 50101

- \* Ron Swanson

**National Grain Sorghum Producers Association**

P.O. Box 530  
Abernathy, TX 79311-0530

- \* Ralph Olson

**National Wheat Improvement Committee**

806 N. 2nd Street  
Berthoud, CO 80513

- \* Rob Bruns

**U.S. Feed Grains Council**

1400 K Street, NW, Suite 1200  
Washington, DC 20005

- \* Gary McKinney

**U.S. Wheat Association**

1620 I Street, NW, Suite 801  
Washington, DC 20006

- \* Jim Frahm
- \* Winston Wilson

**HANDLERS****Grain Elevator & Processing Society**

301 Fourth Avenue S., Suite 365  
P.O. Box 15026, Commerce Station  
Minneapolis, MN 55415-0026

- \* Dave Krejci

**National Council of Farmer Cooperatives**

50 F Street, NW, Suite 900  
Washington, DC 20001

- \* Terry Barr

**National Grain and Feed Association**

1201 New York Avenue, NW, Suite 830  
Washington, DC 20005

- \* Arvid Hawk
- \* Jon Jacobson
- \* Robert C. Smigelski

**National Grain Trade Council**

1300 L Street, NW, Suite 925  
Washington, DC 20005

- \* Robert R. Petersen

**EXPORTERS****North American Export Grain Association**

1300 L Street, NW, Suite 900  
Washington, DC 20005

- \* Steve McCoy

**B. ASSOCIATE MEMBER**

**American Association of Grain  
Inspection and Weighing Agencies**  
1629 K Street, NW, Suite 1100  
Washington, DC 20006  
\* Kevin Rea

**American Bakers Association**  
1111 14th Street, NW, Suite 300  
Washington, DC 20005  
\* Rella Dwyer

**International Grain Program**  
Department of Grain Science and Industry  
Kansas State University  
Schellenberger Hall  
Manhattan, KS 66506-22201  
\* Dr. Charles W. Deyoe

**O A R D C**  
1680 Madison Avenue  
Wooster, OH 44691  
\* Dr. Dave Schmidt

**Wheat Quality Council**  
P.O. Box 966  
Peirre, SD 57501-0966  
\* Ben Handcock

**OTHER**

**American Corn Millers Federation**  
600 Maryland Ave., SW, #305 West  
Washington, DC 20024  
\* Betsy Faga

**American Feed Industry Association**  
1501 Wilson Blvd., Suite 1100  
Arlington, VA 22209  
\* Oakley M. Ray

**American Seed Trade Association**  
601 13th Street, NW  
Washington, DC 20005  
\* Dave Lambert

**Association of Operative Millers**  
5001 College Blvd., Suite 104  
Leawood, KS 66211  
\* Harvey L. McCray

**Corn Refiners Association, Inc.**  
1100 Connecticut Avenue, NW  
Washington, DC 20036  
\* Terry L. Claassen

**Millers National Federation**  
600 Maryland Ave., SW, #305 West  
Washington, DC 20034  
\* Jim Bair

**National Oilseed Processors Association**  
1255 23rd Street, NW  
Washington, DC 20024  
\* Sheldon J. Hauck

**U.S. Canola Association**  
1150 Connecticut Ave., NW, Suite 507  
Washington, DC 20036  
\* John Gordley

**Statement of**

**David C. Lyons**

**Representing the  
National Grain Trade Council  
North American Export Grain Association  
Terminal Elevator Grain Merchants Association**

**before the Subcommittees on  
General Farm Commodities and  
Foreign Agriculture and Hunger  
Committee on Agriculture  
United States House of Representatives**

**on H.R. 2689**

**A bill to reauthorize the Federal Grain Inspection Service**

**August 4, 1993**

Mr. Chairman and Members of the Subcommittees:

We appreciate this opportunity to present our views on H.R. 2689, a bill to reauthorize the Federal Grain Inspection Service (FGIS). I am David C. Lyons, vice president of Louis Dreyfus Corporation, which is headquartered in Wilton, Connecticut. I am testifying today on behalf of the National Grain Trade Council, North American Export Grain Association (NAEGA), and Terminal Elevator Grain Merchants Association (TEGMA).

In our testimony, we will provide some background on FGIS, discuss H.R. 2689, and present some ideas for the Subcommittees to consider.

### Background

The nature of the official grain inspection system has evolved considerably since the U.S. Grain Standards Act was adopted by Congress in 1916. FGIS was created in 1976 and assumed the responsibilities previously held by the Grain Division of USDA's Agricultural Marketing Service.

