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REVIEW THE REAUTHORIZATION OF THE UNITED STATES GRAIN STANDARDS ACT

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

May 25, 2005

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REVIEW THE REAUTHORIZATION OF THE UNITED STATES GRAIN STANDARDS ACT

WEDNESDAY, MAY 25, 2005

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 10:00 a.m., in Room SR–328–A, Russell Senate Office Building, Hon. Saxby Chambliss (Chairman of the committee) presiding.

Present or submitting a statement: Senator Chambliss.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. Good morning. I welcome you all this morning to review the U.S. Grain Standards Act. I appreciate our witnesses and members of the public being here as well as those who are listening through our website. I know we have some great folks from the Georgia, Department of Agriculture and from GIPSA's Brunswick, Georgia office who are listening in today, and I particularly give a welcome to you.

While reauthorization of the Grain Standards Act may not be the hottest topic of discussion in Washington, it is extremely important to all of agriculture that we review and reauthorize this act. As we will soon hear in greater detail from the Administration's witness, in fiscal year 2004, GIPSA provided inspections on nearly 61 percent of America's $50 billion total grain production and facilitated the marketing of $14 billion of U.S. grain exports. Authorities provided under the U.S. Grain Standards Act and those who carry out the law certainly contribute to the excellent reputation the U.S. grain inspection system holds worldwide.

We are here this morning to hear from interested parties about issues the Committee should consider during the reauthorization process. As Chairman, I plan to introduce a reauthorization bill soon after the Memorial Day recess, and I plan to move the bill this summer. This hearing will help us gain a full understanding of issues to consider as we move forward in this process.

If Senator Harkin has a statement he wants to enter in the record, obviously we will be happy to allow him to do so, as well as any other member of the Committee.

We would now like to welcome our panel. Gentlemen, thank you all for being here this morning. Mr. David Shipman, acting administrator of USDA's Grain Inspection, Packers & Stockyards Admin-

istration in Washington, D.C. Thank you for being here this morning and thank you for your assistance to staff prior to this hearing.

Mr. Jerry Gibson, regional manager for Bunge North America, in Destrehan, Louisiana. Mr. Gibson will testify today on behalf of the National Grain and Feed Association and the North American Export Grain Association.

Mr. Tom Dahl, president of the American Association of Grain Inspection and Weighing Agencies from Sioux City, Iowa.

Mr. Garry Niemeyer, a member of the National Corn Growers Association's Corn Board from Glenarm, Illinois. Mr. Niemeyer is testifying on behalf of a number of commodity groups this morning.

Gentleman, again, we welcome you here and we look forward to your testimony. Mr. Shipman, we will start with you and gentlemen, we will come right down the row with Mr. Gibson being next.

Mr. Shipman, thanks very much.

STATEMENT OF DAVID R. SHIPMAN, ACTING ADMINISTRATOR, GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. SHIPMAN. Thank you and good morning to you and the members of the Subcommittee.

I appreciate the opportunity to be here today to discuss the reauthorization of the United States Grain Standard Act. I would like to make a few opening remarks this morning and respectfully request that my full statement be included in the record.

The CHAIRMAN. Certainly, without objection.

Mr. SHIPMAN. Nearly 29 years ago, Congress created the Federal Grain Inspection Service to maintain the quality of American grain exports and the integrity of the U.S. inspection system. In 1975, a Congressional report stated "it is essential that our customers have faith in the integrity of our inspection and weighing system and that they get the grade, the quality and the quantity of grain for which they contract and pay."

For the past 29 years, the employees of the Federal Grain Inspection Service, which is now the Grain Inspection, Packers & Stockyards Administration, have dedicated themselves to building a National inspection system based on quality service and integrity. During this period of time, the structure and practices of the grain industry have dramatically changed as exporters developed relationships with overseas buyers to deliver the quality and quantity of grain that best meets their needs.

In brief, the market environment of the 1970s no longer exists and our trading partners have confidence in the quality and quantity of grain shipped by exporters and represented by USDA official inspection and weighing certificates.

Perhaps one of the best indicators of the change that has occurred in the industry is in the number of complaints that we have received from foreign buyers. In 1985, we received 74 complaints that accounted for about 2.2 percent of the grain that was exported. Ten years later, in 1995, that had been reduced to 30 complaints, representing about 1 percent of the exports. And just last year, we received only four complaints, representing about 0.1 percent of the total volume of grain exported from the United States.

As an impartial entity, GIPSA maintains over 1,400 different quality assessment terms and methods to test post-harvested crops for physical condition, impurities, contaminants and intrinsic qualities. We work closely with all segments of the grain and oilseed industry to ensure that the terms and the methods that are used to measure quality meet the changing needs of the marketplace.

In addition to establishing these standards to measure quality effectively in the marketplace, we manage a network of Federal, State and private laboratories that provide impartial user-fee funded services to American agriculture. Last year, this network of laboratories conducted more than 2.6 million inspections. I cannot overemphasize the commitment and hard work of the 523 Federal employees and the over 2,000 individuals that work for 12 States and 46 private agencies authorized by GIPSA to provide inspection service. Collectively, they provide high quality service to American agriculture 24 hours a day, seven days a week, 365 days a year.

The success of the U.S. grain inspection and weighing system did not just happen over the last 29 years. It required the collaborative effort of the Federal, State and private inspection personnel and the full participation and cooperation of the grain industry, an industry that has evolved from traders carying out string trades to agribusinesses with a greater focus on customer satisfaction. It required the introduction of new technology to sample, to weigh, and to measure the quality of grain. Again, this was accomplished through the cooperative efforts of the inspection agencies as well as the industry.

It also required continuous improvements in our quality control and assurance systems to ensure that all measurements and inspectors were allowing to national references. And finally, it required reaching out to our many trading partners around the world to ensure they understood and had confidence in our system.

If we look at just FGIS, the cost for Federal services in 1996 was 25 cents per metric ton. In 2004, just last year, that price was 32.6 cents a metric ton, an increase over that period of time of 7.6 cents or 30 percent, which equates to about a 3.5 percent annual increase.

On September 30, 2005, authority to collect user fees, maintain our stakeholder advisory committee, and several other provisions will expire in the U.S. Grain Standards Act and require reauthorization. Without this authorization, we would be unable to collect the necessary fees to operate our program and therefore would have to shut down and disrupt the grain markets, especially at the export market. We believe it is in the best interest of American agriculture that Congress extend and reauthorize the provisions of the Act for a 10-year period from 2005 to 2015.

With all of that said, our key customers and stakeholders support some change, not in the mission that we carry out or the role we play in the marketplace, but in how we deliver some of our services. Recognizing the changes that have occurred to both the inspection system and the customer relationships among industry participants over the last 29 years, an evaluation of how service is delivered is timely. State and private agencies have provided and continue to provide high quality inspection and weighing services in the domestic market. The introduction of private entities with

Federal oversight into the export market is feasible, provided it is accomplished in a manner that does not compromise the fundamental integrity of the existing system.

The recommendations put forth by the industry do establish a framework within which discussions can start on whether changes in the delivery of services can be done and can be done without compromising the integrity of the official system.

The U.S. grain inspection system has gained worldwide recognition for its accuracy and reliability. Maintaining and strengthening this recognition in the future, regardless of how or by whom the services are delivered, is essential to the economic health of American agriculture from producers to exporters.

I appreciate the opportunity to be here and I would be happy to answer any questions.

[The prepared statement of Mr. Shipman can be found in the appendix on page 42.]

The CHAIRMAN. Thank you, Mr. Shipman.

Mr. GIBSON.

STATEMENT OF JERRY D. GIBSON, REGIONAL MANAGER, BUNGE NORTH AMERICA, INC., DESTREHAN, LOUISIANA; ON BEHALF OF THE NATIONAL GRAIN AND FEED ASSOCIATION AND NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. GIBSON. Thank you, Mr. Chairman, members of the Subcommittee. Good morning. My name is Jerry Gibson. I am the regional manager for Bunge North America in Destrehan, Louisiana. I manage our export facility at Destrehan, which is a terminal involved in exporting grain and oil seeds around the world.

My testimony today is presented on behalf of the National Grain and Feed Association and the North American Export Grain Association. NGFA and NAEGA strongly support reauthorization of the U.S. Grain Standards Act to preserve the official inspection system.

The official system is a valuable enhancement to the efficient U.S. grain marketing system and our ability to serve global markets. USDA and GIPSA are to be commended for their efforts. We believe a five-year reauthorization is prudent to preserve effective oversight of the agency by Congress.

As part off our support of reauthorization for the U.S. Grain Standards Act, the NGFA and NAEGA urge Congress to support two elements that we believe are essential to maintaining an effective, official export grain inspection system.

First, we urge that Congress oppose any amendment to the U.S. Grain Standards Act that would authorize GIPSA to impose additional user fees to cover its grain standardization activities.

Second, we urge Congress to amend the U.S. Grain Standards Act to give GIPSA the authority to delegate independent, third-party inspection agencies to perform the hands-on official inspection and weighing of grain and oilseeds and export facilities under 100 percent GIPSA oversight, using GIPSA approved standards and procedures.

With respect to the second point, we would make the following recommendations. First, GIPSA's process for determining and approving independent third-party agencies to perform official inspections at export should be open and transparent.

Second, we would recommend exporters should be free to contract with any GIPSA-approved third-party delegated agencies to perform official services at a port.

The third recommendation would be for GIPSA to utilize fully the right to perform 100 percent on-site oversight authority at each export location and would collect a fee for performing this oversight function that is retained under the Act.

Fourth, GIPSA would continue to issue final official inspection and weighing certificates.

The fifth recommendation, GIPSA would maintain its comprehensive national quality assurance and control program, including its appeal inspection service.

We believe now is the opportune time for change. The nature of the grain export industry and the global grain marketplace have changed dramatically in the last decade. The amendment also would give GIPSA the necessary flexibility to respond to competitive pressures in the global marketplace.

Brazilian and Argentinean exporters have a decided cost advantage for quality inspections compared to the United States and exporters in both countries utilize non-government surveyors for export quality inspections.

Confronting this global competition, U.S. exporters have responded aggressively by reducing operating costs and enhancing efficiencies whenever possible. The one operating expense that remains beyond our control and has come to represent the single largest uncontrollable operating expenditure we face is the cost incurred for official grain inspection and weighing services performed by GIPSA. The direct cost of GIPSA-provided official services have been rising at a rate well above the underlying rate of inflation. This problem is not new but the quickening pace of foreign competition and the number of other factors has provided a new sense of urgency to address this issue immediately.

We believe that immediate savings from making this change would represent about 23 percent or $6.1 million annually. But because the future official inspection costs would be growing at a slower rate, the savings over time would expand compare to what would be expected to occur in the absence of such change, simply because the savings would be compounded from year to year.

Thus, after a decade we estimate that the annual savings would grow to around $17.5 billion with cumulative savings of approximately $112 million over a 10-year period.

In addition to reflecting industry change and cost competition, the time is right because fully 70 percent of GIPSA's inspection workforce will be eligible for retirement within the next five years. Making a change now would minimize the impact on Federal employees.

The NGFA and NAEGA believe that this approach holds great promise. The competitive position of U.S. grain and oilseeds exports can be maintained and enhanced. The integrity of U.S. inspection results will be retained. U.S. official inspection and weighing services will be more viable in the long term.

We are not alone in this belief. Last week six major farm and commodity organizations joined the NGFA and NAEGA, signing a

letter urging Congress to adopt this approach. I would like to submit this letter for the hearing record.

The CHAIRMAN. Without objection.

[The letter signed by six major farm and commodity organizations was not sent]

Mr. GIBSON. In closing, Congress has an opportunity to give this important agency the authority and flexibility it needs to improve the affordability and long-term viability of official grain inspection and weighing at export facilities. The industry pledges to work with Congress and the Agency to achieve this important objective.

Thank you for the opportunity to testify and I will be pleased to respond to any questions.

[The prepared statement of Mr. Gibson can be found in the appendix on page 22.]

The CHAIRMAN. Thank you, Mr. Gibson.

Mr. Dahl, I am going to have to tell you that in preparation for this hearing, going over the list with my staff, I discovered something unusual. One of my very, very dearest and closest friends in Congress is a Congressman from Iowa named Tom Latham. I am pleased to serve with my colleague Tom Harkin from Iowa. Two weeks ago we had a hearing on the confirmation of Tom Dorr from Iowa. Today we have Tom Dahl from Iowa. And I am wondering if everybody in Iowa is named Tom?

Mr. DAHL. Only the good people.

The CHAIRMAN. I got you. We are pleased to have you here.

STATEMENT OF TOM DAHL, PRESIDENT, AMERICAN ASSOCIATION OF GRAIN INSPECTION AND WEIGHING AGENCIES, SIOUX CITY, IOWA

Mr. DAHL. Thank you, Chairman. And thank you for being able to testify today.

The American Association of Grain Inspection and Weighing Agencies, AAGIWA, is the National professional association representing the public and private agencies that are designated and delegated by USDA's Grain Inspection, Packers & Stockyards Administration to weigh, inspect and grade the Nation's domestic grain. Its member agencies are located throughout the major grain-producing regions of the U.S. and represent the majority of all domestic inspections performed under the U.S. Grain Standards Act.

