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IMPLEMENTATION OF THE GRAIN STANDARDS ACT OF 1976

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING, AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 592

A BILL TO ESTABLISH AN ADVISORY COMMITTEE TO PROVIDE CONSULTATION AND ADVICE TO THE ADMINISTRATOR OF THE FEDERAL GRAIN INSPECTION SERVICE AND TO AMEND THE UNITED STATES GRAIN STANDARDS ACT WITH RESPECT TO SUPERVISION FEES AND RECORDKEEPING REQUIREMENTS

AND

S. 593

A BILL TO AMEND THE UNITED STATES GRAIN STANDARDS ACT WITH RESPECT TO RECORDKEEPING REQUIREMENTS, AND TO ESTABLISH AN ADVISORY COMMITTEE TO PROVIDE CONSULTATION AND ADVICE TO THE ADMINISTRATOR OF THE FEDERAL GRAIN INSPECTION SERVICE

FEBRUARY 3 AND 4, 1977

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IMPLEMENTATION OF THE GRAIN STANDARDS ACT OF 1976

THURSDAY, FEBRUARY 3, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, in room 6202, Dirksen Senate Office Building, at 10:05 a.m., Hon. Walter D. Huddleston (chairman of the subcommittee) presiding.

Present: Senators Huddleston, Clark, Melcher, Young, Bellmon, Hayakawa, and Dole.

Also present: Senator Anderson.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. The subcommittee will come to order.

In 1976, in an effort to correct irregularities in grain inspection and weighing practices and to restore integrity and confidence in American-produced grain, the 94th Congress enacted the U.S. Grain Standards Act of 1976.

This law established within the USDA the Federal Grain Inspection Service. At present, FGIS is begining the massive job of implementing the many changes made by the 1976 Grain Standards Act.

But already, as chairman of the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, I am being advised of problems in its implementation—problems that touch on the central objective of the entire act, the orderly marketing of grain.

I am holding these hearings today and tomorrow to learn more about these problems and, hopefully, to find some answers.

This does not mean that we are here to debate questions already resolved by the 94th Congress. We are here to make sure that the many changes made by the 1976 amendment are implemented properly, so that the smooth functioning of the grain marketing system is not hindered by the new procedures in the law—after all, the central objective of the Grain Standards Act is to facilitate the marketing of grain in an orderly and timely manner.

Senator Dole and I and others have introduced legislation yesterday which, I believe, will help substantially in resolving the problems that have arisen. The staff has made copies available earlier this morning.

Briefly, that bill would ease the difficulties many grain elevator operators are having with the recordkeeping requirements of the 1976

act, and establish a joint farmer-consumer-industry advisory committee to assist the Federal Grain Inspection Service in implementing the new inspection and weighing provisions of the act.

Although I realize it is short notice to the witnesses, I would ask that they specifically include in their testimony their views on these two bills.

Do either of these bills contain all or at least part of the solutions to the problems that brought you here to Washington? If not, what additionally needs to be done?

Practically speaking, new legislation may not be necessary to resolve all the issues you have raised about the new law.

Increased mutual understanding between the grain merchandisers and elevator operators who do so much to make the grain marketing mechanism work, and a joint commitment by all to fuller cooperation, may provide the answers to many of your questions.

Therefore, although we, as a legislative body, seek your views on needed improvements in the law, I hope that these hearings will also serve to open answers to alternative solutions of these problems and will foster increased cooperation among all concerned with the successful implementation of this basic and necessary marketing act.

[S. 592 and S. 593 follow:]

95TH CONGRESS
1ST SESSION

S. 592

IN THE SENATE OF THE UNITED STATES

FEBRUARY 2 (legislative day, FEBRUARY 1), 1977

Mr. DOLE (for himself, Mr. CLARK, Mr. CURTIS, Mr. DANFORTH, Mr. EAGLETON, Mr. HUDDLESTON, Mr. HUMPHREY, Mr. MCGOVERN, Mr. PEARSON, Mr. TALMADGE, Mr. TOWER, and Mr. YOUNG) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To establish an advisory committee to provide consultation and advice to the Administrator of the Federal Grain Inspection Service and to amend the United States Grain Standards Act with respect to supervision fees and recordkeeping requirements.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to assure the normal movement of grain in an orderly and timely manner, the Secretary of Agriculture shall establish, within thirty days after the effective date of this Act, a temporary advisory committee, consisting of not more than seven members representing the interests of grain producers, consumers, and all segments of the grain industry

including grain inspection and weighing agencies, to provide consultation and advice to the Administrator of the Federal Grain Inspection Service with respect to the implementation of the United States Grain Standards Act of 1976, as amended by this Act.

OPERATIONS OF THE ADVISORY COMMITTEE

SEC. 2. (a) The advisory committee shall be governed in full by the provisions of the Federal Advisory Committee Act, except as inconsistent with this section.

(b) The Secretary of Agriculture shall provide clerical assistance, staff personnel, and quarters to the advisory committee, adequate for the advisory committee to carry out its duties.

(c) Members of the advisory committee shall serve without compensation, if not otherwise officers or employees of the United States, except that members shall, while away from their homes or regular places of business in the performance of services under this Act, be allowed travel expenses, including per diem in lieu of subsistence, as authorized under section 5703 of title 5 of the United States Code.

(d) The advisory committee shall cease to exist at the expiration of two years proceeding its appointment.

SUPERVISION FEES

SEC. 3. (a) Section 7(j) of the United States Grain Standards Act (90 Stat. 2873-2874; 7 U.S.C. 79(j)) is amended by—

(1) repealing paragraph (2) thereof in its entirety; and

(2) striking out "(1)" immediately before the first sentence.

(b) Section 7A(l) of the United States Grain Standards Act (90 Stat. 2877; 7 U.S.C. 79a(l)) is amended by—

(1) repealing paragraph (2) in its entirety;

(2) striking "(1)" immediately before the first sentence.

(3) striking "except as otherwise provided in paragraph (2) of this subsection" and inserting in lieu thereof "except when the services related to weighing are performed by designated official agencies or by States under a delegation of authority".

(c) Section 21 of the United States Grain Standards Act (82 Stat. 769, as amended; 7 U.S.C. 87h) is amended by striking out "those Federal administrative and supervisory costs incurred within the Service's Washington office or not directly related to the official inspection or the provision of weighing services for grain", and by inserting in lieu thereof "Federal administrative and supervisory costs".

RECORDS

SEC. 4. (a) Section 12(d) of the United States Grain Standards Act (90 Stat. 2882; 7 U.S.C. 87a(d) is amended to read as follows:

"(d) (1) Every State, political subdivision thereof, or person who is the owner or operator of a commercial grain elevator, warehouse, or other storage or handling facility, or is engaged in the merchandising of grain other than as a producer, and who, at any time, has obtained or obtains official inspection or weighing services shall, within the five-year period thereafter, maintain—

"(A) complete and accurate records of purchases, sales, transportation, storage, weighing, and official inspection and official weighing of grain; and

"(B) such other records of handling, treating, cleaning, drying, blending, or other processing of grain as the Administrator may prescribe, as necessary to facilitate the administration of this Act.

"(2) Every State, political subdivision thereof, or person required to maintain records under paragraph (1) of this subsection shall permit any authorized representative of the Secretary or the Administrator, at all reasonable times, to have access to, and to copy, such records and to have access to any grain elevator, warehouse, or other storage or handling facility used by such persons for handling grain.".

(b) The United States Secretary of Agriculture shall, within six months after the effective date of this Act—

(1) review the recordkeeping requirements of the Commodity Credit Corporation and the provisions of

the United States Warehouse Act, as amended, and the United States Grain Standards Act, as amended, relating to requirements for the maintenance of records, as such requirements or provisions apply to grain elevators, warehouses, or other storage or handling facilities for grain; and

(2) based on such review, establish a single system for recordkeeping by such facilities, that will meet the requirements of the Commodity Credit Corporation and such Acts.

The Secretary of Agriculture shall take into account the varying sizes, complexity, and business purposes of the facilities, in making the study and establishing the record-keeping system.

95TH CONGRESS
1ST SESSION

S. 593

IN THE SENATE OF THE UNITED STATES

FEBRUARY 2 (legislative day, FEBRUARY 1), 1977

Mr. HUDDLESTON introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To amend the United States Grain Standards Act with respect to recordkeeping requirements, and to establish an advisory committee to provide consultation and advice to the Administrator of the Federal Grain Inspection Service.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 12(d) of the United States Grain Standards Act (90 Stat. 2882; 7 U.S.C. 87a(d)) is amended to read as follows:

"(d) Every State, political subdivision thereof, or person who is the owner or operator of an export elevator located at an export port location or an inland terminal elevator and who, at any time, has obtained or obtains official inspection

or weighing services shall, within the five-year period thereafter, maintain such records of the operations of the elevator as the Administrator may, by regulation, prescribe in order to facilitate the administration of this Act, and permit any authorized representative of the Secretary or the Administrator, at all reasonable times, to have access to, and to copy, such records and to have access to such elevator. As used herein, the term 'inland terminal elevators' means grain elevators, warehouses, or other terminal grain storage or handling facilities located in the interior of the United States, as determined by the Administrator, that receive grain primarily from other inland elevators, ship grain out primarily to export elevators or grain processors and millers, and handle a total volume of grain in an average year, of ten million bushels or more.".

ESTABLISHMENT OF ADVISORY COMMITTEE

SEC. 2. (a) In order to assure the orderly implementation of the United States Grain Standards Act of 1976, the Secretary of Agriculture shall establish within the United States Department of Agriculture an advisory committee to be known as the Grain Standards Act Advisory Committee (hereinafter in this section referred to as the "Committee"), which shall consist of not more than ten members. The Committee shall provide consultation and advice to the Administrator of the Federal Grain Inspection Service with respect

to the implementation of the United States Grain Standards Act of 1976, as amended by this Act.

(b) Members shall be appointed so as to give equal representation on the Committee to (1) grain producers, (2) grain elevators and other commercial users of services under the United States Grain Standards Act, (3) State or local governmental agencies and persons performing inspection or weighing functions under the United States Grain Standards Act, (4) consumers, and (5) Federal, State, or local law enforcement agencies.

(c) The Committee shall be governed in full by the provisions of the Federal Advisory Committee Act, except as inconsistent with this section.

(d) The Secretary of Agriculture shall provide clerical assistance, staff personnel, and quarters to the Committee, adequate for the Committee to carry out its duties.

(e) Members of the Committee shall serve without compensation, if not otherwise officers or employees of the United States, except that members shall, while away from their homes or regular places of business in the performance of services under this section, be allowed travel expenses, including per diem in lieu of subsistence, as authorized under section 5703 of title 5 of the United States Code.

(f) The Committee shall cease to exist at the expiration of two years proceeding its appointment.

(g) There are hereby authorized to be appropriated such sums as are necessary to carry out the provisions of this section.

CONSULTATION WITH ADVISORY COMMITTEE

SEC. 3. Notwithstanding any other provision of law, the Administrator of the Federal Grain Inspection Service shall consult with and receive the advice of the Grain Standards Act Advisory Committee established pursuant to the provisions of section 2 of this Act, with respect to the implementation of section 12 (d) of the United States Grain Standards Act, as amended by this Act, prior to the initial promulgation of regulations thereunder by the Administrator.

Senator HUDDLESTON. Due to the large number of witnesses which we have appearing please make your oral statements as brief as possible to allow more time for questioning and to let as many witnesses as possible appear. Your entire statement will be printed in the record.

We have grouped witnesses in panels whenever possible; and we would like to hold each panel to only 10 minutes, if possible, with possibly the exception of the Texas panel, which is in proportion to the size of the State of Texas. [Laughter.]

Before we hear from our first witness this morning, Senator Young, do you have a statement?