The mission of FGIS, as set forth in the Agency's 1992 Annual Report to Congress, is:

. . . to facilitate the marketing of grain, oilseeds, pulses, rice, and related commodities by establishing descriptive standards and terms; accurately and consistently certifying quality; providing for uniform official inspection and weighing; carrying out assigned regulatory and service responsibilities; and providing the framework for commodity quality improvement incentives to both domestic and foreign buyers.

The Grain Standards Act provides that official inspection is mandatory at export and voluntary at domestic points. At export locations, FGIS either performs the service directly or delegates its authority to state-operated agencies. At domestic locations, official services are provided by designated agencies which are either state agencies or privately owned companies. FGIS supervises the services provided by these delegated or designated agencies.

To carry out its responsibilities, FGIS had 625 full time permanent employees in fiscal 1992. The agency is organized into four primary divisions: Field Management Division, Quality Assurance and Research Division; Resources Management Division; and Compliance Division.

FGIS activities are largely funded by user fees. In 1992, the industry paid \$28 million or 72 percent of FGIS' expenses which totaled roughly \$40 million; appropriated funds made up the balance. Users have long paid for the cost of actual inspection and weighing services, as well as related supervision and overhead expenses. The agency's compliance and standardization activities are the only expense categories funded through appropriated monies.

### H.R. 2689

We support the legislation before the Subcommittees, H.R. 2689. The bill is straightforward -- other than not renewing the Agency's advisory committee, H.R. 2689 would generally extend FGIS' current authority for an additional five years. The bill would also allow FGIS to collect

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fees for the testing of equipment used for official services. We support that provision as well and feel there may be other areas where FGIS could recoup its costs from direct beneficiaries.

The Grain Trade Council, NAEGA, and TEGMA support a strong national inspection system. The grain industry must be able to rely without question on an objective, third-party to determine and document the quality of grain. Millions of bushels of grain change hands based on the short-hand terms made possible by the grain standards.

Export customers have confidence in the integrity of the inspection process and rely on certificates issued by FGIS. Mandatory inspections are not needed at interior locations, but the national inspection system is available for those who want to verify the quality of grain in a transaction.

### Concerns and Recommendations

There are several concerns and recommendations we would like to present for your consideration as the Subcommittees consider H.R. 2689. Many of our concerns relate to the steadily increasing nature of FGIS fees. Since the agency is largely funded by user fees, the cost of FGIS operations is of direct interest to the grain industry.

While we support a national inspection system, it must be efficient and cost-effective. The grain industry has contracted at an accelerated pace over the last 10 years. The number of firms engaged in the industry has shrunk and the survivors have cut costs dramatically to remain competitive. Despite this environment, the fees for inspection and weighing services have continued to increase.

The combination of industry consolidation and fee levels has caused a decline in the amount of grain officially inspected at domestic locations where users have a choice of whether to use the service. Export facilities are required to use official services and the cost of official services is a major operating expense for these companies. Plainly said, we believe that FGIS fees are too high and higher than they would be if the same services were provided by private sector inspection services.

We offer the following suggestions, several of which are taken from the recommendations of the broad-based Grain Quality Workshops.

1. FGIS should develop a 5-year strategic plan that addresses how FGIS can streamline its operations to keep fees in line without jeopardizing the integrity of the system.
2. Congress should provide FGIS with the flexibility to improve the agency's operating efficiency. The tools to do this may include such items as: enhance contract authority; early retirement provisions; revision of work rules that hinder



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the adoption of cost-effective inspection technologies; and the ability to offer special services on a fee basis to meet market needs.

3. Narrow the focus of FGIS. Re-examine the mission of FGIS and emphasize the agency's core function as an objective third party that accurately and consistently measures grain quality.

The FGIS mission has expanded over the last several years, especially in the area of grain quality improvement. There is always a temptation to ask FGIS to study a particular issue or evaluate a potential change in standards.

An example is the number of studies undertaken to evaluate U.S. grain quality and the feasibility of revising U.S. grain or oilseed standards. These activities have cost American taxpayers large sums of money and have had no discernable affect on U.S. exports or competitiveness. Perhaps in the future when such additional proposals are made, they should be accompanied by proposals for how the effort will be funded, not unlike Congress' mandate for "pay as you go."

Apart from fees, we want to emphasize the importance of an inspection service that provides accurate and consistent inspection results. Instances where the same lot of grain receives a different grade upon destination than was the case at origin can be a major headache for grain merchants. FGIS must continue its efforts to minimize intermarket grade differences and strive to provide consistent, uniform inspections for all users.

#### **Standardization Activities**

Over the last several years, Republican and Democratic Administrations have proposed shifting the cost of FGIS standardization activities to user fees. We, and many other agricultural groups, have consistently opposed this step. Congress, too, has resisted this step and recognized that grain standards facilitate orderly marketing of grain and as such the standardization activities benefit everyone in the marketing chain.