AAGIWA member agents bring a professional and third-party aspect to the grading and weighing of America's grain. During the Association's 45-plus years of service to the industry, it has assisted its members in performing these services through a national forum that promotes and assists professionalism, technology and performance while providing a constant dialogue with Government and industry. AAGIWA wishes to comment on the pending reauthorization of GIPSA beyond its current September 30, 2005 statutory expiration date. In doing so, the Association wishes to support Congress in the reauthorization of the Agency and wishes to provide the following observations to the Congress.

GIPSA's role: there is an important role for a Federal regulatory and supervisory agency in the operation of an official grain inspection system. GIPSA serves to provide an objective third-party regulatory role which assures credibility and integrity for both domestic

and foreign grain handlers and buyers of U.S. grain. Its strict Federal standards help maintain the accuracy and consistency that the grain industry has come to inspect from the Nation's official grain inspection system.

GIPSA's past and present record: AAGIWA commends GIPSA for its current record of flexibility and availability to the suggestions and recommendations of its constituency. It has kept an open-mind to change and made changes when costs and benefits were analyzed and found productive. This association views GIPSA as an essential partner in the official inspection agency's efforts to promote and facilitate the movement and trading of the Nation's grain. The assurance of integrity that GIPSA lends to the official grain inspection system is vital to the systems' continued existence.

As a mandate for change, AAGIWA believes the GIPSA role in the grain industry must keep pace with the fast-changing needs of its customers, that it must anticipate and react quickly to new trends and technology, and that it must become more efficient and effective as the primary monitor of the U.S. Grain Standards Act. Toward that end, AAGIWA calls on Congress to consider the following improvements to the official grant inspection system as it reauthorizes GIPSA.

Extend the designation period for official agencies. Official agencies currently must be redesignated every three years, requiring an extensive on-site Federal evaluation and investigative manpower and resources. This designation period should be extended to five years or more with GIPSA maintaining its traditional role of closely monitoring and evaluating official agencies' performance.

Support changes that would provide GIPSA the authority to delegate third-party inspection providers to perform official inspection and weighing services at ports under GIPSA supervision in those ports where GIPSA currently performs those functions. These third-party providers would be officially designated and would follow the same criteria as presently designated agencies. The proposed amendment should not affect those ports where inspection and weighing services are currently performed by delegated state agencies. To enhance the port inspections feasibility, official origin domestic interior inspections should be utilized.

Support GIPSA in the evaluation of quality inspection tests for ethanol byproducts. The criteria should be established for the end-use of this product. These byproducts enter our food systems through feed given to livestock. Tests that monitor the level of microtoxins should be established.

We oppose the Administration's proposal to amend the U.S. Grain Standards Act to authorize the collection of new user fees to cover the costs of GIPSA standardization activities.

In conclusion, AAGIWA commends GIPSA for making changes for the betterment of the official grain inspection system, for its integrity and for its beneficial partnership with 55 State and private agencies that perform official duties at the local level.

As Congress moves to reauthorize this Federal agency, it is important that new technologies and efficiencies be brought to bear as soon as possible and that the above-stated fine-tuning be implemented in order to assure the future strength and viability of this valuable national industry system.

I am open to question afterwards. Thank you.

[The prepared statement of Mr. Dahl can be found in the appendix on page 20.]

The CHAIRMAN. Thank you very much.

Mr. NIEMEYER.

STATEMENT OF GARRY NIEMEYER, CORN BOARD, NATIONAL CORN GROWERS ASSOCIATION, GLENARM, ILLINOIS

Mr. NIEMEYER. Mr. Chairman, members of the Committee on Agriculture, thank you for the opportunity to testify today on the U.S. Grain Standards Act of 2005.

I am Garry Niemeyer, a corn and soybean farmer from Glenarm, Illinois. I currently serve on the Corn Board as the Association Relations Committee chairman for the National Corn Growers Association.

I am pleased to submit testimony on behalf of the American Farm Bureau Federation, American Soybean Association, the National Association of Wheat Growers and the National Grain Sorghum Producers and the NCGA.

Agriculture today remains the backbone of our Nation's economy. American farmers and ranchers produce the most abundant, affordable and safe supply of food in the world. We produce over 1.7 trillion pounds of food and fiber. Even though the numbers of farmers and of total farmland are decreasing, agricultural products are increasing. Improved technology and efficiencies have allowed us to maximize our production per acre.

Agriculture employs more than 24 million American workers to produce, process, sell and trade the Nation's food and fiber. This equals 17 percent of the total U.S. workforce. While we consume much of what we produce, about 17 percent of all U.S. agricultural products are exported yearly, including 99 million tons of grain and feed.

Corn exports in 2004 were over 47 million tons alone. And approximately half of the U.S. wheat crop is exported annually. The United States sells more food and fiber to world markets than we import, creating a positive agricultural trade balance.

Agriculture is one of the few U.S. industries that enjoys a positive trade balance. When we move our commodities into more markets, both commodity prices and farm incomes tend to rise. During the 2002–2003 fiscal year, $56 billion worth of American agricultural products were exported around the globe. This leads directly into the topic of discussion for today's hearing, the Grain Standards Act of 2005.

The farm and commodity groups I represent strongly support the reauthorization of the U.S. Grain Standards Act. Grain inspection and weighing services by the Federal Grain Inspection Service are mandatory under the Grain Standards Act. Reauthorization of the Grain Standards Act is imperative to our export markets. We have built these markets based on product availability and quality.

Since the passage of the Grain Standards Act in 1916, the U.S. has been the pioneer in providing quality assurance to overseas buyers. In fact, other countries have duplicated our services in standard guidelines for their exports. Overseas buyers continue to seek products from the U.S. because they know the official system,

with its precise testing procedures, equipment criteria, and conduct standards ensure accurate and consistent results. The integrity of this system, which U.S. sellers and overseas buyers rely on should never be compromised.

However, the cost of obtaining official services at ports where GIPSA provides inspection and weighing services has become a factor that is contributing to the gradual erosion of the competitive position of U.S. grain and oilseed exports in world markets. U.S. exporters report that the cost of official grain inspection is one of the largest expense items they face. And these costs have been increasing at a rate well above the underlying rate of inflation. GIPSA inspection costs in recent years have been increasing at more than 7 percent annually, compared to other costs in the 1 to 3 percent range.

Moreover, exporters have limited ability to pass on increased cost because of the highly competitive nature of the world's bulk trade in grains and oilseeds. Dynamic and growing exporters such as Australia, Canada, Brazil, and Argentina are increasingly challenging the U.S. in a number of important overseas markets. While these countries are working hard to narrow the cost advantage the U.S. currently enjoys because of its transportation and handling systems, Brazil and Argentina already have a cost advantage over U.S. shippers in one key area, the cost of obtaining export inspection services.

During an August 2004 fact-finding mission, GIPSA found that Brazilian and Argentinean exporters enjoyed approximately 20 to 25 cents per ton advantage over U.S. exporters in the cost of obtaining export inspections for quality. Brazilian and Argentinean exporters rely on private third-party surveyors to perform official export inspections for quality. The U.S. must better manage the cost of export inspections, take advantage of modern technologies to enhance efficiencies and to be flexible enough to respond to a changing industry structure and an increasingly competitive world market.

We support amending the U.S. Grain Standards Act to authorize GIPSA to delegate qualified third-party companies to provide official inspection and weighing services at ports where GIPSA currently provides such services. This change offers an opportunity to provide a degree of control over costs for inspections while retaining 100 percent GIPSA oversight of the system.

GIPSA's deputy administrator recently noted that technology exists to allow effective oversight of a delegated third-party inspection system that will ensure the continued integrity of the official inspection and weight certificate. If GIPSA is provided the option to use this new authority now, the changes can be implemented in stages with minimal impact on GIPSA employees.

Additionally, we oppose authorizing GIPSA to collect approximately $4 million in fees that would cover the cost of the Agency standardization activities. User fees for standardization activities are an ill-conceived approach that will only serve to make effective cost management in the Agency more challenging than it already is.

In addition, creating new fees for standardization work is inappropriate because such activities clearly benefit the entire mar-

keting chain. Collection of the fee would also be problematic. Fees charged as part of the mandatory official export would further reduce the value of the competitiveness of U.S. exports in grains and oilseeds and would lower producer prices.

For these reasons, we urge Congress to fully reject any attempt to grant GIPSA the authority to collect user fees for standardization activities.

Finally, we support the continuation of the Grain Inspection Advisory Committee. It is important that this committee remain representative of the industry while including farmers, exporters, grain elevators and seed dealers.

Again, thank you for the opportunity to testify today. I will restate our support for the reauthorization of the Grain Standards Act and I am willing to answer any questions you may have.

[The prepared statement of Mr. Niemeyer can be found in the appendix on page 38.]

The CHAIRMAN. Thank you very much, Mr. Niemeyer. Thanks to all you gentlemen.

Mr. Shipman, I need you to educate me a little bit. Those are pretty remarkable numbers you gave regarding the decrease in complaints. Give me an example of a complaint that might be filed and tell me the process that complaint would go through?

Mr. SHIPMAN. Typically what the importer overseas would contact the Foreign Agriculture Service representative that is in the country. There is a formal process they can use to file a complaint. It eventually ends up with us. We have an Office of International Affairs that addresses that complaint. We maintain file samples. We maintain records as to exactly what happened during the loading. We go through a process of reviewing exactly what took place. We send samples off to our Board of Appeals and Review, which is a unit of our "chief inspectors" in Kansas City. They would review it for quality concerns. And a final report would be prepared and submitted to all of the interested parties that were involved in the transaction. It would go back to the importer, as well as the shipper and the exporter.

The CHAIRMAN. Is a typical example a grading issue or a weight issue?

Mr. SHIPMAN. Primarily it would be quality. We have had a few cases where there have been weight issues. To give you one example, several years ago, because there are new automated scales in the process, we were able to go back and basically recreate the entire loading of the vessel through an audit process. We determined that there was a leaky gate and there truly was a shortage in that shipment. And we were able to give both parties that information and they were able to, through the commercial markets, settle the differences.

The CHAIRMAN. As I understand from the National Grain and Feed Association and the North American Export Grain Association, the proposal as drafted provides USDA the authority to utilize third-party inspectors at export port locations, all of which have been described here.

If this proposal is adopted, Mr. Shipman, do you expect to exercise the authority provided in the proposal?

Mr. SHIPMAN. We would certainly look at it and, as our attrition occurs over the next five years, we would have to look very seriously at how we would be able to implement it. If it was a requirement that we make that transition, we would be able to make that transition. Our plan or our strategy would be to start with a smaller port and experiment and see how well it works and phase it in over a period of years.

The CHAIRMAN. Mr. Niemeyer gave a number there, 35 cents a ton?

Mr. NIEMEYER. It was 20 to 25 cents a ton.

The CHAIRMAN. That is pretty significant, I would assume. In the overall market, from a competition standpoint, if can achieve that kind of savings, that appears to have some merit. Does USDA have a position on that, as to whether or not that is correct or not correct, relative to what savings can be achieved?

Mr. SHIPMAN. Let me offer a few comments on that. When we visited South America last year to see how their operations run, yes, they charge between 10 and 15 cents a metric ton for their inspection and weighing operation. Here in the States, in 2003, our cost was around 34 cents a metric ton. In 2004 it dropped to about 32 cents a metric ton, about 32.5, because our volume was much higher.

We do not believe that you are going to see that difference of 20 to 25 cents immediately or you would not see it at all until possibly long-term. What they do in South America and the involvement of the private sector is not what we could endorse or what the recommendation of the industry is right now. The costs that would be incurred here would be higher than the 10 to 15 cents.

We think that direct Federal oversight in the ports,including headquarters costs, would be around 11 cents. When we look at what the private sector provides today, both in the domestic markit where they are officially recognized, and other places in the marketplace, we think the private sector would be providing service for an average cost of around 19 cents per ton.

So you are looking at probably initially a 30 per ton, if you introduced that private element into the export market.

It remains to be seen whether, over time, you would see greater savings if the private sector could contain costs better than we have been able to in the Federal system.

The CHAIRMAN. Staff has just handed me a sheet that shows a comparison of inspection fees, United States, Brazil and Argentina, which is based on fiscal year 2004. Total inspection fee in the United States: $0.348 per ton; Brazil: 10 cents to 15 cents per ton; Argentina: 33 cents per ton.

So I guess we are in the ball park relative to Argentina. But that is a pretty significant difference with Brazil. So I hope that if it is the decision of the Committee to move in the direction of adapting the proposal and it becomes law, that you all will study this issue because we tell our farmers to be more efficient so we can achieve a more competitive atmosphere in the world market. Issues like this simply make us less competitive. We do not need the Federal government being a handicap to us. So I hope that we will monitor that very closely if it is the decision of the Committee to move in that direction.

Relative to the third-party inspector proposal out there, one of the issues that we have heard is the fact that we must maintain the integrity of the system. You pointed out correctly that our reputation in the world market is pretty good from an inspection standpoint. It is very good, as a matter of fact.

I hope, as we consider this issue, that we are able to ensure 100 percent USDA oversight of third-party inspectors to make sure that we do maintain that integrity in the market.

Do you have any concerns relative to that on this issue?

Mr. SHIPMAN. As a model I look at our domestic market, where both State and private companies are operating today. Some of those private companies such as Mr. Dahls, who is here today, inspect grain that is exported to Mexico. And the integrity of those certificates is recognized by the buyers in that country as equivalent to the inspection certificates that are issued by the Federal work force.