STATEMENT OF HON. MILTON R. YOUNG, A U.S. SENATOR FROM NORTH DAKOTA

Senator YOUNG. Mr. Chairman, I appreciate your conducting these hearings on the problems we are having with respect to the Grain Standards Act that we passed last year.

It was not my intent nor, I believe, the intent of Congress that the Inspection Service should be focused on locally marketed grain and that even country elevators would have to keep detailed inspection records for a long period of time.

I hear, too, that the USDA may have gone further in extending the inspection system than we intended. Much of this I think was due largely to the hysteria of last year over problems involving grain and marketing and inspection.

The Government Accounting Office conducted an extensive investigation into grain inspection irregularities. They found the most serious problem to be at gulf exporting points of New Orleans, Houston, and Galveston.

The Justice Department became involved. And as a result, many port officials, grain exporters, and others pled guilty.

The General Accounting Office found no serious problem with respect to northern export points at Duluth, Superior, and Portland, Oreg.

The new Federal grain inspection law does impose cumbersome, unnecessary, and costly delays on grain inspection. Unlike past grain inspection service, the farmers will have to bear the cost themselves, since the Federal Government no longer pays for grain inspection, even though it does for Federal inspection of meats and other commodities.

It may be possible to make some of the needed changes for grain inspection problems in the first supplemental appropriation bill; that is, if the necessary arrangements can be worked out between the Agriculture Committee and the Appropriations Committee.

I do not think we need many major changes.

I strongly support the changes in the Federal Grain Inspection Standards Act to correct the long-term problems caused by the passage of this act. It is my strong desire that these changes assure the highest quality of grain inspection, reading, and weighing, without disrupting the normal flow and marketing of grain and without causing unnecessary additional costs for producers and country elevators.

Thank you, Mr. Chairman.

Senator HUDDLESTON. Thank you.

Senator Clark?

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. Thank you very much, Mr. Chairman.

As you say in your opening statement, 1 year ago, we undertook to develop a major piece of legislation to deal with the problems that we are all aware of. And I think the background and history and development of that legislation is well known to everyone attending this hearing.

I think I was probably the only Member of Congress to vote against the legislation, because I felt that in the final analysis, that the conflict-of-interest provisions, although they were strong, in fact, should not have contained a waiver, because of the potential problems there. But that is somewhat irrelevant to the debate and to the discussion and to the hearings here this morning.

The bill did pass, and I think basically it dealt with most of the major problems that had been discovered or uncovered in a rather wise fashion. However, in recent weeks, the Federal Grain Inspection Service has moved to put the provisions into law and into operation. And as a result of that, obviously we have had a great number of problems that we are here to discuss.

I have been told, for example, that the cost of some new operations are much greater than we anticipated when the legislation was passed.

I heard, for instance, where the cost of inspecting grain in truck lots in Enid, Okla., increased from $2.50 to $12; where the cost of inspecting boxcar lots of grain increased from $3 to $15; and where the cost of inspecting hopper car lots of grain increased from $6 to $18.

Now, these increases were reported in an article in the Des Moines Register, which I would like to make a part of the record at this point.

Senator HUDDLESTON. Without objection it is so ordered.

[The above-referred to article follows:]

[From the Des Moines, Iowa, Sunday Register, Jan. 23, 1977]

GRAIN DEALERS: INSPECTION LAWS TO BE COSTLY FOR IOWA FARMERS

(By Arlo Jacobson)

Hearings will be held soon by the Senate Subcommittee on Agricultural Production and Marketing in an effort to iron out problems in implementing the new Federal grain inspection system.

The problems revolve around extremely high grain inspection fees which will be paid in the long run by grain producers, such as costs resulting from appeals of inspection and a burgeoning Federal bureaucracy, critics say.

Norman Still of the Farmers Grain Dealers Association (FGDA) in Des Moines said the estimated cost of Federal inspection in the Des Moines terminal is expected to be $300,000.

The cost for the entire state will run somewhere between $1 million and $2 million. All costs will ultimately be charged against the farmer, FGDA says.

Nancy Whitehead, an agriculture committee aide, said complaints have been heard from 15 grain producing States. She said amendments presented to the subcommittee probably will be aimed at clarifying the intent of Congress.

The law was adopted after cheating and corruption in the private inspection system began to endanger U.S. grain's acceptability in foreign markets.

Bob Anderson, executive secretary of the Nebraska Grain Dealers Association (NGDA), has estimated it will cost farmers as much as 5 cents a bushel to have the Federal Governmen take over the grain inspection system.

"That could be conservative," Anderson said. "But it is the best information we can get, based on the experience in other states."

Some grain elevators have been forced to pay up to $80 in extra rail charges for a hopper car of wheat delayed for additional inspections in Kansas, Anderson said.

Kansas officials are estimating that the cost of the new Federal Grain Inspection Service (FGIS) in Kansas will be at least $500,000, in supervisory fees alone.

In addition to fees and extra rail charges, one major grain elevator in Kansas had 6 million bushels of wheat reclassified to a lower grade at a discount of 10 cents a bushel.

Anderson said discounts for yellow kernels in wheat are widening rapidly from 3 cents a bushel in December to nearly 10 cents a bushel in January at a cost to Kansas farmers of about $5 million.

A terminal elevator could be buried in a mountain of paperwork by requirements to maintain records for up to 10 years, Anderson said.

A record sheet is needed on each car or truck of grain listing grade, weight and blending data. Farmers who submit a grain sample need not keep records, but small grain elevators will find the requirement difficult to cope with.

"This thing is going to lead to a merger with larger elevators because the small ones just can't deal with the paper mountain," said Anderson.

There is some confusion concerning inspection charges. Some reports suggest a flat fee of 80 cents per 1,000 bushels will be charged, Anderson said, but most grain traders feel this is a charge to support the 30-odd new field offices FGIS is setting up around the nation.

Inspectors will be paid hourly fees of $14 to $20, with additional charges for weighing.

The FGIS was signed into law by President Ford last October and becomes effective February 1 for domestic points like Iowa.

In his monthly newsletter issued late last week, Anderson said officials estimate fees will count for roughly 80 percent of inspection services projected for the first-year operating budget of $54 million.

Of that amount, $49.8 million is for direct inspection and weighing, and for 33 field offices, while the remainder is for the supervision of non Federal agencies.

Under the new program, he said, an additional 2,000 new employes can be expected to join the 800 now working for FGIS.

Anderson said figures compiled by the Oklahoma Grain and Feed Association comparing the costs of private and federal inspection at the Enid, Okla., terminal, show that fees will be up five-fold.

Truck lot inspection fees will increase from $2.50 to $12, box car lots from $3 to $15, and hopper car lots from $6 to $18.

Official FGIS supervised weights at interior points are optional under the new law. However, a small country elevator could be sucked unknowingly into the paperwork trap simply by sending in a single grain sample for inspection to settle a dispute.

"The law should be studied very carefully," Anderson said. "There is no question that it applies to all terminal operations. There is no question that it applies to all country elevators which receive official inspection based on samples taken at the country elevator by samplers employed by the official inspection agency.

"The way the legislation is worded it appears to apply to an operator who has only one official inspection, and this could be a single submitted sample sent in to settle a disagreement between the warehouseman and the producer as to the grade on a given lot of grain," he said.

"In such a situation, the warehouseman obligates himself to the record keeping requirements for five years. If, however, the producer sent in the sample and was billed for the inspection fee, there would be no record keeping requirements established since producers are exempt."

However, the real impact won't be known until the law is in full operation and farmers begin feeling the rising costs.

Senator CLARK. In a similar vein, I note that a reporter here in Washington, Andy Montgomery, in an article in the Waterloo Courier, dated January 9, 1977, reported, "It has been estimated that the new inspection system will pressure grain costs upward by at least 2 or 3 cents a bushel."

I would like to make that article a part of the record, too

Senator HUDDLESTON. Without objection.

[The above-referred to article follows:]

[From the Waterloo Courier, Jan. 9, 1977]

WILL ACT BE DRAG ON EXPORTS?

(By Andy Montgomery)

WASHINGTON.—The United States Grain Standards Act of 1976—boon or something less so?

It's too early to say with any certainty the impact it will have on northeast Iowa farmers, country elevators, and others in the export market chain.

But there is growing fear within the U.S. Department of Agriculture that it may turn out to be something less than a boon to farmers.

These fears must be viewed in the perspective of a USDA which opposed establishment of the new Federal Grain Inspection Service legislation in the waning hours of the 94th Congress.

But at the same time, their concerns cannot be ignored in the face of other developments which appear to threaten or at least undermine the strength of the agricultural export market:

Item: Food and live animal exports in November dropped $309 million. The major losers were corn, down $179 million, and wheat, down $166 million.

Item: U.S. grain producers are suffering heavy losses because potential grain markets have been closed by ceilings on grain shipments to poorer nations under the P.L. 480 (Food for Peace) programs.

Item: Currency devaluations in Argentina and Australia and the weakening of the Canadian dollar are hurting U.S. grain sales with overseas customers finding it cheaper to buy grain there than the United States.

One concern is that higher inspection fees certain to develop out of the new grain inspection law could reduce U.S. grain volume even more by making our grain even less competitive abroad.

It is being estimated that the new inspection system will presure grain costs upwards by at least two to three cents a bushel. Few hold that the additional costs can be contained below that.

As a result, hopes for positive action to head off faltering exports are beginning to ride on some developments shaping up within the soon-to-be Carter Administration.

One is the strong likelihood that the Carter Administration will realign the various agencies of USDA to place more emphasis on export promotion activities.

This would be in line with the recommendations spelled out last fall by one of Carter's key agricultural advisers, E. A. Jaenke, former governor of the Farm Credit Administration and onetime vice president of the Commodity Credit Corporation.

The paper, "A National Food Policy: Assuring Food for an Uncertain Future," is becoming required reading for those seeking a blueprint for Carter-directed farm export market policies.

In it, Jaenke recommends the foreign market development program "be expanded and improved, not reduced, and adequate funds for this purpose should be supplied." He suggests the present program "should be greatly broadened in scope" to include:

Assistance to all commodities with export potential.

Matching assistance available to any individual or any organization—large or small—completing certain approved development activities.

Strengthening of market intelligence and market assistance efforts with additional personnel added abroad to expand the reporting of export opportunities and in the U.S. to assist exporters to take advantage of them.

Extension of market development to additional countries instead of, as now, being confined to a relatively few big markets.

Stepping up the highly successful buyer visit programs.

Jaenke would backstop this with an inspection system "that would assure importers that they will receive known quality products." In that, he apparently disagrees with current USDA thinking that the new grain inspection system will act as a drag on export markets.

Senator CLARK. I do not know whether those are accurate estimates. I think that is the kind of thing we want to deal with today.

But I am also told that some of the recordkeeping requirements place an unreasonable burden on small, country elevators—the sort of thing you talked about a moment ago; that in some instances,

elevators have very few occasions when inspection is required, but they anticipate that they will be required to set up a new recordkeeping system that would require them to keep track of an extremely large number of routine housekeeping operations, among other things, and to maintain these records for 5 years.

They are concerned they would be required to build a very large new recordkeeping system that would not really help protect the integrity of our marketing system.

These are specific concerns that have been discussed publicly and in papers and so forth. As I say, I don't know the validity of those.

These witnesses are here to talk about it today and certainly the Department of Agriculture, I assume, is going to address itself to these thoughts as well.

But certainly if they are true, or even half true, it would seem that some kind of correction is needed. Perhaps the Department needs that kind of direction from us.

As you indicated, several of us on this committee—Senator Dole, yourself, perhaps all of us, for I have not seen the list—have introduced legislation now to try to deal with these facts in a very specific way, to create an advisory committee to help implement the new law so that we can get the judgment of people who are involved in it, for instance.