Standardization activities include such diverse, but extremely important support functions as equipment evaluation, calibration and maintenance; quality assurance; grain standards reviews and revisions; and the portion of the Board of Appeals and Review associated with the Quality Assurance program. Most FGIS standardization services are not directly traceable to any easily identifiable user group.

We applaud Congress' decision in the fiscal 1994 appropriations bill to continue appropriated funding for FGIS' standardization activities.

Mr. Chairman, we thank you for the opportunity to testify. We hope that our comments are constructive. We look forward to working with you legislation to reauthorize the Federal Grain Inspection Service.

## TESTIMONY BY THE NATIONAL FARMERS UNION

Mr. Chairman, my name is Leland Swenson. I am president of the National Farmers Union. On behalf of the 250,000 members of NFU, I would like to thank you for the opportunity to comment on the operations of the U.S. Department of Agriculture's Federal Grain Inspection Service (FGIS).

In March of 1993, at the National Farmers Union's 91st Annual Convention in Sioux Falls, South Dakota, NFU delegates adopted the following policy statement relating to FGIS:

"We reaffirm our position for high standards in grain inspection and support the weighting system as authorized under the original Federal Grain Inspection Act.

"To protect and improve our reputation as exporters of American farm commodities, we support legislation which would prohibit and penalize exporters adding foreign material to any commodity for overseas shipment. Export customers should pay for shipments on a clean grain basis, just as farmers are paid on a clean grain basis.

"To enforce this provision, grain inspection personnel should be provided to spot check United States grain at foreign ports to determine whether it is of the same kind, class, quantity and condition that was certified upon shipment.

"We continue to oppose the imposition of user fees for the inspection and grading of agricultural commodities. Federal inspection and grading of such commodities is in the public interest and should not be charged to the producer.

"We oppose the use of 'house graders' for establishing federal grades, and we call for an investigation into the effects of this practice on farm prices."

With the above statement as a guideline, I offer the following comments, observations and concerns:

FGIS should be commended for the part it has played in helping to provide buyers of American agricultural products with commodities that meet the standards agreed to at the time of the order. Complaints from our trading partners have decreased, and that helps enhance the American reputation as a supplier of high quality grain. This is in the best interest of every American farmer.

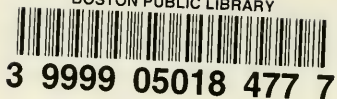
But while great strides have been made, National Farmers Union feels that more could be done. We believe that farmers do their utmost to deliver the finest grain possible to the elevator. We continue to hear about the addition of moisture and other matter which can lower the quality of grain which exceeds specifications. We believe that shippers should try as hard as farmers do to provide their customers with the best quality products possible. To do less is an insult to American farmers

and to America itself.

If FGIS is to continue to be the policeman of United States grain shipments, it has to remain strong and independent for the following reasons:

- 1) The inspection, grading and quality reporting of U.S. food and feed transactions in interstate and international commerce is in the best interest of all U.S. taxpayers and consumers. The credibility of FGIS is best maintained and enhanced through appropriated funds rather than through user fees.
- 2) While the checks or payments for user fees may be provided to FGIS by grain buyers, grain companies, or exporters, those fee costs will either be passed back to farmers through lower prices or passed on to foreign buyers through higher prices. Either way, the U.S. grain economy or U.S. grain competitiveness is weakened.
- 3) The credibility of the U.S. grain marketing system in international trade is best served through a federal inspection system. Privatizing federal export inspections will cause the U.S. to lose credibility with foreign buyers. Our major export competitors use federal inspection systems, high quality and tight standards to enhance their export positions. The U.S. should not weaken its export inspection system by turning it over to private companies.
- 4) Premiums paid by foreign buyers or domestic buyers for higher quality grains and oilseeds should be passed back through the domestic marketing chain from the domestic processor or exporter to the country elevator and on to the farmer.
- 5) FGIS standardization activities are in the public interest and serve as a tool for both enhancing the quality of food and feed movement in interstate and international commerce and improving the competitiveness of the U.S. grain industry worldwide. Creating competition among inspection agencies for the purpose of lowering inspection costs may result in loss in the quality and credibility of inspections and make the U.S. less competitive in the world market, because foreign buyers are more quality- and service-conscious. Just lowering U.S. grain prices does not make the U.S. more competitive in the world export market. The lowest-cost inspection system may ultimately decrease the value of U.S. grain and oilseed exports, thereby diminishing the balance of trade to the U.S. economy.

While we agree that FGIS must be scrutinized like any other agency to make sure that it is operating as efficiently as possible, efficiency must not come at the expense of effectiveness. That would be a disservice to farmers and could lead to the same abuses of the past. Those abuses are still remembered by some of our customers.