So in terms of being able to provide adequate oversight and ensure integrity, I think there are challenges. But I think that with today's technology, it is feasible.

The CHAIRMAN. The American Association of Grain Inspection and Weighing Agencies has proposed extending the length of designations of official agencies from the current three year terms to five year terms. Does the Department have a position or any thoughts on this proposal?

Mr. SHIPMAN. The Department does not have an official position, but I have some thoughts. Right now the three-year designation works fairly well for us. The recommendation is based on driving costs down. I am not convinced at this time that going from a three to a five year designation would have a substantial decrease in cost because the real cost for overseeing is the continuing ongoing process, and every three years we go through a Federal Register process to solicit additional comments. The real issue is incurred in the auditing and ensuring oversight of the agencies operations. That is an ongoing process.

The CHAIRMAN. Lastly, I understand that there is interest in revising current standards for grain sorghum. Can you explain to the Committee what USDA is doing in this regard? And can you also give us your timeframe for publishing a proposal in the Federal register?

Mr. SHIPMAN. We went out with an advance notice of proposed rule making and received a number of comments. The comments were fairly disparate regarding what we should be doing. In some cases, comment called for changing some of the, grade linits and definitions for grain sorghum. Others wanted more equality between grain sorghum and corn.

We have collected all of that information. We are in the process of preparing a proposal that would be published in the Federal Register this summer. Once the proposal is published, we will receive comments review them, and prepare a final rule.

I do not envision that any changes to the standards would be finalized until at least a year to a year-and-a-half.

The CHAIRMAN. Mr. Gibson, in your testimony you mentioned FGIS' maturing workforce. Can you foresee a scenario in which FGIS inspectors retire and then are hired as third-party inspectors,

enabling them to receive both their pensions and their new salaries?

Mr. GIBSON. Yes, certainly I think that would be a resource or a workforce that would be readily trained and available to move into the private sector in some port areas.

The CHAIRMAN. In your written testimony you discuss the use of third-party agencies for export grain inspection. You mentioned that under this proposal, the fees charged for inspection should be negotiated between the exporter and the third-party agency. Are you suggesting that fees vary for each third-party agency?

Mr. GIBSON. No, not necessarily. I think each export facility, though, has different design characteristics. We all do essentially the same thing. But because of different design characteristics and different levels of automation, their manpower staffing to meet the FGIS oversight requirements might conceivably differ. So it would be up to each elevator to discuss that and negotiate that with the third-party, which would be an approved party or agency, approved by FGIS.

The CHAIRMAN. What requirements do you envision that a third-party inspector will have to meet in order to receive a license to inspect grain for export?

Mr. GIBSON. He would go through the similar training and evaluation of his quality of inspection, similar to every licensed grain inspector in the United States now.

The CHAIRMAN. What do you expect will happen if a foreign buyer questions the validity of the grade or inspection certificate issued as a result of the work by a third-party inspector?

Mr. GIBSON. I think that is certainly critical to the industry to maintain that integrity of the FGIS or the GIPSA certificate. So we would still see that as being a GIPSA authorized or an issued certificate, just some of the mechanical input into how that information is arrived at on that certificate could be done by third-party people. But it is still an FGIS or a USDA certificate. So USDA would still be involved in the auditing and the validation of that certificate, and any of the complaint reviews, similar to how they do it currently.

The CHAIRMAN. Mr. Dahl, your organization has proposed extending the length of designations of official agencies from the current three year terms to five year terms. Could you explain the need for this extension and the process to become redesignated?

Mr. DAHL. We feel, just on a business plan situation where we can, as private businesses, a five-year business plan that we can put together would be better than a three-year business plan.

We do think there would be some cost savings involved in that. Currently, with the designation process, my agency, for instance, is due for designation a year from June. Our paperwork will go out and be due probably by October. Then there is a comment period of 30 days, and then another 30 days and it is reviewed. It is just a matter of we do the same thing every three years, the same format, all of the same questions and everything are answered. It is kind of redundant in its practice, and we feel that five years would be a better extension of that than the three.

The CHAIRMAN. Do you envision some of the entities you represent being able to expand their services to export inspection under the NGFA and the NAEGA proposal?

Mr. DAHL. I do not understand exactly what you are, what they would...

The CHAIRMAN. If given the opportunity, do you believe your agencies would be interested in expanding their services to ports under the proposal?

Mr. DAHL. I believe they probably would, yes. It would already be an officially designated agencies. I would think that they would already have the training and the staff in place to be able to do that, if given the opportunity.

The CHAIRMAN. Mr. Niemeyer, regarding the NGFA and the NAEGA proposal, are you confident that USDA will issue adequate rules and regulations to protect the integrity of the U.S. grain inspection system?

Mr. NIEMEYER. I feel pretty confident about that. They have done a great job so far and obviously integrity is the key word, as well as competitiveness.

The CHAIRMAN. Gentleman, again, thank you very much for being here. Thank you for your input. We look forward to dialoguing with you as we move through the process of drafting this legislation and sending it to the floor of the Senate this summer.

Thank you very much, and this hearing is concluded.

[Whereupon, at 10:45 a.m., the committee was adjourned.]

APPENDIX

MAY 25, 2005

AMERICAN ASSOCIATION OF GRAIN INSPECTION AND WEIGHING AGENCIES

REAUTHORIZATION OF GIPSA 2005

MAY 25, 2005

The American Association of Grain Inspection and Weighing Agencies (AAGIWA) is the national professional association representing the public and private agencies that are designated and delegated by USDA's Grain Inspection, Packers & Stockyards Administration (GIPSA) to weigh, inspect, and grade the Nation's domestic grain. Its member agencies are located throughout the major grain-producing regions of the U.S., and represent the majority of all domestic inspections performed under the U.S. Grain Standards Act.

AAGIWA member agencies bring a professional and third party aspect to the grading and weighing of America's grain. During the association's 45-plus years of service to the industry, it has assisted its members in performing these services through a national forum that promotes and assists professionalism, technology, and performance, while providing a constant dialogue with government and industry.

AAGIWA wishes to comment on the pending re-authorization of GIPSA beyond its current September 30, 2005 statutory expiration date. In doing so, the association wishes to support Congress in the re-authorization of the agency, and wishes to provide the following observations to the Congress:

GIPSA's Role: There is an important role for a Federal regulatory and supervisory agency in the operation of an official grain inspection system. GIPSA serves to provide an objective, third party regulatory role, which assures credibility and integrity for both domestic and foreign grain handlers and buyers of U.S. grain. Its strict federal standards help maintain the accuracy and consistency that the grain industry has come to expect from the Nation's official grain inspection system.

GIPSA: Past and Present Record. AAGIWA commends GIPSA for its current record of flexibility and availability to the suggestions and recommendations of its constituency. It has kept an open mind to change, and made changes when costs and benefits were analyzed and found productive. This association views GIPSA as an essential partner in the official inspection agencies' efforts to promote and facilitate the movement and trading of the Nation's grain. The assurance of integrity that GIPSA lends to the official grain inspection system is vital to the system's continued existence.

Mandate for Change. AAGIWA believes GIPSA's role in the grain industry must keep pace with the fast-changing needs of its customers; that it must anticipate and react quickly to new trends and technology; and that it must become more efficient and effective as the primary monitor of the U.S. Grain Standards Act. Toward that end, AAGIWA calls on Congress to consider the following improvements to the official grain inspection system, as it re-authorizes GIPSA.

Extend the designation period for official agencies. Official agencies currently must be re-designated every 3 years, requiring extensive on-site Federal evaluation and investigative manpower and resources. This designation period should be extended to 5 years or more, with GIPSA maintaining its traditional role of closely monitoring and evaluating official agencies' performance.

Support changes that would provide GIPSA the authority to delegate third party inspection providers to perform official inspection and weighing services at ports under direct GIPSA supervision, in those ports where GIPSA currently performs those functions. These third party providers would be officially designated and would follow the same criteria as presently designated agencies. The proposed amendment should not affect those ports where inspection and weighing services are currently performed by delegated State agencies. To enhance the port inspections' feasibility, official, origin domestic interior inspections should be utilized.

Support GIPSA in the evaluation of quality inspection tests for ethanol by-products. The criteria should be established for the end use of this product. These by-products enter our food system through feed given to livestock. Tests that monitor the levels of mycotoxins should be established.

We oppose the Administration's proposal to amend the U.S. Grain Standards Act to authorize the collection of new user fees to cover the cost of GIPSA Standardization activities.

In conclusion, AAGIWA commends GIPSA for making changes for the betterment of the official grain inspection system, for its integrity, and for its beneficial partnership with 55 state and private agencies that perform official duties at the local level. As congress moves to re-authorize this Federal agency it is important that new technologies and efficiencies be brought to bear as soon as possible, and that the above stated fine-tuning be implemented in order to assure the future strength and viability of this valuable national industry system.

Thomas Dahl,
President, AAGIWA

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North American Export Grain Association

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Testimony

on Reauthorization of the U.S. Grain Standards Act

Before the

Committee on Agriculture, Nutrition and Forestry

U.S. Senate

By Jerry D. Gibson, Regional Manager

Bunge North America Inc., Destrehan, La.

on Behalf of

National Grain and Feed Association

and North American Export Grain Association

May 25, 2005

Chairman Chambliss and members of the Committee, I am Jerry Gibson, Regional Manager for Bunge North America Inc., in Destrehan, Louisiana. My responsibilities include management of Bunge's export elevator in Destrehan.

My testimony today is presented on behalf of the National Grain and Feed Association (NGFA) and the North American Export Grain Association (NAEGA). I serve as a member of NGFA's Grain Grades and Weights Committee and NAEGA's Grades and Inspections Committee, both of which address issues concerning the official grain inspection and weighing system and the U.S. Grain Standards Act that are the subject of this hearing.

The NGFA, established in 1896, consists of approximately 900 grain, feed, processing, exporting and other grain-related companies that operate about 5,000 facilities that handle more than 70 percent of all U.S. grains and oilseeds. The NGFA's membership encompasses all sectors of the industry, including country, terminal and export elevators; feed manufacturers; cash grain and feed merchants; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; and allied industries. The NGFA also consists of 35 affiliated state and regional grain and feed associations, as well as two international affiliated associations. The NGFA has strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society, and has a joint operating and services agreement with NAEGA.

NAEGA, established in 1912, is a not-for-profit trade association comprised of private and publicly owned companies and farmer-owned cooperatives involved in and providing services to the bulk grain and oilseed exporting industry. NAEGA member companies ship practically all of the bulk grains and oilseeds exported each year from the United States. The Association's mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States. NAEGA acts to accomplish this mission from offices in Washington D.C., and in markets throughout the world.

I also am an alternate member of the U.S. Department of Agriculture's Grain Advisory Committee, which was established under the U.S. Grain Standards Act. This committee advises the Grain Inspection, Packers and Stockyards Administration concerning its implementation of the Act and variety of program and operational issues associated with the official grain inspection system, including the agency's strategic plan, performance measures and financial management of the official grain inspection system.

At the outset, the NGFA and NAEGA strongly support reauthorization of the U.S. Grain Standards Act to preserve the official grain inspection system. Both of our organizations have a long history – in the NGFA's case, dating back to the very establishment of the Act in 1916 – in supporting a national grain inspection and weighing system. GIPSA and its designated and delegated official agencies perform a very useful and important role for the entire marketplace in maintaining the official U.S. grain standards and providing unbiased, third-party inspection and weighing of bulk grains and oilseeds at export, where the use of official services is mandatory. Further, GIPSA serves a vital role in minimizing and resolving non-tariff trade barriers that can arise in international trade. These activities enhance the efficient U.S. grain marketing system and our ability to serve global markets, and GIPSA is to be commended for its efforts. We believe a five-year reauthorization is prudent to preserve effective oversight of the agency by Congress.

But in supporting reauthorization of the U.S. Grain Standards Act, the NGFA and NAEGA urge that Congress support two critical elements that we believe are absolutely essential if the official grain inspection system is to be preserved and a federal role maintained for export grain:

- First, we urge that Congress oppose any amendment to the U.S. Grain Standards Act to authorize GIPSA to impose additional user fees to cover its grain standardization activities.

- Second, we urge Congress to amend the U.S. Grain Standards Act to give the GIPSA the flexibility to designate independent, third-party inspection agencies to perform the hands-on official inspection and weighing of grain and oilseeds at export facilities, under 100 percent GIPSA oversight using GIPSA-approved standards and procedures.

We respectfully submit that the evidence is compelling that both of these recommendations are essential to restoring the official grain inspection system's financial integrity and cost-competitiveness at export locations.

Opposition to Shifting GIPSA Standardization Activities to User Fees

First, let me address our strong opposition to amending the U.S. Grain Standards Act to authorize additional user fees to finance GIPSA's standardization activities. It's important to stress that the users of the official grain inspection system – primarily the export industry – already pay nearly 70 percent of GIPSA's grain inspection-related budget through user fees. That includes 100 percent of the direct costs of officially inspecting and weighing grain, as well as the agency's administrative, supervisory and overhead costs attributable to the performance of those duties.