Another provision of the legislation would pay for supervision of State and private inspection from Federal appropriations rather than user fees, as the law now requires.

A further provision would modify the recordkeeping requirement of the act which requires the Secretary to develop a simplified system of recordkeeping for the Warehouse Act and several other acts. There are several other things.

So I hope that in the process of these discussions we can find out whether the legislation, which has been drawn, whether it really corrects the situation that we are here to discuss today.

It seems to me that is an important part of it.

I did particularly also want to thank you, Mr. Chairman, for holding the hearings. I know we have several Iowans here that I see on the list, which I will introduce later.

Thank you very much.

May my complete statement——

Senator HUDDLESTON. Without objection it will be made a part of the record.*

Senator Dole, do you have a statement?

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Well, very briefly, since we have witnesses waiting, and our colleague, Senator Tower, and others, I just ask that my statement be made a part of the record.**

Senator HUDDLESTON. Without objection, so ordered.

Senator DOLE. I hope we will get to the witnesses that have expressed great concern about the present legislation and that we will address ourselves, when we do that, to the bill I introduced late last evening.

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*See p. 139 for the prepared statement of Senator Clark.
**See p. 140 for the prepared statement of Senator Dole.

This bill covers many of the concerns expressed at the informal hearing of January 18 where I certainly felt the need for some legislation.

I do not say we made a big mistake and should not have passed any bill last year. However, there were some overkill provisions which we attempted to modify on the Senate floor and in the conference. But there was a pressing need for legislation, and now we have discovered some areas we think need to be corrected. This is nothing spectacular. It happens with much legislation passed by the Congress. We want to make the proper corrections without in any way gutting the legislation.

I believe that is the thrust of the bill that has been introduced.

As has been pointed out by other Senators, it covers three basic areas and I will not repeat those. If there are other areas that properly need correction, we can make the corrections.

Let us give it a chance to work and see what happens. I commend the chairman for holding these hearings and look forward to hearing the testimony.

Senator HUDDLESTON. Thank you, Senator.

Senator Melcher?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Senator Clark thinks he is perhaps the only one in Congress that voted against the bill, but——

Senate CLARK. On the Senate side.

Senator MELCHER. Well, I voted against the bill on the House side. But as a member of the House Agriculture Committee it was not a vote that I liked to cast; it was a vote of dissatisfaction.

If I view the problem, what we had in the grain inspection, I think, centered on the export grains; and the problems we sought to correct basically—or my greatest interest, at least—was in correcting the abuses that were evident in export grains. I am sorry to learn that it is causing problems now within the United States for inland producers and grain companies and elevators.

I think the chairman and the ranking member of the subcommittee were wise in calling these hearings. I thank them for arranging for these hearings. I am sure that our job here is to straighten out anything that we can that hampers the grain producers and the elevators and the grain companies.

To that end, I think these hearings are extremely timely. And I hope that we can get some good advice from the witnesses so that we will be able to act prudently.

Thank you, Senator.

Senator HUDDLESTON. Thank you.

Senator Bellmon?

STATEMENT OF HON. HENRY BELLMON, A U.S. SENATOR FROM OKLAHOMA

Senator BELLMON. Thank you, Mr. Chairman.

Let me begin by congratulating our chairman and ranking member for scheduling these hearings so promptly. We in Oklahoma are fac-

ing the beginning of harvest within 3 or 4 months and there is a real possibility that unless some corrections are made, movement of our grain may be seriously inhibited because of the Federal Grain Inspection Act.

Mr. Chairman, this hearing and the furor this bill has raised I think was totally predictable. Some of us working on the bill last year said as much in our hearings. Many of us felt like the act was a vast overkill. There was a problem primarily at the gulf ports, but inland grain inspection had been handled well for years.

We felt that we should not take such a drastic step to change our system that worked successfully and, as far as we knew, had worked honestly for decades.

And even though the committee realized that we did need to clean up what was happening at some of our export points, many of us felt we ought to let a successful system continue pretty much as it was at the inland ports.

The amendment I offered to eliminate some of this excessive record-keeping lost very narrowly in the committee. I hope the bill Senator Dole has introduced will receive early approval so we can eliminate that unnecessary redtape.

The only purpose for my remarks is to assure our witnesses—most of whom I am sure have come here to protest this bill—that you will receive a very understanding and friendly reception from many members of the committee. And we are more than anxious to gain from your experience and your ideas so we can correct any errors that may be in the act.

Senator HUDDLESTON. Thank you, Senator.

Our first witness this morning is the distinguished senior Senator from Texas, Senator John Tower.

STATEMENT OF HON. JOHN TOWER, A U.S. SENATOR FROM TEXAS

Senator TOWER. Thank you, Mr. Chairman.

I appreciate the opportunity to appear today.

Let me say that I want to join in setting the record straight with Senator Clark and Senator Melcher. I voted against the bill, too. [Laughter.]

Senator HUDDLESTON. It makes me wonder how it passed. [Laughter.]

Senator TOWER. Well, you know, if we had 20–20 foresight in this business, we would be in good shape. Unfortunately, our hindsight is always better.

And I appreciate the committee addressing itself to this.

As a member of the Banking Committee, I know we have passed out legislation, reported it out, everybody agreed to it, but later we found out what the real impact of what we had done was. And I think it is always incumbent on us to recognize when we have done a less than perfect job.

Last year when the bill was enacted, we attempted to correct problems which had surfaced in the national grain trade, and to set up a better system to prevent their recurrence.

However, after only a few months of experience under the act, I fear we have overreached the mark and created unintended problems

which must be corrected. The system set up under the act is too big, too costly, and too much of an intrusion into our free enterprise system.

I would like to highlight some of these problems, if I may, leaving a more thorough discussion to the very able witnesses from Texas who will give our State's testimony later today and tomorrow.

These gentlemen represent Texas producers of grain, elevator operators, and private grain exchanges. Their point of view is as representative of the many interests of Texas as any voice can be. And their viewpoint is unanimous.

I know they will do an excellent job so I won't attempt to steal any of their thunder. They know more about it than I do.

First of all, I was astounded when I saw a breakdown of the charges to be levied under the Grain Standards Act by the Federal Grain Inspection Service. In all cases, the charges for weighing and inspecting were three to five times as high as the charges for the same services provided by our private exchanges.

And we all know who will end up paying these fees in the long run, and that is the American producer, because we cannot insist that our foreign customers pick up the tab. When we consider that precarious position of our grain producers today, it is obvious that they just can't afford to assume any added costs for this Federal Inspection Service.

I was pleased to join with you, Mr. Chairman, and Senator Dole and Senator Clark and others in sponsoring legislation to appropriate funds to pay for the supervisory services called for under the act. But I firmly believe that if the Federal Government imposes a mandatory system on the grain trade, then the Federal Government should pay for it, pay all of it.

A second and major area of concern to us in Texas is the extent to which the law has been applied to inland terminals. The problem we sought to address in this legislation occurred at points of export, specifically at ports along the Mississippi.

The law, however, is being interpreted in such a way that many if not all of our private exchanges at nonexport points will be affected adversely, and be forced out of business.

Mr. Chairman, if there is one flaw in this law, it is that those who were innocent of any wrongdoing—in fact, who were never suspected of any wrongdoing—are being made to pay an intolerable cost under the law.

Exchange officials who have operated in the public eye for 50 and 60 years without the slightest hint of misconduct are now being told by FGIS officials that their operations cannot continue because of some alleged conflict of interest which is presumed to lead to criminality.

I don't believe we can be so presumptuous to say that these people will be dishonest at some unknown point in the future, when the record shows that they have never been dishonest in 50 or 60 years of operation. But that is what this law says.

I don't think the law should say that; and I would most strongly urge a change which would exempt inland terminals from the act. If we think the FGIS can do a better job than the private sector under the law, we only need to look at the last few months to find out how wrong we are.

In November, there was considerable difficulty as a result of wide variations in Federal grading at inland terminals. In some cases, grading by FGIS inspectors varied by 50 percent between Fort Worth and Galveston.

There was such a lack of confidence in Federal grading that the public elevator in Corpus Christi held up loading rather than risk losses brought about by undergrading the grain there.

The problem was caused by the influx of inexperienced inspectors hired to enforce the law. Before the problem was solved by FGIS, everyone was appealing the grades to protect themselves. The process became so bogged down in Kansas, as I understand it, that grain was left sitting on railroad sidings for weeks until FGIS could finish the appeal grades.

These are expensive delays, and they result from Congress trying to do too much too fast. We have become accustomed to solving a problem here by throwing some Federal money and some Federal workers at it, without finding out first whether that is really the solution. Now, that just does not always work.

In fact, it does not work very often at all.

Now, this country does a lot of things right, and producing and distributing grain are among them. When the system doesn't work, as it didn't at some of our ports, then we should insure that it does. But when it works right, as it has for decades at our inland terminals, then I believe we should leave it alone.

What we risk when we allow Government to try to do everything is that Government will end up not doing anything well. We took that risk last year, and we have now found the consequences.

I remember when the wrongdoing of grain inspection and weighing officials was discovered. It was all over the newspapers and on every television network. I also remember when all the hoopla died down, we discovered that we had a few rotten apples and not a totally infected orchard.

But if we continue to act as if that were the case, and continue to overreact, we will end up amputating the leg when all we had to do was cure a hangnail. I hope now we are in a position to look more cautiously and more carefully on the problem and make adjustments in the law before we are too far down the road in implementing the law.

If the problem was corrupt inspection, grading, and weighing at points of export, let's clean it up. Let's cure that hangnail.

If, on the other hand, we find the system working at our inland terminals, through an established State or private exchange or board of trade, let's not amputate it. Let's leave it alone and watch it carefully.

We have a responsibility in all that we do in this Congress to insure that our acts are prudent, and that they earn the respect of the public which is affected by them. We risk losing that respect and confidence which is so essential if we try to accomplish more than we should, and end up not accomplishing anything.

In this case, we are fortunate to be able to inspect our work before it is too late. We can serve this Nation better, from the farmer to the consumer, if we are not timid in correcting our mistakes. If we do not meet that responsibility, then we have become a part of the problem, and not its solution.

Thank you, Mr. Chairman.

Senator HUDDLESTON. Thank you, Senator.

Any questions of Senator Tower?

[No response.]

Senator HUDDLESTON. Thank you very much.

Our next witness is the Honorable Keith Sebelius, a Member of Congress from Kansas.

Congressman, we are glad to have you here.

STATEMENT OF HON. KEITH G. SEBELIUS, REPRESENTATIVE IN CONGRESS FROM THE FIRST DISTRICT OF KANSAS

Mr. SEBELIUS. Thank you, Mr. Chairman. It is a real pleasure to be here.

In looking at the list of witnesses for the next 2 days, I ask permission to file my statement and make some brief remarks.*

Senator HUDDLESTON. Without objection, your statement will be included in its entirety.

Mr. SEBELIUS. I think without a doubt this is not the occasion for blame. I suppose if I were to blame anybody, it would be OMB or maybe some of my own conclusions as to what the word "direct supervision" means and who would pay for it. The fact that we ended up with a much larger bureaucracy than anticipated lies in this misunderstanding.

But I served with Senator Clark and Senator Dole and those of you that were on the conference committee and we did work long and hard. I know it did not satisfy Mr. Clark nor Mr. Melcher, because he was on the conference committee with me and he did not even sign the report.

So I know that what we have here is something we all had some feelings about, and some were stronger than others.

The three topics I would just like to cover are as follows:

First, of course, recordkeeping. That will be covered by our experts here today.

Second, the fees, of course, and the direct supervision and the fact that the bureaucracy sets up about a $725,000 cost per region—and that very definitely needs to be responded to in some manner.