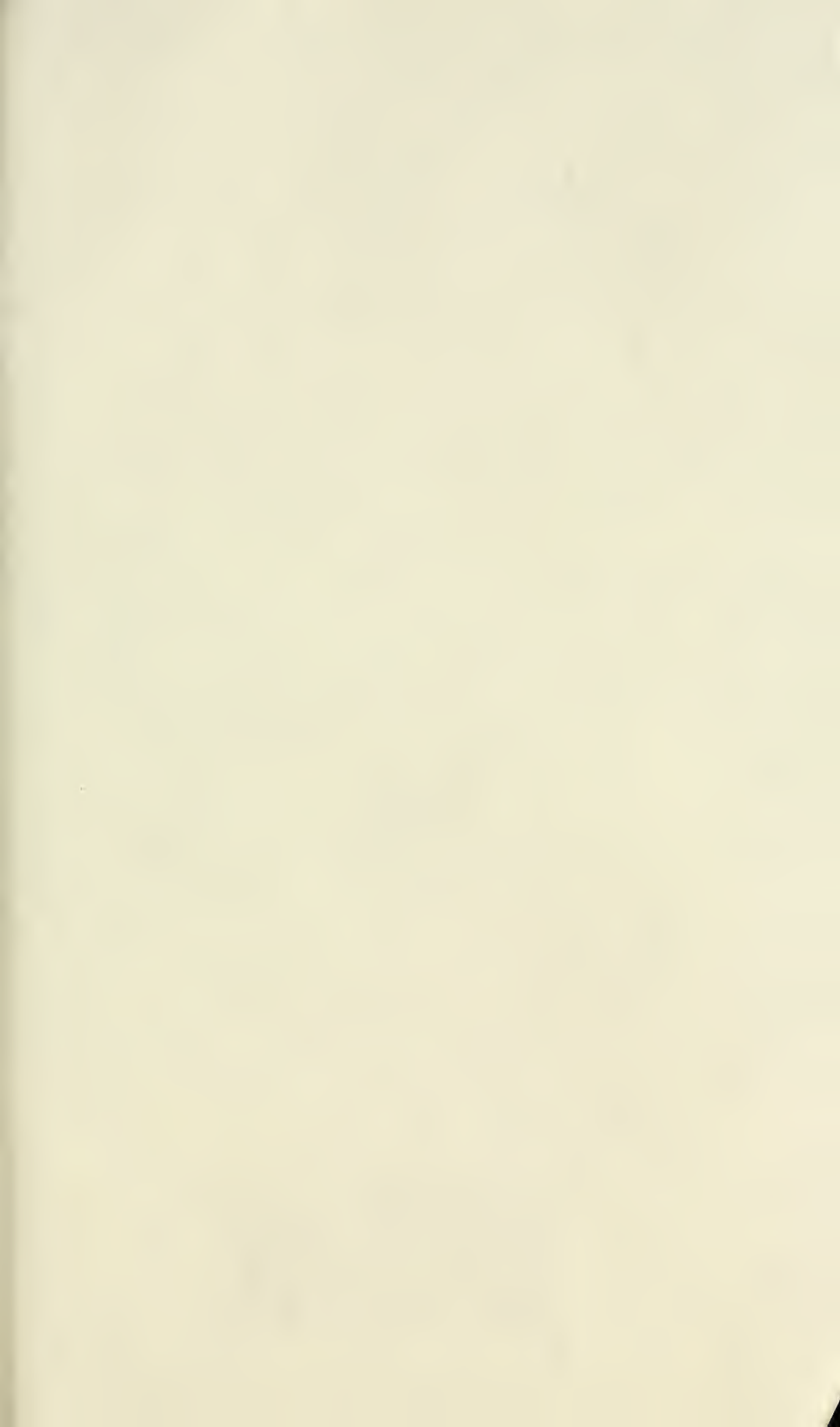
We understand that fewer inspections have been made in recent years for many reasons, not the least of which is the continued trend toward vertical integration in the path grains must follow from the field to the family cupboard, wherever that cupboard might be. We are concerned that trends toward fewer inspections and the trend toward "house graders" will allow for backsliding in grain inspection quality. FGIS must remain strong to prevent that from happening.

Lastly, we strongly oppose the imposition of user fees for grain inspection services. These fees will simply increase the cost of marketing grain at every level where they are required. Any and all cost increases are ALWAYS borne by the farmer. The grain trade will not pay the user fees by benevolence. The family farmer will pay them by lower prices for his grain.

Of all agricultural producers, grain farmers already have the smallest share of the retail price of groceries on a percentage basis, and the gap is widening more quickly than for any other commodity. ANYTHING that lowers the price a farmer is paid for his grain is but another nail in a coffin that is already nearly shut.

Thank you for the opportunity to share with you the views of National Farmers Union.





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