What we are opposing is the imposition of **additional** user fees to cover the costs of developing, reviewing and maintaining the U.S. grain standards themselves. These activities include reviewing each of the grain standards every five years to ensure they still are meeting the needs of producers, merchants and consumers in reflecting grain quality attributes. Standardization functions also include the agency's Quality Assurance-Quality Control System, which is designed to ensure the consistent application of the grain standards nationwide to avoid inter-market grading differences. In its fiscal 2006 budget, the administration proposes to shift $4.3 million for such standardization activities to user fees.

The NGFA and NAEGA believe that the case is convincing that the U.S. grain standards benefit the entire grain marketing system – including producers and consumers of grain and grain products – because they foster accurate, consistent and efficient measurements of grain quality. Indeed, consumers are the ultimate beneficiaries of these activities because they make it possible for grain to be marketed more efficiently and at a lower cost, and result in more consistent quality characteristics in grain-based foods.

Thus, shifting GIPSA's standardization activities to user fees represents a thinly disguised **new tax** that would drive up costs and undermine the cost-competitiveness of U.S. grain and oilseed exports. That, we submit, is exactly the wrong policy prescription. Further, if the additional user fees were to be imposed on users of the official inspection in the domestic market – where use of the official services is voluntary – it would force an even greater shift to lower-cost unofficial inspection alternatives. Were the fee to be imposed on any user of the U.S. grain standards, an even broader array of U.S. agriculture would be taxed.

Every Congress since the 1980s has seen this proposal to shift grain standardization activities to user fees for what it is – an unwarranted new tax – and has rejected it. We encourage this Congress to do likewise, by **not** amending the U.S. Grain Standards Act to authorize GIPSA to impose user fees to finance its grain standardization activities.

Granting Authority for GIPSA to Utilize Independent, Third-Party Inspection Agencies to Perform Official Inspections for Export Grain

Now let me turn to our second major recommendation – one that we believe is absolutely essential if the official grain inspection and weighing system is to be cost-competitive and remain viable for bulk exports of U.S. grains and oilseeds in the future.

Specifically, the NGFA and NAEGA strongly urge Congress to amend the U.S. Grain Standards Act to authorize GIPSA to utilize independent, third-party agencies to perform the hands-on grading and weighing of grains and oilseeds at U.S. export facilities under 100 percent on-site GIPSA supervision using GIPSA-approved standards and procedures.

Let me review a few of the major elements that the NGFA and NAEGA would recommend in shifting to the use of independent, third-party agencies to perform official inspection and weighing of export grains and oilseeds:

- First, GIPSA's process for determining and approving independent, third-party agencies to perform official inspections at export should be open and transparent, done through notice-and-comment rulemaking in the ***Federal Register***.

- Second, the GIPSA-approved independent third-party agency should be responsible for hiring the inspectors. We would recommend that GIPSA license all personnel employed by such third-party agencies. Exporters should be able to contract directly with a GIPSA-approved delegated independent, third-party agency for official grain inspection and weighing services. And the fees charged should be negotiated between the exporter and the third-party agency.

- Third, and importantly, we believe that the **six state agencies that GIPSA already has delegated the responsibility for performing official grain inspection and weighing services at export ports should retain their exclusive authority. There should be no change in this feature of the official grain inspection and weighing system**.

- Fourth, as mentioned previously, GIPSA under the legislative language would retain the right to perform 100 percent on-site oversight authority at each

export location to continually monitor and audit the performance of the third-party agency, and would collect a fee for performing this oversight function. GIPSA also would retain the authority to suspend or revoke the authority of the third-party agency at any time for cause.

- Fifth, GIPSA would issue final official inspection and weighing certificates based upon the results determined by the delegated third-party agency inspector operating under 100 percent GIPSA supervision. The official inspection certificate relied upon by U.S. exporters and our foreign customers would continue to be used.

- Sixth, GIPSA would maintain its comprehensive national quality-assurance and control program to ensure grading accuracy and consistency, including its appeal inspection service.

- Seventh, the proposal would be limited to commodities marketed under the U.S. Grain Standards Act – namely, corn, soybeans, wheat, sorghum, barley, canola, flaxseed, oats, rye, sunflower seed, triticale and mixed grains. Other commodities – like rice – that are marketed under the Agricultural Marketing Act would **not** be affected.

This approach is modeled after the system that has been used successfully for the past 28 years in the domestic market, where GIPSA designates official inspection authority to state and/or private agencies that operate under GIPSA review and oversight. But there are several important differences that the NGFA and NAEGA would recommend that GIPSA incorporate to provide additional safeguards that the integrity of the official inspection system will be maintained:

- First, in the case of export facilities, GIPSA should maintain 100 percent on-site supervision of the personnel hired by the GIPSA-designated independent, third-party agency to perform the actual official grading and weighing of

grain. As in the case with state and private agencies that GIPSA delegates and designates to perform official inspections in the domestic market, GIPSA should set the standards for the private agency and for the performance of the inspectors. And GIPSA would retain the sole authority to suspend or revoke the license of a third-party agency at any time for cause.

- Second, GIPSA personnel should continue to test all export scales.

- Third, the proposed amendment to the U.S. Grain Standards Act would give GIPSA the authority to promulgate rules – authority we fully anticipate GIPSA would use – to require exporters wishing to utilize a GIPSA-approved independent private agency to install technology that would ensure GIPSA's ability to provide 100 percent supervision of independent third-party personnel.

- Finally, the NGFA and NAEGA would prefer that this new system be implemented as soon as possible. But in our discussions with GIPSA, it appears that it would be prudent to phase-in the new approach over a period of up to three years, beginning with lower-volume export ports where the cost of providing official inspection and weighing service is comparatively more expensive than at higher-volume export facilities. The proposed amendment provides that flexibility to GIPSA, and would allow for the program to be fine-tuned, if needed, before it is implemented at the higher-volume grain export ports. In this regard, we would recommend that report language accompanying legislation reauthorizing the U.S. Grain Standards Act include a request that GIPSA provide progress reports on implementation of independent, third-party inspection agencies as part of its already-existing annual report to Congress.

So, why make such a change?

For starters, the nature of the grain export industry and the global grain marketplace has changed dramatically in the last decade. The "old" industry model a decade ago was one where international grain traders took ownership positions in paper representing grain and sold it to a string of other traders that eventually resold the shipment as a commodity to end-users. Today, much of the international grain trade involves more direct relationships between buyer and seller. Supply chains have been established that provide for long-term stability in trading relationships and drive improvements in efficiency. These supply chains frequently are accompanied by direct foreign investment in grain-deficit countries by international grain companies to receive, process and utilize imported grains and oilseeds for grain- and animal-based food products. Thus, the "old" business model of a multi-national grain trade that provided commodities to national firms for grain processing or animal feed now is being overshadowed by international agribusiness models that increasingly are focused on grain processing and that have direct supply relationships with end-user customers.

This transformation carries huge implications, making it of paramount importance to satisfy the grain-quality attributes needed by our customers to maintain those supply relationships. If today's grain exporter does not meet the needs of its direct customer, that business is shifted to another firm more quickly, more decisively and more irrevocably than ever before.

Equally important is that we're facing a far more competitive environment from very capable and efficient grain and oilseed producers and agribusinesses in foreign countries. That competition is coming from all over the world, but is most intensely felt from South America on soybeans. Since the 1996/97 marketing year, Brazil's soybean exports have increased seven-fold, the driving force behind a more than doubling of its planted acreage. Similarly, Argentina's soybean exports during the same period have increased by more than 400 percent, while its planted acres have nearly tripled. This growth also has spurred investment in both countries' transportation and grain industry infrastructure.

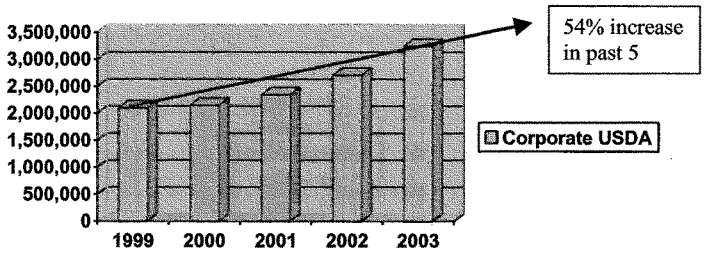
But South America's competitive advantage doesn't stop there. When it comes to inspection costs for grain and oilseed exports, both Brazil and Argentine farmers and exporters also have a decided cost advantage amounting to 20- to 25-cents per ton for quality inspections compared to the United States. And both countries rely upon private, third-party surveyors to perform official export inspections.

Given this intense level of competition, it is virtually impossible for U.S. exporters to shift these higher costs to foreign customers. Instead, those costs out of necessity either are absorbed by the exporter or passed back through the U.S. marketing system – eventually reaching our farmer-customers.

Confronting this global competition, U.S. exporters have responded aggressively by reducing operating costs and enhancing efficiencies wherever possible. But one operating expense remains beyond the reach of exporters' control, and has come to represent the single largest uncontrollable operating expenditure we face. And that's the cost incurred for official grain inspection and weighing services performed by GIPSA, which remains on a steadily upward spiral.

GIPSA's corporate costs – its fixed expenses for personnel and administrative overhead – have increased 54 percent in the last five years, a rate well above the underlying rate of inflation. [See Chart 1.] Under what likely represents a best-case scenario, a high-volume export elevator reports that GIPSA's inspection costs (attributable primarily to labor expense) have increased 7.2 percent per year from 2000-04, while that facility's private-sector labor costs increased by 2.5 percent annually over the same period. Further, GIPSA's fees charged to exporters for performing official inspections have increased from approximately 23 cents per metric ton in 1994 to 35 cents per metric ton on a national average under a new fee schedule implemented in 2004. And those GIPSA costs, much of which is attributable to increased labor costs, show no signs of abating.

Chart 1 - GIPSA Greenbook (Corporate) Costs



This is not a new development. In fact, the problem has been building for some time, eating away at the competitive position of U.S. grain and oilseed exports. But the quickening pace of foreign competition and a number of other factors discussed later has provided a new sense of urgency to address this issue immediately.

What kind of costs savings could we realistically be expected to achieve?

While answering this question requires making some assumptions, since independent, third-party inspection agencies operating under GIPSA supervision do not yet exist, we believe it is realistic to believe that **immediate savings** from such a change would be about 23 percent – or $6.1 million – annually.

Here's how we arrive at that estimate. The average cost for GIPSA official inspections at export currently amounts to 35 cents per metric ton. Under the change being proposed, the agency expects that it would charge on average of 13 cents per metric ton to maintain 100 percent supervision at grain export facilities. Reputable national firms that we anticipate would bid to become private third-party agencies performing official grain inspection services at export estimate that such services could be provided within a range of 8- to 20-cents per ton, depending upon the volume of grain, the efficiency of the export elevator and other circumstances at the export port. Thus, the cost for official inspections at export would be within an estimated range of 21- to 33-cents per ton, after adding GIPSA's supervisory fee. We assume that the overall national

average would be somewhat less than the midpoint of 27 cents per ton, given that the most efficient export elevators tend to operate at higher-volume ports. However, using the midpoint as a reasonable estimate average, cost savings would be expected to be about 8 cents per metric ton.

But because the cost of official inspection services in the future would be growing at a slower rate, the savings over time would expand compared to what would be expected to occur in the absence of such a change – simply because the savings would be compounded from year to year. Thus, after a decade, we estimate that the annual savings would grow to around $17.5 million, with cumulative savings of approximately $112 million over the 10-year period.

These savings are depicted graphically in Charts 2 and 3. Chart 2 shows the cost increases that could be expected to occur over the next ten years under the status quo versus under a system where independent third-parties perform official grain inspecting at export. It is based upon the continuation of the existing trend of a 7 percent annual increase in GIPSA's cost of performing official service at export facilities. That compares to a projected 2.5 percent annual increase in costs that we anticipate would occur were private agencies to perform inspections under GIPSA supervision – an assumption based upon the industry's experience with the rate of cost increases incurred from non-government private contractors providing non-inspection-related services at a major grain export facility. Chart 3 depicts what the cumulative savings would be over the next decade, based upon the "constant" of 76.2 million metric tons of export grain being officially inspected each year.