And the third thing is—and this will be in my statement more fully—is the possibility of utilizing a current facility in Manhattan, Kans., in connection with Federal grain inspection.

Five years ago, we started a U.S. Grain Marketing Research Center in Manhattan, Kans. It has been operational. It is supposed to conduct marketing research on grain. But it has not been used for that purpose. It has gone into other fields. And it is so structured that it sits under the USDA Agricultural Research Service under a meat research center up some place in Nebraska. I would just offer for this committee—not for this bill, but down the line—the suggestion to let us look at the marketing research center setup in order to work on the idea of our grain going into exports. That was the thrust, of course, years ago when the House and Senate so provided.

*See p. 141 for the prepared statement of Representative Sebelius.

This facility could be used to implement grain exports—especially if we are going to have the delays in the appeal inspections with flying things to Beltsville, Md. This is right out in the heart of our grain country and much closer to the Gulf of Mexico where most of our grain does move.

Mr. Chairman, I do not think I have anything further to add at this time because there are people here to testify from out of town. If there is something that comes up, you can get in touch with me, and I will be working on the House side to try to make this a workable bill because I think it must be improved. And I certainly wanted a bill and that is why I stayed in the conference and worked to get one.

Thank you.

Senator HUDDLESTON. Thank you, Congressman.

Senator Dole, any questions?

Senator DOLE. No questions. I want to thank you for your testimony. As you know, in the conferences some fellows go too far and some fellows do not go far enough. That may have been a reason for some of the negative votes.

Mr. SEBELIUS. It always seems like in settling a case, why if it is settled too easily, maybe you did not get enough; so if nobody is satisfied, it is probably a good settlement—with some corrections.

Senator DOLE. We can correct any settlement up here.

Senator HUDDLESTON. Thank you very much.

Our next witness is the Honorable Jack Hightower of Texas.

Mr. CLAIBORN CRAIN. Congressman Hightower has been held up on the House side and is supposed to be here and is supposed to be on his way. Either you can pass him or if we can give you his statement—he apologizes for not being here.

Senator HUDDLESTON. We will proceed and come back to Congressman Hightower when he does arrive.

The next witness is Mr. Donald E. Wilkinson, the Interim Administrator of the Federal Grain Inspection Service, USDA; accompanied by David Galliart and David Mangum.

Please identify your associates for the record, Mr. Wilkinson.

STATEMENT OF DONALD E. WILKINSON, INTERIM ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, USDA; ACCOMPANIED BY DAVID GALLIART, ACTING DEPUTY ADMINISTRATOR FOR PROGRAM OPERATIONS; DAVID MANGUM, ACTING ADMINISTRATOR FOR MANAGEMENT; AND JOHN CHERNAUSKAS, OFFICE OF GENERAL COUNSEL, FGIS

Mr. WILKINSON. Thank you, Mr. Chairman, and members of the committee, and guests.

I am pleased to have with me here at the table two deputy administrators—I would add the word "two acting deputy administrators." And I would emphasize that I am the Interim Administrator of the Federal Grain Inspection Service.

To my right is Mr. Galliart and to my left is Mr. Mangum. We have with us Mr. John Chernauskas, the Office of General Counsel.

First, may we emphasize our appreciation, our sincere appreciation to you, Mr. Chairman, and to you gentlemen for the opportunity to review with you our concerns, our problems, which we not only accept as the Government's problems, but those of the industry, as is reflected by the many people who are here.

We commend you and sincerely join you in your desire to correct wherever possible those areas that are now causing us some concern.

We would like first to share ever so briefly the progress which we in the Federal Grain Inspection Service have been attempting to make as we implement the U.S. grain standards of 1976. We would then like to discuss with you significant implementation problems of mutual concern to us and I am sure to those who are here in the room as well.

Let's remember first of all that it was just 11 weeks ago that the act, which we have been discussing, became effective. We had to move immediately to implement this Grain Standards Act of 1976, bearing in mind the overall mandate of the Congress, the 30-day effective date, after signature, of the revised act, and the very specific implementation deadlines. And we will stress those as we go through, Mr. Chairman, in an effort to have you judge whether we have moved more rapidly in any area than we should have.

We have attempted to move with caution. We have assigned implementation priorities to the new provisions of the act as we do not have the resources to implement all of the provisions simultaneously.

There has been some misunderstandings among our inspection agencies, among the grain firms, and especially with the American farmers, regarding particular provisions of the act.

This hearing should help clarify these issues.

However, we would want to emphasize that we have received good cooperation from the inspection agencies, from the grain firms, and from the farmers, as well as the public, as they recognize that the action, mandated by the new law, places some specific responsibility upon the agency that must administer that law.

Since November 20, gentlemen, we have organized the Federal Grain Inspection Agency into a functional organization. We have met with many concerned groups throughout the United States to discuss various aspects of the new act—including delegation and designation of inspection agencies; including the Federal takeover process at export locations; including the Federal fee schedules and the new weighing provisions of the act.

Our first priority—and we believed it was your first priority as well—was the development of a schedule—done with the assistance of the private inspection agencies performing inspections at export locations—for the Federal takeover of these agencies in the exporting of grain during the next 12 months.

The Federal takeover schedule began with the Destrehan Board of Trade when they elected to discontinue their operation as of December 31, 1976—only a matter of days after the implementation date of November 20.

As a result, we have assumed responsibility for original inspection and weighing at the two major elevators in Louisiana which had been serviced by the Destrehan Board of Trade.

In addition, we assumed responsibility for inspection and weighing in Toledo, Ohio; in Saginaw, Mich., on January 16—again, upon their request—and in Chicago, Ill., on February 1. On February 28, we will assume gulf coast inspection and weighing bureau responsibilities at Beaumont, Tex. This was not scheduled until April. We have moved it up upon their request. By January 1978, we will assume grain inspection and weighing responsibilities in 12 grain ports around the Nation where 15 private or trade-operated agencies now operate.

Concurrent with these activities, we have initiated the development of new regulations—I would stress two words, "initiated development" and not "promulgated"—and we have developed a recruitment and training program to prepare for further assumption of the inspection and weighing responsibilities at the remaining 12 export locations during the coming year. And we have prepared, as requested by OMB, the budgets for the new programs.

We have informed individuals and firms that they will have to register and keep records under the provisions of the 1976 U.S. Grain Standards Act. And we plan, as soon as possible, to secure from them comments that will aid us in developing the regulations regarding registration and recordkeeping provisions.

Before we start drafting the details of these regulations, we will solicit ideas and opinions from all across the country, including some grain merchants, elevator owners and operators, the public in general—anyone who might be affected by these new rules.

We are very anxious to use any process possible including an ad hoc committee or some other method which will provide us public guidance.

We had encountered considerable comments from the industry, especially with respect to the area of supervisory fees, recordkeeping, conflict of interest, and registration.

It is in these areas that I wish to spend the remaining time granted us here this morning.

Let me first address then this area of funding for supervision of official inspection agencies. This had to be our second priority after we worked out the takeover at export. And unfortunately, it forced us into concerns in the interior much sooner than we desired.

Under the old U.S. Grain Standards Act, all supervision of official inspection agencies performed by Federal personnel was funded by appropriations from Congress. This totaled approximately $3.1 million per annum and include field supervision as well as Washington administrative costs.

In September 1975, the Congress granted a special appropriation of $5 million to increase supervision nationwide. With these funds we proceeded to hire 210 additional agricultural commodity graders for supervision purposes. This additional $5 million then granted to the Department approximately $8 million for appropriation to perform supervision. The 210 new employees were placed in a training program to supplement our existing supervision staff of 123. This then gave us a total of 333 individuals which, when trained, would provide for the minimum level we felt necessary for adequate supervision of the then existing 111 official inspection agencies.

I would remind you that 23 of that 111 were State agencies.

Please remember that all of this was taking place before the new act was passed.

When we established what we considered minimum levels of supervision required to prevent the situation which caused the irregularities in grain inspection and weighing, we felt that this minimum level of personnel—that I have just described—was the minimum number necessary.

Under this plan, supervision is applied under two systems. And we are going into somewhat detail on this, because these perhaps will be responded to by others later in this hearing.

The first system is a statistically based random supervisory monitoring system. Under this program, the results of inspections performed by licensed inspectors anywhere in the system—private inspectors, the State inspectors, and our own Federal inspectors—are systematically programed in for review and continuing evaluation.

We presently estimate that it will require approximately 90 man-years nationwide to effectively operate this system.

The second system is what we call the "over-the-shoulder supervision" or "direct observation." It is a direct one-on-one supervision concept, plus miscellaneous activities associated with general supervision, including laboratory observation and so forth.

Over-the-shoulder supervision is primarily designed to correct inspection and weighing deficiencies identified by the monitoring system I just spoke of and to correct spot checked inspection and weighing deficiencies. This latter supervisory process will require approximately 120 supervisors nationwide.

In addition, 21 supervisors will be required for miscellaneous supervisory activities. The manpower needed for these two systems is the basis on which we have established the total nationwide supervisory requirements of approximately 231 full-time supervisors or a ratio of about 1 to 10—with 1 supervisor to 10 licensed inspectors and samplers.

Now, this ratio may increase or may decrease in a given area, depending upon the quality of service as reflected again by the monitoring system or by direct observation. It may also increase or decrease, depending upon special or unique crop conditions.

For example, the subclassing problem with wheat, which reference has already been made to this morning.

The U.S. Grain Standards Act of 1976 specifically defines the source of funding for field supervisory activities. And as you know, the act requires that all field supervision costs shall be recovered from fees charged users of inspection and weighing services. Washington cost, except registration, would be financed entirely from appropriated moneys.

The supervision fees are charged directly to the agencies, to those agencies being supervised by us. The limitation of appropriated funds requires that these fees shall apply during the transition period—now, in other words—as well as when the new system called for in the act is fully operational—presumably in 1, 1½, or 2 years.

After examining several alternative methods of computing supervision costs, we selected—with counsel, again, from our various meetings—a flat rate per bushel of grain inspected and weighed. This method was selected because it distributed, at least in our estimation, the cost of supervision over the total grain inspection and weighing

system and it does not infringe upon the competitive position of small volume inspection and weighing agencies.

Under the present minimum supervision concept, Mr. Chairman, all agencies—both inland and export—will receive a proportionate and statistically determined level of Federal supervision when our system becomes fully operative.

The Federal fee schedule, as published in the January 5 issue of the Federal Register, is based upon that premise.

Implementation of the fees was expedited for two reasons. This is of concern—this is the reason why we have generated some reaction within the interior. These fees became effective February 1.

First, the act provides that 30 days after enactment of the act no agency shall provide official inspection and weighing without a delegation or designation under the Grain Standards Act except that the agency may continue to operate until a delegation or designation is granted or decreed by the Administrator if the agency pays the supervision fees when due.

Second, the program funds from appropriation will be exhausted about April, about early April if supervision fees are not assessed.

Based on minimum supervision concept, we believe that approximately 231 of our present 333 Federal supervisors will be needed to carry out the intent of the act. That is an important statement because it reflects a reduction in the level of supervision. Thirty percent——

Senator DOLE. Could I interrupt there?

Mr. WILKINSON. Yes, sir.

Senator DOLE. We all know what you are talking about. Could you summarize your testimony so that we can get to some questioning?

Mr. WILKINSON. I will do whatever you wish. Yes. I thought it might be important to document this but I will do whatever you desire, sir.

Senator HUDDLESTON. How much more do you have?

Mr. WILKINSON. I have only—and I can abbreviate some of the statement—I have still three more pages. I can rush it now that I understand your desire.

Senator DOLE. We have an amendment on the floor at 1 o'clock, and I must be there.

Mr. WILKINSON. Fine. Very good.

Senator HUDDLESTON. If you can expedite it——

Mr. WILKINSON. Yes, Senator. I did not want to slight your concerns. And I will do exactly what you are talking about, then, with the rest of my statement.

Thirty percent of those 231 will be used as export and they will supervise the 10 delegated States that you grandfathered into the legislation. Seventy percent will be used in the interior supervising the private inspection agencies. The remaining 102 will be phased out of supervision into the original inspection work where we are involved at export points. This reduction of 102 people is possible as the Federal Government assumes original inspection responsibility at export.

And the funding of that supervision is incorporated into our own inspection fees. This cost for supervision beyond Washington is estimated at $5.3 million that will be needed to fund the inspection supervision activities required in the act.

It was from that calculation then we arrived at a 80 cents per 1,000 bushels as the supervision fee to be imposed upon those we supervise.

I have calculated in my comments the impact of what may happen to a community or to an area if they desire going forth on official inspection instead of following the official certificate inspection process. I do recognize that in the interior inspection is voluntary. We can get to this if you have further questions.

Let me now then finally get to other points of concern. We have talked about the fee schedule, which is a major one.

The second area is the concern regarding recordkeeping. This is outlined specifically in the act. We will not review that with you. It is very specific. Our attorneys advise us that we must retain the schedule of recordkeeping that you have indicated. We would stress however that we have a time frame in which this can be developed. We concur with the industry in the need for reevaluating this requirement of the act. And we support any consideration that you will give to it.

Senator HUDDLESTON. Have you had an opportunity to look at the bills that were introduced?

Mr. WILKINSON. Yes, sir, I did.

Senator HUDDLESTON. Do you think they would alleviate that problem?

Mr. WILKINSON. Yes, sir, indeed.

Senator HUDDLESTON. Then you would support them?

Mr. WILKINSON. The conflict-of-interest provision is another one. And I would only say to you here that we are not moving rapidly at all regarding that area. We have a time frame in which we can take time to secure recommendations from the public and from the industry as well. We need to have a criteria established as it pertains to the waiver provision granted in the act. We have not developed that criteria at this particular time.

Finally, the area of registration is one again that we would like to be granted time to develop and granted the opportunity of using the public input.

May I comment then specifically on your two proposals this morning?

First, Senator Huddleston——

Senator HUDDLESTON. I wonder if we might suspend and allow Congressman Hightower, who is now here, to proceed.

Congressman, we are delighted to have you here and it will be good to hear from you.

STATEMENT OF HON. JACK HIGHTOWER, REPRESENTATIVE IN CONGRESS FROM THE 13TH DISTRICT OF TEXAS

Mr. HIGHTOWER. Thank you, Mr. Chairman. I appreciate the opportunity to testify this morning and I appreciate very much the fact that the Agriculture Committee has addressed this problem very early in the session. And I hope that the House Agriculture Committee can act as expeditiously.

I do not want to bore you with a lot of repetition. I must say that from the very first consideration of the Grain Standards Act last year I vigorously opposed the full federalization of the grain inspection

system. Commonsense dictated to me at that time that an individual is not imbued with more integrity simply because he becomes a Federal employee. Human failures existed in grain inspection at some export terminals. Indictments were returned and those found guilty of violations were convicted and removed from the system.

The mistakes of those few in my judgment did not reflect a complete breakdown of the system and did not provide a justification for the Federal Government to throw out the expertise of hundreds of honest personnel who had proven their integrity in the existing grain inspection system.

To have usurped all private or State inspection system agencies with a complete Federal takeover, I think, would have represented a monstrous overkill. The House and Senate Agriculture Committees conducted separate hearings in an effort to tighten provisions of the Grain Standards Act and assure protection against dishonest practices. Although we were seeking the same goal—namely, an official, dependable system—the bills ultimately passed by the respective bodies differed, as you remember, in their approach.

As you know, Mr. Chairman, the Senate bill would have abolished private and State operated agencies at all ports and at the 25 largest inland terminals and replaced them with a federalized system.

The House bill allowed for a continuation of the inspection of inland terminal elevators qualified State agencies, grain exchanges, boards of trade, chambers of commerce, and private firms.

For a period of 5 months the issue remained unresolved and a compromise finally produced the present law. The bill, as finally enacted by the Congress and signed by the President, clearly provides for the continuation of private grain exchanges at inland points.

Many of these were established many years ago and have developed a fine record over the years. The fact that many of these exchanges are co-owned by several segments of the grain industry or people in Federal segments of the industry gives strength to a system of checks and balances that undergirds their integrity.

There appears to be an attitude on the part of some officials that the private exchanges are guilty of violations of conflict of interest simply because of such ownership. I believe it is proper for the U.S. Department of Agriculture to determine the detrimental conflicts of interest that do in fact exist in private exchanges but I believe it was not in my opinion the intent of Congress for the Department to arbitrarily destroy the system or close any inspection system simply because of the ownership—unless there is proven evidence of use.

As part of its program to implement the act, the Federal Grain Inspection Service conducted a series of hearings throughout the Nation. I applauded that action because it provided an opportunity for those affected by the act to have a part in the decisionmaking process. I believe in that.

The reports, however, I have received from constituents who attended the sessions have led me to believe that instead of public hearings, there instead involved into little more than lectures by some FGIS officials. I hope the impressions carried away from these hearings were a misunderstanding of the Agency's true intent. Individuals who contacted me after attending the hearings said the Agency officials

had given them the unmistakable impression that private grain exchanges would automatically be judged by the Federal Grain Inspection Service as guilty of conflict of interest unless the owners could provide beyond a reasonable doubt that they were in no way involved in the grain industry. Simply stated, they would be considered guilty until proven innocent.

If that is indeed the intent of the Federal Grain Inspection Service, I do not believe it reflects the intent of Congress and it reverses the system of justice that has been tried and tested in this country for the last 200 years.

The fee schedule, authorized by the act, was solely intended in my opinion to carry out the cost of Federal inspection. It now appears that the fee schedule published by FGIS is designed to carry the burden of higher than inspection costs at export terminals. Such a system is inequitable and in my opinion again violates the intent of Congress.

As the result of the Federal Grain Inspection Service's schedule interpretation of the act's recordkeeping requirements, grain elevator operators will be confronted with an unconscionable burden that will require more personnel and additional costs in their operations. I believe this was not the intent of the Congress either.

If the language is in fact unclear, then I respectfully suggest, Mr. Chairman, that upon conclusion of these hearings the Senate and the House should amend the act to clarify our intent. It was not my understanding that the sole purpose of our action in passing this legislation was to present a reoccurrence of corruption. It was my understanding that the sole purpose was to prevent a recurrence of corruption that damaged our Nation's reputation abroad; it was my understanding we were trying to strengthen the whole system and not to add another level of bureaucracy that would place an additional financial burden on the producers, which ultimately must be paid by the Nation's consumers.

I appreciate very much the expeditious way this committee is moving. I think this is a very important segment of our agricultural industry that faces a dire threat of a major change. And I am very appreciative of the opportunity to testify before this committee this morning.

Senator HUDDLESTON. Thank you, Congressman. We appreciate your testimony.

Mr. Wilkinson, you may continue.

STATEMENT OF DONALD E. WILKINSON—Resumed

Mr. WILKINSON. Thank you, Mr. Chairman.

I was going to respond to the two proposals. I had indicated that our concerns were funding, recordkeeping, conflict-of-interest criteria, and registration. You speak to all of these concerns through the use of the recommended advisory committee concept. We would welcome that opportunity.

You have recognized the need for funding considerations and you address yourself to that at least in one of the bills. I think Senator Dole

reflects that. You do, however, refer to both inspection and weighing agency supervision. The supervisory fee on the interior for inspection is that $5.3 million program. You will remember weighing was left indefinite but available upon request by those who would request that service. That would be an additional amount, which we are unable to define at this time unless we went for a mandatory weighing and we do not envision that. We only document that point.

And Senator Huddleston's recommendation regarding the matter of grain merchandiser would cause us some concern as far as definition. You would exclude country elevators and grain mechandisers. Grain merchandisers are very aggressively involved at all levels including export. And I am sure we could work that out in some way.

I would presume that for those areas that are perhaps indefinite—unless they could be more specially stated—you might grant authority to the Agency by regulation to define what is intended to be excluded.

Thank you very much, sir. May my statement be placed in the record in full?*

Senator HUDDLESTON. Yes; without objection it will be made a part of the record.

Mr. Wilkinson, it is fair to say—is it not—that your Agency was forced into the actual carrying out of inspection services because of the withdrawals of the private agencies before you were really set up to do it?

Mr. WILKINSON. Yes, sir.

Senator HUDDLESTON. You are now charging supervisory fees where you do not have supervision as yet to a large extent; is not that true too because of the start up?

Mr. WILKINSON. I think we would indicate we have not had the opportunity to train those people as fully as we would have desired. The numbers are there but they are not as expert as we might desire.

Senator HUDDLESTON. The 231 supervisors that you have recruited, where did they come from principally?

Mr. WILKINSON. Mr. Mangum, would you care to respond to Senator Huddleston's question?

Mr. MANGUM. The 210 were hired approximately 1 year ago under a special supplemental appropriation, which the Congress granted us. We put on in March of last year 210 individuals who went into an intensive training program. And they have been in a training situation ever since: partially in training and partially doing supervisory work as they become expert enough to perform it.

Senator HUDDLESTON. Did they come from private agencies? Did some of them have experience?

Mr. MANGUM. The great majority of those who came on board at that time were recent college graduates. A few of them came from industry.

So just to repeat briefly. The 210, that we hired last month, were primarily recent college graduates. Very few of them came from private industry.

Senator HUDDLESTON. Why is increased supervision necessary at inspection points that have not had problems and which have operated for maybe 70 or 80 years with unblemished records?

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*See p. 143 for the prepared statement of Mr. Wilkinson.

Mr. MANGUM. Well, very briefly, I guess I can address that. We are trying to develop a national system that is uniform nationwide. It would be an inequity we think to put all of our inspection supervision capability at one or two points that have had problems and just assume that those points, which have not had any visible problems, are totally without problems.

Senator HUDDLESTON. You are taking a position that there may be problems and it is necessary to carry on the inspection and supervision?

Mr. WILKINSON. We would again reiterate, Senator, that many of these had to be on the existing supervisory staff. They had been working with private and State inspection agencies prior to the imposition of the new act or even prior to the $5 million supplemental that you granted us.

Senator HUDDLESTON. We have been told that in some instances for some inspection agencies the cost of supervision will be about 50 percent or even more of the cost of the original inspection itself. Is that possible?

Mr. MANGUM. Well, in the interior—and we are addressing primarily the interior today—I think the rate is a flat .08 of a cent per bushel for supervision and the inspection process—and that is all the costs will be. Now, the export situation, that is entirely different. There we perform the original inspection and supervise ourselves. And we have imposed a fee to cover those costs. But at the interior it is a flat .08 cent per bushel or 80 cents per thousand bushels.

Senator CLARK. That is the total cost over and above the old systems—all things considered?

Mr. MANGUM. Yes, sir, that is right.

Senator HUDDLESTON. Well, how much increase does that represent?

Mr. MANGUM. Just off the top of my head, in the State of Kansas, for instance, our best estimate is that the current inspection costs there is .33 of a cent per bushel and this would be an added cost of .08 of a cent per bushel; bringing that cost up to .41 of a cent per bushel. Yes; that is right.

Senator BELLMON. Less than half a cent a bushel?

Mr. MANGUM. Yes; less than half a cent a bushel.

Senator HUDDLESTON. Of course this varies I would suppose.

Mr. MANGUM. Of course it does.