Chart 2
Estimated Annual Cost Savings
(status quo vs. delegated third-party agency)

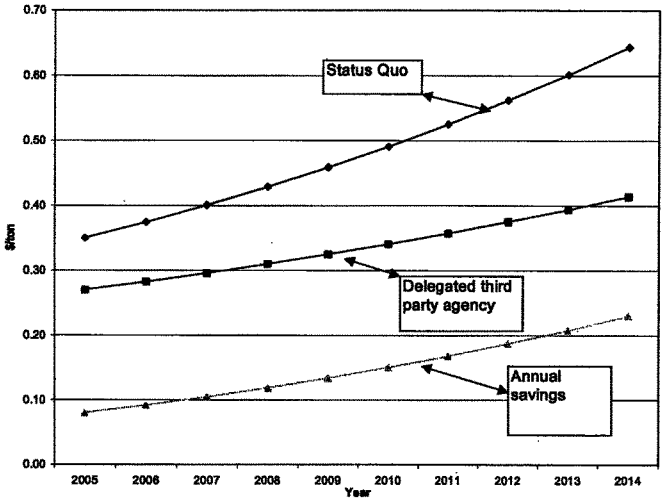
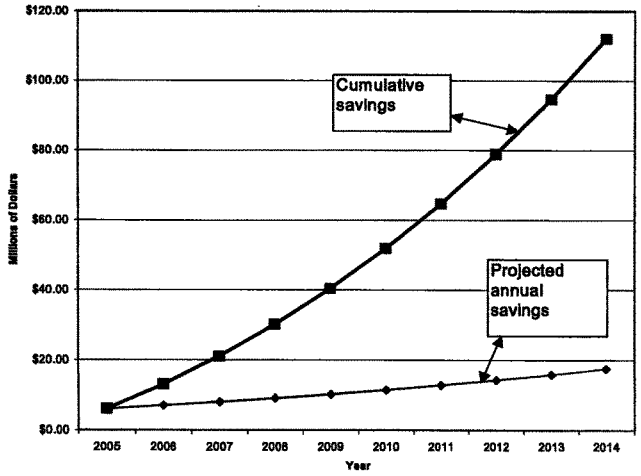


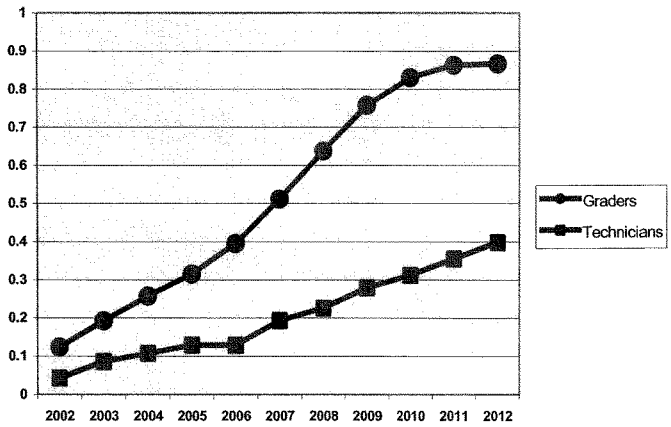
Chart 3
Estimated Cumulative Savings
(status quo versus delegated third-party agency)



Why is the time right to make such a change?

We've already discussed three of the reasons: the changed structure of the grain export industry, the fierce competitive pressures from foreign countries and the immediate and future cost savings that we believe could be achieved. But there's a fourth major reason why the time is right. And that's the aging of GIPSA's inspection work force.

Chart 4
FGIS Retirement Eligibility -- 10-Year Forecast
Current Population - 276 Graders & 93 Technicians



As illustrated by Chart 4, 51 percent of GIPSA's 276 official grain inspectors will be eligible for retirement in 2007. Fully 70 percent will be eligible for retirement within the next five years. Making a change now would minimize the impact on federal employees, who in many cases could opt for early retirement. We actually envision that many of these inspectors would form the nucleus of a capable and highly trained inspection work force that would be available for hiring by the independent, third-party agencies that would be authorized under the proposed amendment. Further, making a

change now would obviate the need for FGIS to engage in a costly and time-consuming hiring and training process to replenish its inspection work force.

So, given what we believe is the inevitability of making a change to ensure the affordability of official grain and oilseed inspections at export in the future, this clearly is an optimal time to act from a labor and human-relations standpoint.

The NGFA and NAEGA believe that this approach holds great promise for maintaining and enhancing the competitive position of U.S. grain and oilseed exports while at the same time retaining the integrity of U.S. inspection results and enhancing the long-term viability of government-based official inspection and weighing services.

We are not alone in holding this belief. Last week, six major farm and commodity organizations – the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, National Corn Growers Association, National Grain Sorghum Producers and U.S. Wheat Associates – joined the NGFA and NAEGA signing a letter urging Congress to adopt this approach. So did the American Association of Grain Inspection and Weighing Agencies, which represents most of the delegated private and designated state inspection agencies that currently perform official inspections for GIPSA.

Further, GIPSA's Grain Inspection Advisory Committee has weighed in on this issue, passing a resolution during its May 4-5, 2004 meeting recommending that GIPSA evaluate the benefits and methods of allowing private agencies to provide official inspection services at export grain facilities.

Conclusion

There was another time in the not-to-distant past that Congress acted to preserve the financial integrity of the official grain inspection system. During the late 1970s – a mere four years after its creation – the Federal Grain Inspection Service's administrative

overhead had grown to such an extent that the ratio of administrative/supervisory personnel to actual inspectors was a staggering 2.1 to 1. For every dollar spent by FGIS to actually inspect and weigh grain, another 82 cents was being spent to "administer and supervise" the inspection and weighing system. The situation clearly was unsustainable.

As part of the budget reconciliation bill in 1981, Congress made a critically important decision. While accepting the Reagan administration's proposal to shift these FGIS administrative and supervisory costs associated with official grain inspection to the industry in the form of a user fee, Congress adopted the NGFA's recommendation to impose a hard ceiling on those costs as a percentage of the actual cost of inspecting and weighing grain. The results were dramatic. Thanks to the legislative mandate and a dedicated new FGIS administrator and his team that set about to reform the agency, FGIS's budget within three years was cut almost in half – from $62.6 million to $38 million. And its full-time work force, which had been projected to reach 2,242 in fiscal 1982, was reduced to 853 – with no noticeable impact on the quality or integrity of official inspection and weighing services.

GIPSA is to be commended for transforming itself into a much more efficient and responsive agency, with much less administrative overhead than existed previously. But today we stand at another crossroads, in which Congress has an opportunity to give this reformed and vitally important agency the authority and flexibility it needs to improve the affordability and long-term viability of official grain inspection and weighing at export facilities. The industry pledges to work with Congress and the agency to achieve this important objective.

Thank you for the opportunity to testify. I will be pleased to respond to any questions you may have.

Review of the U.S. Grain Standards Act

Testimony
of
Garry Niemeyer
Corn Board
National Corn Growers Association

Before the
Senate Committee on Agriculture, Nutrition and Forestry

Washington, DC
May 25, 2005

Mr. Chairman and Members of the Committee on Agriculture, thank you for the opportunity to testify today on the U.S. Grain Standards Act of 2005. I am Garry Niemeyer, a corn and soybean producer from Glenarm, Illinois. I currently serve on the Corn Board and the Association Relations Committee for the National Corn Growers Association (NCGA). I am pleased to submit testimony on behalf of the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers and the National Grain Sorghum Producers and the NCGA.

Agriculture today remains the backbone of our nation's economy. American farmers and ranchers produce the most abundant, affordable and safe food supply in the world. We produce over 1.7 trillion pounds of food and fiber. Even though the number of farmers and total farm land are decreasing, agriculture products are increasing. Improved technology and efficiencies have allowed us to maximize our production per acre.

Agriculture employs more than 24 million American workers to produce, process, sell and trade the nation's food and fiber. This equals seventeen percent of the total U.S. work force. While we consume much of what we produce, about seventeen percent of all U.S. agricultural products are exported yearly, including 99 million tons of grains and feed. Corn exports in 2004 were over 47 million tons alone, and approximately half of the US wheat crop is exported annually. The United States sells more food and fiber to world markets than we import, creating a positive agricultural trade balance.

Agriculture is one of the few U.S. industries that enjoys a positive trade balance. When we move more commodities into more markets, both commodity prices and farm incomes tend to rise. During the 2002/2003 fiscal year, $56 billion worth of American agricultural products were exported around the globe. This leads directly into the topic of discussion for today's hearing, the Grain Standards Act of 2005. The farm and commodity groups I represent strongly support the reauthorization of the U.S. Grain Standards Act.

Grain inspection and weighing services by the Federal Grain Inspection Service (FGIS) are mandatory under the Grain Standards Act.

Reauthorization of the Grain Standards Act is imperative to our export markets. We have built these markets based on product availability and quality.

Since the passage of the Grain Standards Act in 1916, the U.S. has been the pioneer in providing quality assurance to overseas buyers. In fact, other countries have duplicated our services as standard guidelines for their exports. Overseas buyers continue to seek products from the U.S. because they know the official system, with its precise testing procedures, equipment criteria and conduct standard ensure accurate, consistent results. The integrity of this system, which U.S. sellers and overseas buyers rely on, should never be compromised.

However, the cost of obtaining official services at ports where GIPSA provides inspection and weighing services has become a factor that is contributing to a gradual erosion of the competitive position of U.S. grain and oilseed exports in world markets. U.S. exporters report that the cost of official grain inspection is one of the largest expense items they face. And, these costs have been increasing at a rate well above the underlying rate of inflation. GIPSA inspection costs in recent years have been increasing at more than 7 percent annually compared to other costs in the 1 percent to 3 percent range.

Moreover, exporters have limited ability to pass on increased costs because of the highly competitive nature of the world's bulk trade in grains and oilseeds. Dynamic and growing exporters such as Australia, Canada, Brazil and Argentina are increasingly challenging the U.S. in a number of important overseas markets. While these countries are working hard to narrow the cost advantage the U.S. currently enjoys because of its transportation and handling system, Brazil and Argentina already have a cost advantage over U.S. shippers in one key area: the cost of obtaining export inspection services. During an August 2004 fact finding mission, GIPSA found that Brazilian and Argentinean exporters enjoyed approximately $0.20 to $0.25 per ton advantage over U.S. exporters in the cost of obtaining export inspections for quality. Brazilian and Argentinean exporters rely on private third-party surveyors to perform official export inspections for quality.

The U.S. must better manage the cost of export inspections, take advantage of modern technologies to enhance efficiency and be flexible

enough to respond to a changing industry structure and an increasingly competitive world market. We support amending the U.S. Grain Standards Act to authorize GIPSA to delegate qualified third party companies to provide official inspection and weighing services at ports where GIPSA currently provides such services. This change offers an opportunity to provide a degree of control over costs for inspections while retaining 100 percent GIPSA oversight of the system. GIPSA's deputy administrator recently noted that technology exists to allow effective oversight of a delegated third-party inspection system that will ensure the continued integrity of the official inspection and weight certificate. If GIPSA is provided the option to use this new authority now, the change can be implemented in stages with minimal impact on GIPSA employees.

Additionally, we oppose authorizing GIPSA to collect approximately $4 million in fees that would cover the cost of the agency's standardization activities. User fees for standardization activities are an ill-conceived approach that will only serve to make effective cost management in the agency more challenging than it already is. In addition, creating new fees for standardization work is inappropriate because such activities clearly benefit the entire marketing chain. Collection of the fee would also be problematic. Fees charged as part of mandatory official exports would further reduce the value and competitiveness of U.S. exports of grains and oilseeds, and would lower producer prices. For these reasons, we urge Congress to reject any attempt to grant GIPSA the authority to collect user fees for standardization activities.

Finally, we support the continuation of the Grain Inspection Advisory Committee. It is important this committee remain representative of the industry while including farmers, exporters, grain elevators and seed dealers.

Again, thank you for the opportunity to testify today. I will restate our support for the reauthorization of the Grain Standards Act and am willing to answer any questions you may have.

Testimony of
Administrator David Shipman
on the Reauthorization of the United States Grain Standards Act
before the
Senate Committee on Agriculture, Nutrition, and Forestry

Good morning. I appreciate the opportunity to be here today to discuss the reauthorization of the United States Grain Standards Act (the Act).

Background

The Federal Grain Inspection Service was created by 1976 amendments to the U.S. Grain Standards Act (the Act) to address irregularities in the inspection of grain under the United States Grain Standards Act. The goal of creating a single Federal grain inspection entity was to ensure development and maintenance of uniform U.S. standards, to develop inspection and weighing procedures for grain in domestic and export trade, and to facilitate grain marketing.

Today's Grain Inspection, Packers and Stockyards Administration's Federal Grain Inspection Service (FGIS) continues to fulfill its mission of facilitating the marketing of U.S. grain, oilseeds, and related agricultural products under the Act.

As an impartial entity, GIPSA helps move grain from U.S. farms to destinations around the world by providing farmers, grain handlers, processors, exporters, and international buyers with information that accurately and consistently describes the quality and quantity of grain being bought and sold.

GIPSA establishes standards for quality assessments, regulates handling practices, and manages a network of Federal, State, and private laboratories that provide impartial, user fee funded official inspection and weighing services.

These activities promote fair and transparent markets, increase crop value by aligning crop quality with specific consumer demands, reduce trade disputes resulting from conflicting descriptions of crop quality and value, and

minimize the cost of transactions between buyer and seller in domestic and global markets.

Each day, buyers and sellers of U.S. grain worldwide use GIPSA's official U.S. grain standards as a common language to trade grain; rely on GIPSA's verified quality assessments to accurately differentiate quality factors for marketing and end-use purposes; and use our impartial services to obtain an official inspection and weighing certificate. In fiscal year 2004, GIPSA provided 2.6 million inspections on 246 million metric tons of grain, or nearly 61 percent of America's $50 billion total grain production, and facilitated the marketing of $14 billion of U.S. grain exports.

During the past 29 years, the structure and practices of the grain industry have dramatically changed as exporters developed closer relationships with overseas buyers to deliver the quality and quantity of grain that best meets their end-use needs. In brief, the market environment under which the 1976 amendments where established no longer exist and our trading partners have confidence in the quality and quantity of grain shipped by exporters and represented by the official inspection and weighing certificates.

Perhaps one of the best indicators of the changes that have occurred in the industry can be reflected in the number of complaints received from international buyers. In 1985, GIPSA received 74 complaints from international buyers that accounted for 2.2 percent of America's total export grain volume. By 1995, the number of complaints dropped to 30, or 1.0 percent of exports; and, last year, GIPSA received only 4 complaints on 0.1 percent of the total volume of grain exported from the United States.