Senator HUDDLESTON. In the areas and the States where they have different——

Mr. MANGUM. The State of Kansas has a truck lot rate I believe of $2.50 per truck lot and we would add roughly 60 cents to that truck lot for supervision. Bear in mind that there are about 750 bushels per truck lot.

Senator HUDDLESTON. That is 60 cents over the $2.50?

Mr. MANGUM. Yes, sir.

Senator HUDDLESTON. About what?

Mr. MANGUM. About a 25-percent increase I think.

Senator HUDDLESTON. That does represent a substantial increase.

Senator DOLE. In addition, it is based on volume. There is not very much inspection, but yet we have a lot of volume. It is a pretty sizable amount.

Senator HUDDLESTON. Is this on the volume inspected?

Mr. MANGUM. Based on the volume inspected, the total volume inspected.

Senator HUDDLESTON. We have a lot of complaints, of course, about the burden of recordkeeping requirements. You have addressed yourself to that already to some extent. Do you think this can be alleviated to a great degree?

Mr. WILKINSON. Yes.

Senator HUDDLESTON. To a great degree?

Under section 12(d), as presently written, what are FGIS' plans for enforcement of the monitoring requirements? Have you assumed that FGIS would have to go around and make sure that the records are kept in a proper fashion?

Mr. GALLIART. You mean the monitoring of the records being kept by the grain people?

Senator HUDDLESTON. That is correct.

Mr. GALLIART. If we would follow through with the provisions, as it is specifically stated, it would require a number of people to go around and check to see whether or not records have been kept or are being kept. Yes, it would.

Senator HUDDLESTON. The only way to alleviate that is through the new legislation which changes the recordkeeping requirements?

Mr. GALLIART. Yes, sir.

Senator HUDDLESTON. Senator Young, do you have any questions?

Senator YOUNG. Yes; a few.

With respect to meat inspection, we do not have a problem of inspecting as many installations as in grain.

Do you intend to extend Federal grain inspection to every country elevator that handles all the grain in the United States whether it goes into the export market or not?

Mr. WILKINSON. Senator Young, that is a very good question. We would stress that in the interior, Senator, inspection is voluntary. Official inspection is not mandated.

Second, where official inspection is chosen by the industry to remain in effect, it would be done by either the private inspection agencies, which are now in existence, or by the States that are now providing that service. We would stress that the new legislation does not grant the Federal Government authority to take over interior official inspection or weighing for any long period of time other than during an interim period while a new agency is secured if one should go out of business.

Senator YOUNG. You would require every country elevator though to keep records available to you.

Mr. WILKINSON. The law now says that if that country elevator should call for an official inspection, that then brings it in under the requirement of recordkeeping; and it then has to keep the records that are specifically mentioned in the act.

Senator YOUNG. Let me ask you a question. In North Dakota we have four private inspection points. Most of our grain goes to the Twin Cities or Duluth where we come under Minnesota State inspection. If the shipper is not satisfied with their inspection, he can appeal for Federal inspection. How would that system be changed?

Mr. WILKINSON. That would not necessarily be changed one bit. The country elevator can provide its own determination of quality. There is no mandate that there be an official determination or certificate. If the buyer in Minneapolis wants to have official inspection of that grain as it comes in, that is his prerogative. He will then call for an official inspection.

Senator YOUNG. Who pays for official inspection? Does the buyer pay for it or the farmer?

Mr. WILKINSON. He would be the applicant. He would pay for it.

Senator YOUNG. What do you need all of these extra inspectors for? How many are being placed in North Dakota, for example?

Mr. WILKINSON. Does anyone know what North Dakota might require?

We do not have that right in front of us.

But let us remember, sir, that it would be the Federal supervisors who would make sure that the official inspection——

Senator YOUNG. But you have not acquired or trained all of the inspectors have you?

Mr. WILKINSON. We have acquired those 333 inspectors and I have indicated we would reduce that down to 231. They are acquired. They are on duty. And they would be the people that would be supervising the work of the official inspection agency of Minnesota—the State, for example. They would supervise the private inspection agency elsewhere and make sure that a uniform national program of inspection was being maintained and provided to the industry and to the farmer.

Senator YOUNG. And you will be running out of money the first of April I believe you said?

Mr. WILKINSON. Yes.

Senator YOUNG. The money that we gave you?

Mr. WILKINSON. Yes, sir.

Senator YOUNG. Unless the other fees can be charged.

Mr. WILKINSON. We would be running out of money unless the fees, as we are proposing, would be charged back to the applicants of this service.

Senator YOUNG. When you raise additional money, do you feel that you are subject to supervision by the Appropriations Committees of the Congress or can you merely go out and raise your fees as you see fit?

Mr. WILKINSON. No; you cannot increase the fees to suit ourselves, sir. And that is a proper question. These fees are carefully determined. And we have to be able to defend them before you and OMB and anyone else. They then go into the Federal Register as they are now in the Register.

There is a period of time—there is 30 days in which people may respond. This is the formal process of establishing fees.

Senator YOUNG. What does Congress have to say after you have gone through all of this procedure? What I am trying to say is if the Congress would write a provision saying "no money for this purpose"—are you saying we could not do that?

Mr. WILKINSON. No, sir. You have indicated to us that you expect a national program of supervision. We have tried to indicate what we believe is necessary to provide the national supervisory capability. We

then have, of course, the cost that goes into that: the salaries of the people, the travel costs, other costs. And it is a simple matter of division as to how many millions of bushels of grain will be inspected. And this develops our supervisory fee.

Senator YOUNG. But this is backdoor spending. Congress really does not have any control over it. The Appropriations Committee does not have any supervision.

Mr. WILKINSON. No; your act granted a trust fund or user fee concept, sir.

Senator YOUNG. I would also like to suggest that the grain inspection people stay around to listen to some of the questions raised by the witnesses.

Mr. WILKINSON. We will be here, sir. We are interested—as you are.

Senator HUDDLESTON. Senator Clark.

Senator CLARK. Mr. Chairman, lest my silence somehow imply that I agree with a lot of the testimony, I would like to just say a couple of things before asking any questions.

I think that we do not want to get off on the wrong track here and assume that it was the intent of Congress only to address itself to problems of a few ports. That was not the case at all. The case was—because we really did not know what the situation was all across the country—that we had the General Accounting Office undertake a major study—the only one, so far as I know, that has ever been undertaken that speaks with any great authority. And the conclusion of that report, which is available and anyone here can study it, was that we did need a national system; that we were not just dealing with illegalities but rather we were dealing with inefficiencies and ineffectiveness.

And just to cite one page of that—without going into detail—and I ask it be made a part of the record at this point.

Senator HUDDLESTON. Without objection it is so ordered.

[The following was received for the record:]

	Error rates found during appeal inspections [1]			Error rates found during supervision [2]		
	Evaluated by AMS	Found incorrect	Error rate (percent)	Evaluated by AMS	Found incorrect	Error rate (percent)
Beaumont, Tex	234	34	15	916	67	7
Des Moines, Iowa	304	70	23	1,731	295	17
Duluth, Minn	5,255	1,784	34	757	79	10
Grand Forks, N. Dak	23	7	30	373	90	24
Houston, Tex	1,439	143	10	2,009	167	8
Minneapolis, Minn	2,304	791	34	331	49	15
New Orleans, La	2,174	556	26	3,085	329	11
Peoria, Ill	801	149	19	194	29	15
Philadelphia, Pa	53	2	4	1,076	67	6
Portland, Oreg	352	80	23	(3)	(3)	(3)
Seattle, Wash	50	14	28	3,813	112	3
St. Louis, Mo	686	119	17	(3)	(3)	(3)

[1] Data obtained for all appeal inspections during fiscal year 1975.
[2] Data obtained for all or a representative portion of supervisory evaluations in fiscal year 1975.
[3] Data not obtained.

Senator CLARK. But just to cite page 24 of that report and cite several interior markets—including some in my State—the error rates that were found there in the study ranged above one-third: one-third of the inspections checked over a period of time were in error.

And I think the disagreement—perhaps not the disagreement but the confusion arises over whether in fact it was the intent of Congress to address itself only to illegalities. It was not. And if the Congress in fact were to address itself only to those areas and those problems where indictments and convictions took place in legislation generally in Congress, we would indeed limit ourselves a great deal more than we have.

The intent of the Congress and the purpose of the Government it seems to me is to deal with efficiency and effectiveness and not just illegalities. So when we passed this legislation, we did not just say there are a few rotten apples in three gulf ports and that is all we are concerned about. That was not our intent at all. And I hope we do not now less than a year later begin to accept that kind of argument. We were concerned about the effectiveness and efficiency of the interior markets, which we found to be in need of a national system. And that is why we adopted this legislation. And that is why people on this committee and the Congress generally supported that.

Now, if indeed we are ony going to judge it on the basis of illegality, it ought to at least be cited that there are presently 115 investigations underway according to the Justice Department. And although they are not allowed under the law to cite any specific cases, they tell us that these include very widespread serious criminal activities in the interior markets.

I suggest that it is not just a question of illegality, it is a question of whether we think that system works and works well.

And, secondly, it seems to me on this issue of conflict of interest, I do not hold for a moment to the idea that because we passed conflict-of-interest legislation in this bill—and all other areas—that we are somehow implying the guilt of all of those people who were in conflict. That is not the case. We need conflict-of-interest legislation in all areas of the Government. We do not want meatpacking companies, as far as I am concerned, to be involved in the inspection of their own meat and we do not want it in other areas.

What we said in the Congress when we passed this legislation was that we did not want people in the grain trade to be directly on the boards of inspection agencies and inspecting their own grain. Now, that did not seem to me to be any great violation of American principles. It is just good commonsense. It does not imply guilt. It just says we do not want people in the grain trade involved in any way which could affect their own inspections—specifically given the history of what we have seen so far.

Well, I just wanted to get that off my chest. Mr. Chairman, I think we can go too far with this idea somehow we have no concern about anything but illegalities.

Mr. Wilkinson, I inserted in the record earlier an article by Mr. Arnold Jacobson in the Des Moines Register in which he indicates that there is widespread concern about the cost of implementing this new grain inspection law. I gather from the people that I have heard here that that is their major concern. There are other concerns—such as recordkeeping and so forth—but this is perhaps the major one. Now, I sent that article down to you.

Mr. Wilkinson. Yes, sir.

Senator CLARK. Along with some others because I wanted to get on the record here the authenticity of these.

Now, I understand that, for example, in Des Moines that that terminal, that the estimated cost of Federal inspection in the Des Moines terminal is expected to be $300,000. Those were quotes from people in that area. Is that figure correct?

Mr. WILKINSON. No, sir. There are two errors in that statement, Senator. No. 1 is that the Federal Government would not have permanent authority to grant Federal inspection in Des Moines; that is an interior point. So they must be referring then to the supervisory fee. The supervisory fee for the volume handled by the Des Moines inspection agency last year at 80 cents per 1,000 bushels would be $81,835 and not $300,000.

Senator CLARK. Well, now, that same article says that "the cost of Federal inspection for the State of Iowa will be between $1 million and $2 million." Is that correct?

Mr. WILKINSON. Then it would be the supervisory cost and we have calculated that for you and other Iowa officials. It would indicate that it would be a total of $590,000—the supervisory fees, Senator—over the 11 private inspection agencies now doing business in your State.

Senator CLARK. How much would that be per bushel?

Mr. WILKINSON. That is 80 cents per 1,000 bushels.

Senator CLARK. Again it is exactly the same?

Mr. WILKINSON. Yes.

Senator CLARK. Now, Mr. Bob Anderson, the executive secretary of the Nebraska Grain Dealers is quoted there as stating: "It will cost farmers as much as 5 cents a bushel to have the Federal Government take over the grain inspection system."

Is the cost—is the cost as great as 5 cents per bushel possible under these current procedures?