U.S agriculture has transitioned from a supply- to consumer-driven market. This evolution was fueled by more open international markets; increased competition; greater consumer demand for diverse, convenient, and high quality food products; and a better understanding of animal and plant intrinsic attributes, and the interrelationship of these attributes with food/feed manufacturing. In many instances, grain traders of the 1970s have been replaced by agri-food companies that are more involved in the development, distribution, and marketing of food, feed, and fiber.

New and more intricate production and marketing processes have evolved that provide greater differentiation of crop quality from the farm to final consumer. In the export market, vessels that once loaded a single

commodity now sail with a load of diverse quality grain to meet buyers' needs around the world. Domestically, the market is increasingly segregating crops by production processes and quality attributes to meet the needs of food processors and, in turn, their customers.

Today, GIPSA maintains more than 1,400 different quality assessment terms and methods to test post harvest crops for physical condition, impurities, contaminants, and some intrinsic quality attributes. To better serve market needs in the future, we are collaborating with academia, other government partners, and the industry to identify and develop intrinsic quality assessments methods for major new food, feed, and alternative products entering the market.

Our efforts to provide the market with the information it needs to facilitate U.S. grain marketing extend beyond our borders. GIPSA's international outreach programs with major trading partners and emerging markets reduce trade disputes resulting from conflicting descriptions of crop quality and value, and maintain open markets for America's grain around the world. In FY 2004 alone, GIPSA continued long-term collaboration with the governments and private sectors of Mexico and Asian countries to minimize trade disruptions due to differences in quality assessments. Working with the government of Mexico, GIPSA established a Government-to-Government Grain Industry Consultative Group as a technical-level forum to address cross-border grain quality issues to ensure open, undisrupted markets for U.S. grain. To harmonize inspection methods and open markets for U.S. product, at the request of our trading partners, GIPSA set up grain inspection laboratories mirroring our own in Mexico, Kenya, Uganda, and Tanzania, in addition to laboratories in Egypt, Yemen, and Syria that GIPSA set up in previous years. Last year, 71 teams from 55 countries sought information on our inspection system and attended our technical grain inspection training sessions. The world looks to GIPSA to ensure fair and open markets; minimize risk and transaction costs for all involved in the marketing of U.S. grain; and to ensure the global viability of the U.S. marketing system.

Just as GIPSA is capitalizing on available technology, resources, and information to bring new and innovative services and tests to the market, we are applying available technology to improve our business operations.

We are in the process of modernizing nearly every aspect of GIPSA operations via development and deployment of enterprise-wide electronic government systems. These systems will affect all business functions -- from registering as a grain exporter to requesting grain inspection services to receiving final certified results online -- to improve internal program efficiencies and effectiveness, and service delivery to our customers. GIPSA also is reengineering and centralizing quality control functions to more effectively target resources to improve accuracy of the system with fewer field offices and personnel.

Reauthorization of the U.S. Grain Standards Act

On September 30, 2005, several authorities of the U.S. Grain Standards Act sunset and require reauthorization for the Federal Grain Inspection Service to continue operating. Specifically, the following sections of the Act will sunset: FGIS' authority to collect and invest user fees from official agencies for supervising their performance of official inspection and weighing services; FGIS' authority to collect fees to perform original inspection and weighing services; the authority to receive appropriations; the 30 percent cap on administrative and supervisory costs; and authority for the USDA Grain Inspection Advisory Committee.

We believe it is in the best interest of American agriculture that Congress extend and reauthorize these provisions of the Act for a 10-year period, from 2005-2015.

Mandatory Export Inspection and Weighing Services

GIPSA recognizes that many of our key customers are seeking change – not in our mission or role in the market – but in how we deliver services. This call for change is based on a desire for greater long term efficiencies.

GIPSA does not interpret industry as advocating complete privatization of the U.S. export inspection system (like South America's) and would not support such a change. Mandatory inspection and weighing of export grain in accordance with specific Federal requirements remain essential to ensure the integrity of U.S. grain exports. How these requirements are administered – whether by Federal/State personnel or by State/private staff under Federal oversight – should be subject to stakeholder debate. However, any change

must not compromise the fundamental principles of integrity and impartiality upon which the system is based.

As we understand the position of the National Grain and Feed Association (NGFA) and North American Export Grain Association (NAEGA), GIPSA would delegate private agencies to provide original inspection and weighing services at export port locations not serviced by delegated State agencies. The concept would be modeled after the domestic designation program, but would include 100 percent direct Federal oversight of the private workforce. The current Delegated State Agency program would remain unchanged. Exporters not serviced by a delegated State at export locations could contract with a GIPSA-approved private agency that would operate under direct Federal (GIPSA) oversight. GIPSA would not provide direct service at export, except when deemed necessary by the Secretary due to delegated agency performance or during periods of transition between delegated agencies. GIPSA would remain at export port locations, retain some service responsibilities, provide onsite oversight of each private agency, and issue final export inspection certificates.

Implementing the delegated private agency concept would require a 4-year transition period. During that period, GIPSA would promulgate required regulations; deploy improved information management systems; develop a GIPSA oversight staff; and transition by port area.

The transition would entail significant one-time costs associated with reducing the Federal staff at export port locations. We estimate the cost of implementation would be between $3 to $6 million, depending on the type of compensation packages offered to impacted employees. To cover these transition costs, GIPSA would either increase current fees or retain them at the current level for a longer period after transition, or assess a one-time transition fee to the industry.

Over time, implementing a private export inspection system in the United States could add operating efficiencies and promote the international competitiveness of U.S. agriculture if private companies can contain costs associated with providing official export inspection services better than the current Federal system.

We must carefully consider whether implementing change now will deliver long-term savings and improve American agriculture's competitive position.

The 1976 amendments to the United States Grain Standards Act specified that only GIPSA, or States delegated by GIPSA, can provide mandatory export inspection and weighing services in recognition that the integrity of the official system is central to international grain trade and must be maintained.

Changes to the official system must not compromise the fundamental principles upon which the system is based. Any change must improve the efficiency of service delivery; ensure that America has a reliable USDA-backed export inspection system; and maintain worldwide recognition of and confidence in the integrity and accuracy of the USDA certificate. The proposal of the industry establishes a framework for changing the delivery of services without compromising the integrity of the official system.

Conclusion

GIPSA is an integral part of America's grain handling infrastructure -- a superior infrastructure of storage facilities, rail lines, and waterways that makes American agriculture preeminently successful in the global marketplace. We recognize our role and will continue to provide all members of the U.S. grain handling system with the innovative, high-quality official inspection services they need to efficiently and effectively meet the challenges of a changing marketing environment.

The U.S. grain inspection system has gained worldwide recognition for its accuracy and reliability. Maintaining and strengthening this recognition in the future – regardless of how and by whom official services are delivered to our customers -- is essential for the economic health of American agriculture – from producers to exporters.

I appreciate the opportunity to address the Committee and I will be happy to respond to your questions.

DOCUMENTS SUBMITTED FOR THE RECORD

MAY 25, 2005

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

REVIEW OF U.S. GRAIN STANDARDS ACT

MAY 25, 2005

STATEMENT OF SENATOR HARKIN

RANKING DEMOCRATIC MEMBER

The Committee will reauthorize the Grain Standards Act this year. This important law does not garner much press or publicity, but the implications of it are far-reaching for the grain and oilseeds industry. I want to commend the Chairman for holding this hearing today to help shed light on this needed reauthorization. This hearing provides an opportunity to see what is working and where needed changes would improve current inspection and weighing services.

As with any reauthorization, stakeholders in the industry will suggest modifications to make a law more responsive, flexible or reflective of current industry needs. I support efforts to make the Grain Standards Act more flexible and cost effective, especially given the increased competitiveness of today's global market system. However, any changes to the law must be carefully considered. We must balance potential benefits and possible unintended consequences.

Under current law, federal inspections are voluntary for domestic sales. If the parties to a transaction request a federal inspection, that inspection is conducted by a designated private company or state inspector. In contrast, bulk grain exported outside of North America must be inspected by a federal inspector or an employee of a state agency that has been delegated authority by the Federal Grain Inspection Service.

The National Grain and Feed Association and the North American Export Grain Association propose allowing export inspections by federally-supervised private inspectors to reduce the cost of inspections and improve industry competitiveness in the global arena. I am sympathetic to concerns about the cost of official inspections, however, it is unclear whether significant cost savings will be realized from privatization. It is also not clear how our foreign customers would respond to a privatized system.

In 1976, Congress federalized grain inspection and weighing services for a good reason - to regain our customers' trust, which was lost after a series of fraudulent and criminal misconduct by licensed private inspectors at export locations. The United States has established a strong reputation based on the current federal grain inspection system. It would be a poor bargain to save a few cents per ton on inspection costs if the end result is a loss of customer confidence and reduced sales by U.S. farmers and exporters.

As this Committee moves ahead with reauthorization of the U.S. Grain Standards Act, I look forward to working with the Chairman and members of the Committee to ensure that U.S. grain inspection is accurate, reliable and respected internationally.

Statement of Senator Thad Cochran

Senate Agriculture Committee Grain Standards Act Reauthorization Hearing

May 25, 2005

Mr. Chairman, I would like to thank you for holding this hearing to review the United States Grain Standards Act. I also want to thank the panelists who will testify today.

The United States is the world's leader in food and fiber production, and the Grain Standards Act has played a key role in keeping U.S. grain competitive in the world market. This reauthorization hearing provides the Committee with an opportunity to review the framework and utility of the Grain Standards Act.

Today's grain markets handle a greater diversity of grain quality than ever before. We must continue to address the grain quality concerns of international market participants, improve the efficiency and quality of inspection in our weighing system, and work with our trading partners around the world as they develop their own grain standards and grading systems.

Mr. Chairman, I believe that the United States Grain Standards Act has served our country well, and I look forward to working with my colleagues to ensure its continued effectiveness. We deeply appreciate the participation and assistance of all the members of the witness panel.

Statement of Senator Debbie Stabenow
Senator Agriculture Committee
Hearing on Review of the U.S. Grain Standards Act
Wednesday, May 25, 2005

Mr. Chairman, thank you for holding this hearing today. Michigan is not typically thought of as a grain producing state – we are usually thought of as a highly diverse specialty crop state. While this is true, it is also a fact that two of our top three commodities in terms of cash receipts are soybeans and corn. For this reason I am very interested in today's hearing.

This committee has a couple of bills related to reauthorization of the Grain Standards Act pending before it, so I look forward to hearing from our witnesses this morning. I want to thank them all for coming and for giving us their views on current implementation of the act.

The Federal Grain Inspection Service (FGIS) is a fee-for-service agency, which makes it very important to farmers that the fees are kept as low as possible for the service they are receiving. Since reauthorization of fee collection is a major component of any legislation that this committee will consider, I am interested to hear from all of the witnesses about the current level

of service and any potential increases in user fees. In 2000, Mr. James Baker who was then the Administrator of Grain Inspection for USDA, presented testimony to the House Agriculture Committee in which he stated that the cost of FGIS export services was lower per metric ton than it was during the 1994 reauthorization. This was certainly welcome news in 2000 and I am curious to hear about the current cost of the program and future cost estimates.

I also understand that there are eminent staffing issues at the agency. Like many other federal agencies, a large part of the FGIS workforce is on the cusp of retirement. I hope that Mr. Shipman will let us know if there are actions that this Committee needs to take to ensure that qualified new staff is hired and that there is no gap in the service provided to farmers who are selling their grain for export.

Thank you, Mr. Chairman.

June 1 2005

To: Honorable Members of the Senate Committee on Agriculture, Nutrition, and Forestry

From: Kathryn McCaw, National Council of Grain Inspectors Locals

Subject: Supplementary Testimony

Privatization is all about money, whether it is saving money or making extra money by controlling grade results. At past Reauthorization hearings, members of Congress have always been given opposing viewpoints, the pro and cons for privatization, the benefits and dangers to American Agriculture. Your decision in this matter would then be based on a balanced palate of information and concerns.

This time around is very different, because Dave Shipman, who should be alerting you as to privatization's risks, is promoting his own plan to privatize; at the hearings, his testimony was carefully matched to that of private industry. My testimony on behalf of field inspection personnel and our foreign buyers was clearly inadequate in the face of the combined forces and resources of Shipman/Industry and the drive for increased profits. For this reason it is my duty to push further with this supplementary testimony.

In testimony, both Industry and Shipman claimed that today's market is different, so privatization has lost its inherent risks. Neither party explained ***how*** pressure for profits and our human natures's greed has somehow dissipated, nor did they explain ***why*** the game of business is any different than it was at the time of the grain scandal. In truth these conditions have not changed at all, they are inherent to our existence and the function of business. We still need our customers, and the great import and significance that our foreign buyers have always placed on trust and integrity have not magically dissipated.

What has surely changed is the nature of the market. In 1976 we were the bread basket of the world, and as angry as we made our customers, they had to come back to us to eat. The difference in today's market is that through our outreach efforts we have taught the world to feed themselves. We are no longer the sole source, we have to compete with the world's other grain growers. Our global market share is no longer guaranteed.

In simple terms, your actions on Reauthorization will definitely affect the United States' balance of agricultural exports, and if you make the wrong decision here American Agriculture will suffer long-term financial and structural damage.