Mr. WILKINSON. I presume again, since he is concerned with the interior, he is speaking of the supervisory cost. We have indicated again that would only be 80 cents per 1,000 bushels.

Senator CLARK. You have no idea how he could arrive at a figure of 5 cents per bushel?

Mr. WILKINSON. Unless he is taking our original inspection fee, which we would be now using at the port areas and unless he is trying to interpret that over Nebraska——

Senator CLARK. That would not make much sense to do that for Nebraska unless they moved the ocean.

It quotes some increases in the cost of inspection in Oklahoma. Perhaps Senator Bellmon has seen this. It says "Truck lot fees will go up from $2.50 to $12; bulk carlot fees from $3 to $15; hopper carlot fees from $6 to $18."

Is there any conceivable way these could be correct?

Mr. WILKINSON. Again the Federal Government would not be permitted to provide original inspection except on an emergency interim basis in Oklahoma, for instance. So I think again he is trying to use our original inspection fees at the export area, and comparing them with what the private or the State may be charging at the present time

Senator CLARK. Well, my time has about run out. Let me just, as one further question—this same article highlights complaints from a number of States on increases in costs. You are certainly aware of those complaints?

Mr. WILKINSON. Yes; very definitely.

Senator CLARK. Can you comment generally on their validity in terms of the volume of costs and so forth? There appears to be a very wide disparity between the costs that you cite—the less than one-half cent a bushel of grain—and these quotations of 2 cents and 5 cents and so forth. How do you explain that? What is the problem?

Mr. WILKINSON. I think you have to concentrate on the supervisory costs. Now, what some of these people may be doing is to anticipate that, of course, grain will be inspected not once, not twice, but possibly two or three or four times, depending upon the marketing, depending upon the marketing channel itself. They may be taking that 80 cents per thousand and multiplying it by five official inspections or more by the time that farmer's grain in Iowa or Kansas ends up on a vessel going to Europe. That may be one way that they are determining these particular types of figures.

Senator HUDDLESTON. Thank you.

Senator Dole?

Senator DOLE. If it does cost more at the port, sooner or later the farmer is going to pay for that, too; is he not?

Mr. WILKINSON. Yes, sir.

In the case of Texas, for example, as Senator Tower mentioned, some of those are paying the Federal inspection fees because they are having it directly inspected by the Federal Government.

Senator DOLE. Anything that reaches the port is going to back up sooner or later and somebody is going to pay for it and probably the producer.

Mr. WILKINSON. That is the way the American marketing system works, Senator.

Senator DOLE. Before I go on, I have just a few questions.

A member of my staff has talked with Mr. H. W. Grimes, president of the Stockton, Calif., elevators, who was not able to be here. I will submit his statement for the record.* You may be familiar with his problem. It is unique, because he operates both as an export elevator and as a country or local elevator.

Senator HUDDLESTON. So ordered.

Senator DOLE. In addition to exporting grains, the company receives farmers' grain, stores it as a warehouse, and sells it locally. Since all export elevators are required by the act to officially weigh all incoming and outgoing grain and to officially inspect all outgoing grain, Mr. Grimes asks, and reasonably so, if he will also have to have official weights on all incoming grain received by farmers and similarly have official weights and inspection on all grain being sold to local customers?

It is a unique situation. Maybe it has been called to your attention or maybe not.

Mr. WILKINSON. Yes, sir.

Senator DOLE. Have you made a decision on that?

*See p. 215 for the prepared statement of Mr. Grimes.

Mr. WILKINSON. Mr. Galliart can answer.

Mr. GALLIART. Well, the decision at the moment is to treat it as an export house. We have a number of mixes like this all over the country; and we would have to set up a special auditing system to know what was domestic and what was export. So it presents a very real problem for us. We are still looking into it.

Senator DOLE. It also presents a very real problem to him.

Mr. GALLIART. Absolutely.

Senator DOLE. So your way out is just to put him in. What is his way out?

Mr. GALLIART. That is right. Our decision is to put him in.

Senator DOLE. That is the way the Federal Government solves the problem; but he has to compete with other people there who deal locally; and I assume it is pretty difficult. It seems to me there ought to be some way to solve this. I assume there may be more than one of these. There may be some number.

Mr. WILKINSON. There are a number of them. Because of the Great Lakes, when it was frozen over, many of them are interior. When it thaws, they become export. So do we treat them one way or the other or do we look upon them totally as export elevators? This is the problem we are trying to work out. It is a good question.

Senator DOLE. While you work it out, he may be moving out. That is a real problem for Mr. Grimes. I will submit his statement for the record. Perhaps the committee can address the problem. It is one that is probably discouraging to him.

Second, I assume one problem with this new administration is going to be continuity.

Are all of your fellows on board for the next few years?

Mr. WILKINSON. No, sir; I am not. I recognize, sir, that I am a schedule C, and I am therefore an interim administrator. The President will make the appointment, with confirmation by you gentlemen.

Senator DOLE. But the rest are professionals?

Mr. WILKINSON. These gentlemen are professionals, but they are in acting capacities.

Senator DOLE. I do not suggest you are not a professional, but you are just interim?

Mr. WILKINSON. Thank you very much, sir. [Laughter.]

Senator DOLE. And who knows? They may not find you. [Laughter.] I mean, they may not have found you. I do not know. [Laughter.] What is the definition of "supervision" to a designated agency?

Mr. GALLIART. Well, the definition of supervision is that we in the Federal service will monitor the activities of the inspector and the sampler. As Mr. Wilkinson mentioned to you, it is a matter of using the monitoring system that we developed to monitor the analyses made by the inspectors, and our own commodity graders, who supervise them. In addition to that, we have what we call an over-the-shoulder or personal supervision wherein we are in the laboratory examining the analyses on the spot, Senator, made by the inspector.

We also do this for lab technicians and samplers.

Senator DOLE. What benefits will Kansas producers receive from this supervision?

Mr. GALLIART. We think the system which we developed over the last 18 months is a much improved supervision system over what we had.

What we had in the past, before this problem came to the attention of the public and Congress, Senator, was a downtrending in the number of samples we were obtaining—that we in the Federal service were obtaining to examine the work done by the samplers.

We were not getting to the outpoints of the official inspection agencies where inspectors were working, Senator, as frequently as we should have. We did not have a monitoring system, a computerized system that will help us to study the trends: the rigid, the less than rigid trends of the inspectors and our people.

We have installed all of these things and we think we have a much improved and better system for the benefit not only of the inspectors, but ourselves—both interior and export.

Senator DOLE. I share the view expressed by Senator Clark. We do not want to run from the act now because there was a need for some legislation. The farmer is concerned about shipping high-quality grain.

If he delivers high-quality grain, he likes to think that the foreign customer will receive that same high quality. So I am talking about that benefit.

Is that going to be a greater assurance? Will that happen now under this new system?

Mr. WILKINSON. Senator Dole, your State especially, and others here, are so dependent on the foreign market for their market, that our basic responsibility, as we see it—and I think it was your intention as you passed this legislation—our basic responsibility was to rebuild integrity into the American grain marketing system.

We believe that we have a national inspection and weighing system. To me it is this system that will be of direct benefit to the producer of grain in Kansas or Iowa or elsewhere—whether this grain is going to be marketed domestically or in foreign channels.

You know full well that one-half of our $22 billion export last year came from the sale of grain. We must have a system that will not be challenged or questioned in the foreign commerce.

Senator DOLE. Have you established the five regional offices? Have personnel been assigned to those?

Mr. GALLIART. We have not established the regional offices.

Senator DOLE. You don't have the sites in mind?

Mr. GALLIART. We have the sites in mind, the boundaries in mind, but we have not put the people on board.

Senator DOLE. What are the sites and the positions? Are you in a position to indicate the five sites?

Senator BELLMON. Before you answer, be sure one is in Kansas. [Laughter.]

Senator DOLE. I heard there might be one somewhere in Kansas and then I heard there would not be one.

Mr. MANGUM. Well, as it stands right now, the sites that have been approved by the Office of Management and Budget are: Atlanta, and Fort Worth, Kansas City is also probably being considered very

seriously. The other two will combine Federal regions and are still subject to some negotiations.

We had initially said Indianapolis, Ind., and Vancouver, Wash.; but those two are still up in the air.

Senator DOLE. You talked about the personnel. Are all of these 230 supervisors trained and ready to go?

Mr. MANGUM. It takes several years to train and develop a seasoned inspector. We hired these people last March, so quite obviously they are not seasoned inspectors at this time. We are currently spending about 15 percent of their time on direct training that you could identify as training; and the remaining 85 percent of their time is at least in a partially productive supervisory capacity.

Senator DOLE. One other matter of concern is that we will have qualified supervisors. Perhaps you can furnish for the record how many of the 230 have completed their training, and what that training consisted of, and whether or not you required the inspectors to get some on-the-job experience at the grading table before they became supervisors.

Maybe that can be answered very quickly; but it seems to me that you have to go through some apprenticeship to get experience at all levels before you suddenly become a supervisor.

Mr. MANGUM. That is correct, sir.

Initially, we send all of our trainees to 2½ weeks of formalized training and then they get approximately 3 months of intensive on-the-job training, and then they start this supervising of the sampling process and some of the less difficult activities in the inspection process.

It takes time, as I said, to get all of the details necessary, Senator, to be a proper supervisor of four or more grains, which we require to be called a fully qualified grader.

Senator DOLE. I also have some technical questions concerning weights. I will submit those and have the answers provided for the record.

Senator HUDDLESTON. Without objection it is so ordered.

[The questions from Senator Dole and answers from FGIS follow:]

QUESTIONS FROM SENATOR DOLE TO MR. WILKINSON, AND HIS ANSWERS THERETO

Question 1. Why is it necessary that the increased supervision (over pre-fiscal year 1975 levels) be conducted of inspection agencies that have not been indicted nor have had other similar problems, many of which may have a 70- or 80-year unblemished record of service?

Answer. As FGIS developed procedures for conducting supervision of official inspection agencies, it was necessary to make certain assumptions:

(1) FGIS must develop a uniform national system.

(2) The amount of supervision must be adequate to assure performance at the outset. It is anticipated under the new system that agencies or States that perform in a better than average fashion would receive less supervision after their proficiency is established than would those States or agencies performing below average who in turn receive increased supervision.

(3) This Agency would be criticized for assuming that some agencies are more susceptible to criminal involvement than others simply because some individuals or companies had previously been involved in malfeasance, and others had not.

Question 2. What is the definition of "Supervision of a designated agency"?

Answer. Supervision of a designated agency (or a delegated State agency) by FGIS would include all of the official inspection and weighing services performed by that agency. Specifically, it would include supervision of all sampling activities, laboratory procedures, checktesting of equipment, certification proce-

dures, application of official standards, and use of interpretive line samples. Also included as a part of the supervisory service are:

(1) Assistance in training of new samplers, technicians, inspectors, and weighers;

(2) examining and licensing applicants; and

(3) reviewing, amending, distributing and explaining new inspection and weighing procedures.

Question 3. What benefits will Kansas farmers receive from Supervisory services of the FGIS, for which the farmers will be paying per bushel on all grains inspected?

Answer. Through supervisory services of the FGIS, Kansas farmers will have more assurance of the quality of their grain prior to being merchandised in Kansas or being merchandised inter-State. FGIS supervision will help protect the integrity of the official inspection system and thereby provide a continued market for Kansas grain going to export markets. While the cost of FGIS supervision for the entire State of Kansas is estimated to be almost one-half of a million dollars, the cost per bushel is the same as for other States (eight hundredths of a cent per bushel).

Question 4. Your new supervision fees are to go into effect in the very near future. How prepared are you to immediately begin the full operation of the supervision program that these fees are supporting? Are all 210 supervisors already trained and in place?