Grain inspection cannot be successfully accomplished by remote control. In 1976 there was federal oversight of inspection and weighing in place, but the grain scandal happened anyway. You have to understand the nature of grain inspection to see how easy it is for industry to control their own grades. Wheat kernels are roughly ¼ of an inch long, and our grading portion is 1000 grams (just over two pounds).

There are approximately 33,200 kernels per grading portion. We use grading picks (tweezers) to pick up and turn over individual wheat kernels for complete examination. This hands-on procedure is the only way to accurately ascertain the type and quality of the grain being shipped. At export the grain we examine is blended from sources across the western half of our United States. Damages and varietal differences that determine grade are examined kernel by kernel, characteristics that are most often subtle and subjective. The first problem with Dave Shipman's supposed 100% oversight of inspection is simply that to see these kernel characteristics you must have the kernel about 8 – 10 inches from your eyes, in unhindered specified light conditions (candles per foot). You are only close enough to see the actual wheat kernel if you are the one sitting over the sample, picking it up and turning it. Oversight is not possible. That is why the Grain Scandal of 1976 happened with federal oversight in place, and that is why it can so easily happen again with the proposed privatization.

Industry will certainly profit by gaining control of their own grades. Shaving one one-hundredth of a percent from a grade factor (so easily done with no paper trail) guarantees additional profit, and is easily realized by minimal pressure on a private inspector whose job is dependent upon industry profits. This vulnerability of the non-federal grain inspector was the basis of the grain scandal of 1976.

The model of privatization in the domestic market is not relevant to the privatization of export inspection because domestic inspectors encounter pure samples of known varieties, which are easier to grade. Export inspectors see blended grain from multiple and unknown sources that industry has mixed with the purpose to push contract limits to make profit. Grading difficulty is increased astronomically. Domestic grading versus export grading is akin to comparing apples and oranges. Also, Dave Shipman's testimony that interior grain shipped to Mexico proves that privatization is successful at export can be easily debunked by simply comparing contract requirements from an unbiased cross-section of our few Mexico purchases with the contract requirements of our Eastern Rim trading partners (which comprise the bulk of US agricultural exports). Again, it is apples and oranges.

On the matter of controlling integrity of export weights, the testimony you heard is even more bazaar and misleading. During testimony you were given a very impressive list of Industry's endorsements for privatization. In order to get those endorsements, Industry had to add a very important condition to the privatization proposal they made to their membership and associates. That condition (listed in their most current newsletter – attached) is that privatization of federal inspection at export would only be possible at sites ***with automated weighing and handling systems in place.*** While these automated systems do nothing to control inspection integrity, they do in fact provide significant and accurate oversight of shipment weights.

The bazaar aspect of the testimony is that Dave Shipman's proposal to carry out the privatization does not include this ***Industry-driven*** condition. His proposal is to privatize Ohio first, and Portland, Oregon second. Neither of these locations even has automated weighing and handling systems in place. Shipman's third scheduled privatization site is Texas, which is only partially automated. He has scheduled our nation's only fully automated site (Louisiana) last in 2009.

NAEGA's conditional requirement for automated systems, which procured for them Industry's endorsement of privatization, has been magically excluded from the privatization plan by Dave Shipman. There is no right or good or healthy answer for this decision. There certainly is a dangerous game being played here, a definite conflict in the facts presented to you. It is beyond me and my limited resourses to grasp who is playing who or what or why, but this is a major discrepancy that demands immediate clarification. Industry's proposed requirements of automated weighing and handling systems is integral to your consideration, because the endorsements you heard are based on that proposal. Their proposal may very well be an honest offering. Dave Shipman's exclusion of the condition is without merit or justifiable cause, but whether or not Industry is aware of his plan is an unknown. If they are aware, then the endorsements they offered to you in testimony are empty and meaningless. If Dave Shipman is the sole owner of this plan, then Industry as well as the Congress are being played here.

As a 27 year employee, I know that Agency support of privatization is unprecedented. I know that Shipman's relationship with export field inspection crews is adversarial at best, because we question that his choices are unhealthy for industry, and we question why his Agency yearly overhead (Washington DC and Kansas City) salary cost has increased to nearly $9 million dollars when reduction in the number of field employees has been dramatic with further reductions proposed. We made him admit that our hourly fees have been siphoned off to pay for his costly overhead, and then questioned why the ensuing increase in our hourly fees were conveyed to Industry as solely field-based costs. We stopped his avarice-based RIF attempts, which labeled older employees and veterans as "duds". We questioned his unprecedented and unjustified hourly rate increase of 30% last year, which is crippling Industry and has brought this privatization issue to a head. We question the unprecedented high rate of discrimination and harassment complaints he continues to incur. We ask difficult and uncomfortable questions, and will continue to do so because truth and fairness are the basis of this Agency's integrity.

I will now repeat the key emphasis of my original testimony, that the question of privatization is absolutely larger and more far-reaching than my job or the Agency's desire to eliminate its employee relations problems. This is about the health of the US Agricultural Industry, and the assurance of integrity that the United States now commands, without question, across the global business of grain.

The need for industry financial relief is without question. But the numbers behind privatization savings are not proven, nor have they been tested to a minimally reasonable extent by anyone (unbiased) outside of the Industry or Dave Shipman-controlled Agency processes.

The risks of backlash from our foreign buyers and damage to American Agriculture are a clear and present danger, even though they were not included in testimony offered to you at the hearing. Privatization raises more questions than it supplies answers. The future may hold a place for the concept, but today it is a rush-job inadequately planned with conflicting intents and motivations. With the health of American Agriculture on the line, you deserve to have all of the facts clearly defined, no questionable motivations pending, a far-reaching plan that includes a contingency escape hatch when privatization doesn't work, a true and completely transparent outlined plan that answers all concerns and market factors, and an as yet untouched investigation as to the risks involved. The actual process of grain inspection and integrity control is complex and complicated. The nature of the beast has not been provided to you for study or analysis, but yet you are being asked to modify the process.

Privatization is a fast-moving freight train on an untested and as yet undefined track. Please stop the process long enough to get all of the unbiased facts. Find out who is playing who, who is playing you, and please safeguard American Agriculture and our balance of export trade. At best Reauthorization should be passed as is, and at the least privatization should not be considered or accepted until the facts and truths have had time to catch up with the proposals. To fully investigate all aspects of privatization, including its grave risks, is not possible in a week or even a month or two. Make us all complete this investigation fully and honestly, with no games and without this unnecessary rush. Make us give you all of the information, all of the tools, and also the time necessary, for you to make the right decision. Stop the train until we make it so.

Thank you for your time and patience. This is not an easy issue to define or answer. I will be grateful to answer any additional questions you might have.

NGSP Testimony Submitted for the Record
Senate Committee on Agriculture, Nutrition and Forestry
Grain Standards Re-Authorization Act Hearing
May 25, 2005

At the request of the National Grain Sorghum Producers (NGSP), USDA's Grain Inspection, Packers and Stockyards Administration (GISPA) initiated a review of the Grain Standards for sorghum on December 17, 2003. At that time, GIPSA printed in the Federal Register a request for public comment on changing the U.S. standards for sorghum. In it comment on the rule, NGSP stated that it welcomes the opportunity to clarify several definitions in the current standards to more accurately reflect advancements in sorghum genetics and to better reflect what is relevant to deriving value in the marketplace.

NGSP continues to work diligently with sorghum plant breeders and the seed industry to improve the quality of our crop by removing tannins, and NGSP feels that the grain standards should reflect those quality improvements. NGSP would also like to update old, outdated language in the sorghum section of the Standards. Next, NGSP encourages GIPSA to change sorghum's current grades and grading factors thereby allowing cleaner sorghum to move in the market. NGSP is requesting that GIPSA change the U.S. Standards for sorghum to clarify several issues to more accurately reflect sorghum grain quality concerns as they stand today. Finally, NGSP encourages GIPSA to promptly implement these changes, and other changes to grain standards, so that the U.S. can continue to be a leading exporter of clean grain.

Our first, and most important concern, is that the Standards need to be changed to reflect that no commercial grain sorghum hybrids in the U. S. contain tannins, which are present only in the presence of a pigmented testa. This result has been achieved through intensive sorghum breeding programs that have been able to eliminate tannins from commercial varieties. This is a very important change to the sorghum industry, and that change needs to be reflected in sorghum Standards. Some foreign buyers of sorghum still believe that grain sorghum from the U.S. have tannins, since the current standards indicate that sorghum is "low in tannins". In fact, NGSP annually fields questions from international buyers regarding tannins in U.S. sorghum.

Currently, in the U.S. Standards for Sorghum- Subpart I, 810.1402, there are four classes of Sorghum: Sorghum, Tannin Sorghum, White Sorghum and Mixed Sorghum. We would like to revise the definition of Sorghum, Tannin Sorghum, and White Sorghum to more accurately define them, while leaving the Mixed Sorghum definition alone. Currently, the definition for Sorghum and White Sorghum both contain the words "low in tannin content due to the absence of a pigmented testa (subcoat)." Today, NGSP can show that no commercial grain sorghum contains tannins or a pigmented testa.

The sorghum industry has worked hard to remove tannins from sorghum. The hybrid seed industry has focused on this problem and has worked to develop grain sorghum hybrids without tannins. It has been a priority for the industry, and tannins were almost

removed from sorghum when Congress reauthorized the Grain Standards Act in 2000. Making this important change will more accurately describe sorghum raised in the U.S. and more accurately reflects what our domestic and export buyers want. Sorghum users, especially those using it for livestock or poultry feed, do not want tannins present because they will significantly decrease the feed efficiency. Because of this, the NGSP has worked diligently with private industry to eliminate tannin sorghums from commercial hybrids grown in the U.S. There are some tannin sorghums that are still used as pollinators or male lines to produce very limited forage sorghum hybrids, which would not be harvested for grain.

With this change in the sorghum plant, NGSP would like to see the definitions under section 810.1402 of the Official United States Standards for Grains changed to update three of the four classes to more accurately reflect the amount of tannins in sorghum and to update and clarify the definition of nonsorghum. NGSP has worked with USDA's field staff to develop these proposed definitions. Our suggested changes would be as follows:

(1) *Sorghum*. Sorghums which are tannin free due to the absence of a pigmented testa (subcoat) and contain less than 98.0 percent White Sorghum and not more than 3.0 percent Tannin Sorghum. The pericarp color of this class may appear white, yellow, red, pink, orange or bronze.

(2) *Tannin sorghum*. Sorghum which contain a pigmented testa (subcoat) that is associated with the presence of tannins and contains not more than 10.0 percent non-Tannin sorghum. The pericarp color of this class is usually brown or red but may also be white, yellow, red, pink, orange or bronze.

(3) *White sorghum*. Sorghum which is tannin free due to the absence of a pigmented testa (subcoat) and contains not more than 2.0 percent sorghum of other classes. The pericarp color of this class is white or translucent and includes sorghum containing spots that, singly or in combination, cover 25.0 percent or less of the kernel.

Also in this section of the Standards, NGSP asks that USDA change the definition of the term nongrain sorghum to, (h) "Nongrain sorghum: sorghum classified as a wild or weedy relative of the Sorghum species."

Again, these terms are so out dated that the organization seeks to update the definition to more accurately define nongrain sorghum that exists today. The current definition for nongrain sorghum is: "Seeds of broomcorn, Johnson-grass, Sorghum almum Parodi, sorghum-sudangrass hybrids, sorgrass, sudangrass, and sweet sorghum (sorgo)." Many of these sorghums are no longer commercially cultivated.

For example, Broomcorns are sorghums that were most likely developed in the Mediterranean region from material imported from either India or Africa. It is said to have been introduced into the U. S. by Benjamin Franklin in the 1700s and considerable development of this sorghum took place after their introduction. However, in terms of commercial use here in the U. S. today, very little of them is grown. In fact, it is quite

difficult to find it here in the U.S., and it might be limited to a few farms specializing in traditional farming and farming products.

Sweet sorghum or sorgo was introduced into the United States from Natal by Peter Wray in about 1857. These were tall sorghums that had little grain potential, but made for excellent forages or syrup. There are some sweet-stemmed sorghum grown in the United States to meet the demands for sorghum syrup; however, the term "sweet sorghums" has been seriously misrepresented to include everything that has sweet stems. Many of the new dual-purpose forages have sweet stems and produce more palatable silage; however, the fact that it is sweet stem does not reflect in its ability to produce grain. Many of the new dual-purpose forages have sweet-stemmed sorghums and produce grain that is the same as the short grain sorghum hybrids.

Our second concern is that the sorghum industry wants to clean up the overall quality of its grain. Currently, sorghum's grain standards allow more foreign material than other feed grains, like corn; that fact frustrates sorghum end users when they purchase lower grades of sorghum. Cleaning up sorghum allows an easier transition when end users are substituting one starch, corn, for another starch, sorghum. NGSP members want the grain standards for sorghum to clean up the grain to provide a consistent product of starch (sorghum or corn) for our end-user.

Also, changing the standard will allow for greater consistency between corn and sorghum; this is a priority for the sorghum industry and handlers of the two commodities.

Under section 810.1404 – Grades and grade requirements for sorghum, NGSP would like to change its grading factors to more accurately reflect the characteristics that are important to the users of sorghum, and to update its factors to more accurately reflect the grain. For example, USDA's use the test weight per bushel as the standard for U.S. Grade Nos. 1 for all commodities, while sorghum test weight for U.S. grade Nos. 1 has been one pound heavier. Currently for sorghum to be U.S. Grade Nos. 1, it must be one pound heavier than its test weight per bushel, the only commodity with that situation.

NGSP proposes that the Grading Factors be tightened for sorghum in the following manner:

	Grades U.S. Nos.			
Grading Factors	1	2	3	4
Test weight per bushel:	56	54	52	49
Damaged Kernels				
Heat	0.1	0.2	0.5	1.0
Total Damaged Kernels	2.0	5.0	7.0	10
Foreign Material (FM) and Broken	2.0	3.0	4.0	5.0

Sorghum Kernels				

Making these changes will significantly strengthen the grade and grading factors for sorghum.

For example, the total damaged kernels (see chart below) for U.S Grade Nos. 3 sorghum has changed from 10 % to 7%, and for U.S. Grade Nos. 4 sorghum, it has changed from 15% to 10%.

Grade	Existing Sorghum for total damaged kernels	Proposed Standard for total damaged kernel
1	2	2
2	5	5
3	10	7
4	15	10

Also, the proposed change tightens the foreign material and broken kernels from:

Grade	Existing Sorghum standards for FM and broken kernels	Proposed standards for FM and broken kernels
1	4	2
2	7	3
3	10	4
4	15	5

Finally, NGSP asks that USDA implement these changes as quickly as possible. NGSP believes strongly that these changes will more accurately reflect the modern sorghum plant and improve on the cleanliness of U.S. sorghum

QUESTIONS AND ANSWERS

MAY 25, 2005

QUESTIONS SUBMITTED BY SENATOR HARKIN
DAVID SHIPMAN

1. During the hearing it was suggested that Brazilian exporters may have a twenty to twenty-five cent cost advantage for quality inspections compared to U.S. exporters. Based on Federal Grain Inspection Service evaluations, what are the elements of total cost for both U.S. and Brazilian inspections and what are the cost differences for each element between the two systems?

Response: Comparing and contrasting U.S. and Brazilian inspection costs are complicated due to the interrelationship of quality and phytosanitary activities, and labor costs, and because the countries' respective inspection systems, practices, and quality control programs fundamentally differ.

In the United States, GIPSA inspection costs (fees charged for official inspection and weighing) average $0.34/mt. In addition, a stowage examination fee of approximately $0.007/mt and phytosanitary fee of $0.001/metric ton are incurred for an overall average inspection cost of $0.348/mt in the United States. Brazil's average inspection cost is $0.10-$0.15/mt. The table below compares inspection costs in the United States and Brazil.

Inspection Activity	**United States**	**Brazil**
General Grading	$0.34/ton (GIPSA FY 04 Average)	$0.10-0.15/ton average
Additional Quality Tests	Included	Vary based on contract specifications (minimum cost due to composite analysis)
Stowage Examinations	$51/shiphold or $0.007/ton*	Included
Total Quality (grading, sampling, and stowage)	$0.347/ton	$0.10-$0.15/ton
Total Weighing	Included	Included
Total Phytosanitary	$50/certificate or $0.001/ton*	Proposed Yearly, MY '05 $300/entity + $100/product
Total Inspection Fee (quality, weighing, and phytosanitary)	$0.348/ton	$0.10-0.15/ton
Other Information		
Export Grain Volume	104,922 MMT	16,251 MMT
Gross National Income per capita	$37,610	$2,710
Grain inspector	$55,000-$60,000	$7,000

yearly earnings		
Labor Allocation, as percentage of total inspection fee	85%	90%

* Based on average seven- hold, 50,000-ton vessel.

2. Are the reliability and integrity of grain weighing and grading procedures conducted at export in Brazil and Argentina regarded in world grain markets as equal to those provided by the inspectors and technicians who are employees of the Federal Grain Inspection Service? If not, please describe the differences.

Response: The U.S. government maintains stringent controls to ensure the accuracy of the final inspection certificate for export grain quality and quantity. In Brazil, the government is not involved in export quality and quantity certification. Brazil's inspection system is privatized with limited government oversight of phytosanitary issues, stowage examinations, and, to a lesser extent, of quality certification. The Brazilian government accredits private surveyors and/or companies to perform inspections.

While both the United States and Brazil rely on internationally recognized reference methods for quality factors such as moisture, protein, oil, and mycotoxins, and maintain written procedures on the application of quality grain standards, the United States uses more robust and stringent evaluation, approval, and control processes to meet the high level of accuracy and consistency demanded by the U.S. grain market participants. The U.S. market requires accurate and consistent grades and grain quality factor results across different geographical locations to provide market transparency and minimize trade disruptions for market participants. This, in turn, requires a level of control exceeding that observed in Brazil, including the United States' more representative sampling requirements, equipment evaluation and approval processes, and ongoing (daily) quality control and assurance of all inspection personnel and instrumentation correlated to reference methods at a central technical center. The United States' highly controlled government inspection process allows our exporters to mitigate risk related to grain quality by targeting quality closer to contract specifications than can their counterparts in Brazil, and has gained worldwide recognition for its reliability and accuracy.

3. If the Federal Grain Inspection Service were given the authority to replace federal inspection personnel with delegated private inspectors, please describe the oversight procedures FGIS officials would follow to ensure the private grain inspectors continue to uphold the U.S. grain standards and ensure the confidence of our export customers in the quality of U.S. grain.

Response: GIPSA would require 100-percent onsite Federal oversight of delegated private agencies, i.e., a GIPSA employee would be at each export port facility at all times during the inspection and weighing of all vessels to monitor the activities of the private delegated agency employees. The final certificate for the vessel would be issued by

GIPSA providing the delegated private agency performed in accordance with all GIPSA requirements.

Delegated private agencies also would be subject to the same quality assurance/quality control requirements currently in place for Federal and delegated State employees performing export inspections, and operate under GIPSA's comprehensive quality assurance and control system that measures and documents the performance of inspection instrumentation and personnel.

Finally, the performance of each delegated private agency would be thoroughly reviewed every 3 years – or more frequently if necessary – to ensure they are meeting all delegation criteria. Agencies that fail to meet the delegation criteria or perform as required will have their delegated authority revoked.

4. Has USDA surveyed our foreign customers as to their views on privatization of export inspections? If USDA has conducted such a survey, what were the results? If not, should such a survey be undertaken before the legislation is completed?

Response: USDA has not conducted a survey of importers regarding their views on privatization of export inspections. Should more privatization be introduced into the export inspection program, it should be transparent to all international customers that direct Federal oversight would continue to protect the integrity of the system.

5. What is the USDA estimate of future increases in federal inspection costs under the current system?

Response: The Agency's historical data indicates that export program costs have risen on average 3.03 percent annually since FY 2000. Based on the Federal export program's historical trend, GIPSA estimates that the current cost of $0.34 per metric ton would increase to $0.43 by FY 2014 assuming an inspection workload of 80 million metric tons each year.

6. If the export inspection services are privatized, what is the USDA estimate of future increases in private inspection costs?

Response: If export inspection services are privatized, we estimate that GIPSA's oversight rate of $0.11 per metric ton will increase at the historical 3.03 percent annually while private agency costs will increase at a rate of 2.35 percent annually based on a historical 12-year average of the Consumer Price Index. Using a constant inspection workload of 80 million metric tons, the DPA program cost would increase to $0.36 per metric ton by FY 2014, a difference of $0.07 per metric ton from the federal status quo fee. Included in this scenario is the assumption that a two-year transition period will be needed in FY 2008 and FY 2009 requiring an additional $6 million in program costs for federal employee buyouts. The comparison of a status quo federal program to a Designated Private Agency program using Agency estimates is shown in figure 1 below.

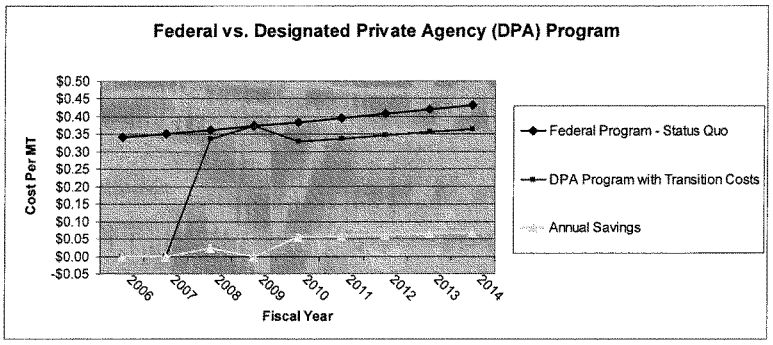


Figure 1

7. If the export inspection services are privatized, what is the USDA estimate of the annual increase in federal oversight costs?

Response: If export inspection services are privatized, we estimate that GIPSA's oversight rate of $0.11 per metric ton will increase at the historical 3.03 percent annually.

8. The present federal system was adopted in the aftermath of major scandal. Hence, the current federal inspection system provides a level of autonomy and protection from outside influence for federal inspectors. Can a private inspection system provide the same level of integrity as the current federal system? How would it be done?

Response: Many of the problems in the 1970s that resulted in the establishment of the current Federal and State structure for export grain inspection involved incorrect weights and fraudulent sampling and grading practices carried out by private inspection firms owned or controlled by the grain industry. Over the past 29 years, GIPSA has worked with the grain industry to introduce automatic samplers, scales, and handling systems that permit enhanced performance monitoring and minimize the opportunity for misuse. GIPSA has also introduced video surveillance systems to monitor facility operations, and implemented information systems and analytical instrumentation that has reduced or eliminated operator involvement and automatically documents quality results. We have also developed a comprehensive quality assurance and control system that measures and documents the performance of inspection instrumentation and personnel. Finally, we are further enhancing operations by developing an enterprise-wide electronic government system. The new system embeds quality assurance requirements into daily operations to prevent errors from occurring and to highlight potential high-risk activities requiring immediate attention by supervisory personnel. In brief, many areas vulnerable to error or misuse have been eliminated or better controlled through technology advances.

However, grain inspection involves individuals' subjective determinations, and is not free of vulnerabilities. The introduction of private firms, if enacted by Congress, must be

accomplished in a manner that provides adequate safe guards, such as 100-percent Federal oversight at each facility.

Senator Stabenow Questions for the Witnesses – May 25, 2005 Hearing

Question for Mr. Jerry Gibson

1. In your written testimony you strongly oppose any increases to FGIS user fees for standardization activities. Could you please elaborate? Do corn exporters typically absorb all of the increase in user fees? Or are they passed on to farmers?

Response: No response was received.

Grain Inspection, Packers and Stockyards Administration Response to Question from Senator Debbie Stabenow (D-MI)

Question for Mr. Shipman and Mr. Niemeyer

1. In past conversations about reauthorization of the Grain Standards Act, grain exporters have requested that the federal government provide testing for specific value characteristics that processors need. For example, the government would test to prove that soybeans are edible soybeans instead of oil processing soybeans. Is this something you think USDA should do?

Response: Yes. USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) has a long history of working with stakeholders, customers, and partners to provide tests for specific characteristics so that the market may better assess the true value of grains and oilseeds. Commercial (non-GIPSA-authorized) laboratories provide many quality measurement services to the grain and oilseed industry, and serve a very useful purpose. However, as markets mature, they need standardized testing services over a broad geographical area. Participants in the market support government standards and official system service delivery, both to improve overall market efficiency (i.e., to prevent discrepancies between independent laboratories), and to promote greater price transparency in the market, an important factor for farmers who deliver a specific quality to market and seek a fair price for the enhanced value of their product. USDA's value in the market is derived from its ability to reach a consensus on recognized national and, in some instances international, reference methods for measurement and the national standardization of multiple locations providing testing services. GIPSA offers testing for soybean oil and protein, attributes of interest to processors; corn oil, protein, and starch, attributes of interest to millers and feed formulators; and wheat falling number, an attribute of interest to millers and bakers.

As the market continues to become increasingly consumer-, and not supply-, driven GIPSA will provide information on specific value characteristics.

For example, GIPSA has initiated a collaborative effort with the National Corn Growers Association (NCGA) and the United Soybean Board (USB) to develop national-level, standardized testing methods for attributes, including fermentable starch in corn and linolenic acid in soybeans. A rapid test for the level of fermentable starch will provide ethanol manufacturers a clearer indication of the value of input feedstock. Likewise, an accurate test to measure linolenic acid levels in soybeans will ensure that producers receive suitable payment and end users receive the level of linolenic acid they need to produce healthier food products. GIPSA has requested funding for these initiatives in its FY 2006 budget.

GIPSA is also working with various segments of the soybean industry to enhance the compositional traits of U.S. soybeans, meal, and oil, and make U.S. soybeans more attractive to international market. In the wheat arena, GIPSA is developing a rapid test for wet gluten strength and other functional wheat quality attributes in an effort to better differentiate the quality of wheat for the many finished products produced around the world. Wheat that makes an excellent loaf of bread is not the same wheat needed to make fine Asian noodles. Being able to rapidly differentiate the various functional qualities of wheat throughout the market will allow America to better align wheat quality with specific end users' needs around the world.

With funding requested in the President's 2006 budget, GIPSA will continue to identify the specific quality factors the market needs most, and introduce technologies into commerce to measure those attributes. Through our work, all involved in the marketing of U.S. grains and oilseeds - - from producers to end-users - - can more accurately market and receive the full value of their products.

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