Answer. The FGIS inspection supervision program from field offices which would be supported by the user fees has been in effect for some time. Not all of the 210 supervisors are fully trained as journeymen Agricultural Commodity Graders. However, some of the graders can supervise sampling activities which do not require as much experience or training as supervising inspections.

Question 5. Have the 5 regional offices been established and personnel assigned to those offices?

Answer. The concept of the five regional offices has been approved. In addition, the location of the five regional offices and the boundaries for those regions have recently received OMB approval. However, personnel have not yet been assigned to any regional offices.

Question 6. I have been told that in some instances, for some inspection agencies, the cost of supervision will be 50 percent or more of the cost of original inspection itself. This would possibly indicate overkill on the part of FGIS.

Are these figures I have quoted, true?

If so, please explain why it is that supervision should cost so much.

Answer. It is true that, in some cases, the FGIS supervisory costs are 50 percent or more of the cost of the original inspection. However, in many instances, the supervisory fee is considerably lower than that. Our supervisory fees are established on a national basis whereas the original inspection fees by State and other official agencies are established on a local basis, with costs varying according to the local labor market and other local situations. In many instances the Official Inspection Agency cost for their original inspection work would not recover their out of pocket costs if the complete required analysis was rendered. The supervisory fees, which we believe we need, amount to approximately the same figure as earlier appropriations from Congress for supervision. The 8/100 of a cent per bushel for supervision of Official Inspection Agencies has little economic impact on what farmers receive for their grain.

Question 7. Of these 210 personnel who will constitute your supervision force, how many have completed training?

Answer. Their training is still ongoing. It takes a minimum of from 2 to 3 years of concentrated training to bring new recruits to the journeymen level of proficiency.

Question 8. What has that training consisted of?

Answer. Several weeks of classroom training followed by a protracted period of supervised on-the-job training (OJT).

Question 9. (Isn't it the normal career advancement procedure to require a novice inspector to serve at least a year's apprenticeship as a sampler, before he or she is allowed to become a journeyman inspector?)

Answer. The trainee serves his first year of OJT as a basic level trainee. There is heavy emphasis on sampling and medium emphasis on grading.

Question 10. And then, to require the inspectors to get some on-the-job experience at the grading table itself, before they advance to the next level of "supervision"?

Answer. The trainee serves his second (and possibly third) year of OJT as an advanced level trainee. There is medium emphasis on sampling and heavy emphasis on grading.

After completing his advanced level training the trainee is promoted to journeyman level where he becomes a fully functioning agricultural commodity grader.

Question 11. The provision that has upset so many grain elevator operators and others about the new law, is the new, perhaps burdensome, record-keeping requirements for users of inspection and weighing services. I understand that this provision was developed in the Department of Agriculture. Why does the Department believe this requirement is important in the administration of the Grain Standards Act?

Answer. The record-keeping requirements in section 12(d) of the amended Act are important for two reasons:

(1) There is a lack of uniformity in the records presently being retained by warehousemen. Past experience indicates that in many instances USDA investigators and auditors were not able to document information concerning possible violations of the Act, because there were not adequate records available.

(2) The records identified in section 12(d) will also be beneficial in identifying for correction, potential inspection, weighing, handling, or merchandising problems in the marketing of grain.

Question 12. Although I can understand the need for FGIS to have access to complete and accurate records of the export grain evelators, and perhaps even the large volumes of officially inspected and officially weighed grain, do you think that there will ever be many occasions, if any at all, that FGIS would need access to all these detailed records listed in section 12(d) with respect to country elevators?

Answer. There would not be many occasions that FGIS would need access to all the detailed records listed in section 12(d) of the Act with respect to country elevators. In this connection we would not object to exempting country elevators from the record-keeping provision of the Act.

Question 13. Since the majority of all elevators, including country elevators, are required to keep records for either State warehousing agencies, the U.S. Warehouse Act, or under the CCC Uniform Grain Storage Agreement, couldn't FGIS devise a way to utilize these records grain elevators already keep, instead of requiring them to keep a whole new set of records?

Answer. FGIS expects to utilize the records already kept by grain elevators to fulfill most record-keeping requirements under the U.S. Grain Standards Act. However, for FGIS, CCC, and the Warehouse Act, we do not believe that a single record-keeping requirement placed on all elevators would be workable for the following reasons:

(1) The purpose and record-keeping requirements of CCC, U.S. Warehouse Act, and U.S. Grain Standards Act are different; and

(2) Not all elevators are subject to the requirements of CCC and the two Acts.

Placing a single record-keeping requirement on all elevators would be unduly burdensome on elevators that do not participate in all these activities. We believe that a brochure could be developed to set-out the record-keeping requirements common to all three activities.

Question 14. What are FGIS' staffing plans for weighing supervision at field offices or regional offices?

Answer. (a) Staffing at interior field offices will depend upon the workload at each location. We are unable to predict what this workload will be at this time. Staffing at export locations is based on the volume of grain received and shipped the immediate past year. Since weighing is mandatory at export, it is much easier to estimate the staffing needs at these locations. We can provide the staffing plan at each export location if you desire this information. The weighing staff at the regional office level would vary from two staffing specialists to assist field offices in interpreting and implementing weighing policies and procedures, to three or four specialists, depending upon the volume and area covered by the regional office.

(b) Because of the uncertainty of the demand for official weighing or supervision of weighing at interior locations, field offices will not be staffed with weighing personnel until there is a demonstrated need for their services. This same policy will be followed at the regional offices. Personnel will not be assigned for weighing supervision unless there is a need for their services.

Question 15. Was it ever the clear intent of the Department that the record-keeping requirement for grain elevators include all the many thousands of country elevators which:

—compose the vast majority of the 8 to 10 thousand grain elevators in the country; and

—for the most part use inspection services very rarely?

Answer. We do not plan on implementing the requirements cited in section 12(d) of the Act until regulations are written to spell out what records will have to be maintained and how they will be kept. In the interim, persons and firms receiving official inspection or weighing services are expected to continue their present record-keeping procedures and permit FGIS personnel access to those records on request.

Question 16. Under section 12(d) as presently written, what are FGIS' plans for enforcement and monitoring of their requirements?

Answer. After regulations are written to address the recordkeeping requirements, FGIS is planning to audit the records of those grain firms required to register in accordance with section 17 of the Act at least every 3 years.

If the current recordkeeping requirements remain in the Act, FGIS will develop some form of audit review of all elevators not registered under the Act. However, at this time, criteria have not been developed.

Question 17. Have you concluded or assumed that FGIS would have to staff up a large enforcement group to go around and make sure these records are being kept in a proper fashion? If not, what effect will section 12(d) have?

Answer. Records for interior firms would be monitored and audited on a periodic basis; however, at this time specific procedures for auditing the records of country elevators has been deferred until such time as criteria for the content of records to be maintained is agreed to. The Department would like the regulatory aspect of the Act changed to "maintain such records for such period of time as the Administrator may by regulation prescribe for purposes of the administration for enforcement of the Act." This would allow considerable latitude on the part of the Administrator to require recordkeeping and the magnitude of such recordkeeping. The current verbiage is very specific on what must be maintained in the way of recordkeeping for all those who have official inspection and/or weighing.

Question 18. Mr. Wilkinson, on January 18 you indicated that the FGIS has made no firm determination that interior exchanges will be automatically included or excluded from consideration as designated inspection agencies. Is that correct?

Answer. Yes. Clear criteria are needed with respect to waiving the conflict of interest rule for inspection and weighing agencies that have a conflict of interest. Because agencies with a conflict of interest were given official recognition when the U.S. Grain Standards Act was enacted by the Congress in 1916 and again when the Act was revised by the Congress in 1968, it would seem logical that clear criteria should be established by the Congress. If the Congress does not establish clear criteria, FGIS will develop the criteria through public rulemaking. Thereafter the criteria will be applied on a case-by-case basis.

Question 19. Did you not indicate then that the determinations for designation would generally depend on a case-by-case basis?

Answer. Yes. See response to question 18.

Question 20. I believe one additional point that you made was that the criteria for designation would be determined, hopefully, after FGIS has received input from the industry, is that correct?

Answer. Yes. See response to question 18.

Question 21. In light of this, why did you feel it was proper to say, as you did last week to the Plainview Grain Exchange, that it was in a "black and white" conflict of interest situation?

Answer. The Plainview Grain Exchange inspection service is apparently owned and managed exclusively by 25 grain firms. On this basis, it would appear that the agency has a clear conflict of interest as defined in the Act. Whether the agency should be included or excluded as a designated agency would depend on the criteria for waiving the conflict of interest rule.

Question 22. Those who are involved in the inspection and weighing of grain at interior terminals have indicated that, in addition to the historical record of an exchange, FGIS should consider as well the checks and balances inherent in each exchange's operation in making a determination on whether to designate

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that exchange as an official inspection agency. What are your thoughts on this suggestion, and what other criteria do you consider to be important to you in making designation decisions?

Answer. We believe that some of the criteria for conflicts of interest at interior locations that FGIS should consider are:

1. Historic balances between buying and selling interest inherent at each official inspection agency, bearing in mind:

a. The historic relationship of buyer and seller to the key officers of the organization; i.e., are all the key positions historically held by sellers or vice versa.

b. The relationship of those who are historically involved in the grain trade to key positions versus third parties who hold memberships based on other criteria.

c. How widely held is the stock, i.e., 5 versus 200 members.

d. The agency's historical involvement in malfeasance.

Question 23. You have told the Plainview Grain Exchange that they are in a "black and white" conflict of interest situation. Yet, even with the stringent requirements of the law, the Plainview Exchange can be sold, and operated legally as a designated agent by a single person, the chief inspector at the exchange. Don't you think this is the real conflict of interest situation that the FGIS should attempt to prevent?

Answer. No. If an inspection service is owned and managed exclusively by an individual who does not have a conflict of interest, the inspection service would not be considered to have a conflict of interest as defined by the Act.

Question 24. Wouldn't you consider it a very serious conflict of interest if a Federal inspector purchased and then ran an exchange which a board of trade had been forced by FGIS to sell?

Answer. No we would not consider this to be a conflict of interest unless the Federal inspector was involved in the decision to exclude the exchange as a designated agency. The Federal inspector would, of course, have to resign from the Federal service.

Question 25. Although several persons have expressed concern over the conflicts-of-interest provisions as they apply to grain exchanges, I don't believe that we on this Subcommittee can amend those provisions without re-opening the whole debate on the 1976 Act again. However, I further believe that these provisions (which include the possibility of a waiver) are fair and the real issue is whether FGIS will implement them in a fair and rational manner. Has FGIS already locked into place a position on waivers that will automatically exclude all grain exchanges?

Answer. No. We are planning to secure the advice of the industry and consumer groups prior to developing criteria for conflict of interest.

Question 26. Would the input from an advisory committee be of help to you in developing criteria for the granting of waivers?

Answer. We cannot speak for the Department to this extent. However, we would accept input from an advisory committee as well as from other interest sources. We have historically solicited advice and counsel from all willing to contribute and will continue to do so.

Question 27. What reasons do you foresee arising, under which FGIS might not grant waivers?

Answer. There are a number of reasons FGIS might not grant waivers, such as:

(a) If there was an obvious conflict of interest.

(b) If all officers of the official inspection agency were members of the grain trade.

(c) If most members or stockholders were on a single side of the grain trade; i.e., all buyers, etc.

(d) If ownership was narrowly held and involved in the grain industry.

Question 28. S. 593, as does S. 592, provides for the establishment of an advisory committee, composed not just of trade representatives—but also farmers and consumers. Would such a committee be of value to FGIS? How?

Answer. Yes. The advice, if broadly based from all segments of the industry and consumers, would assist FGIS in its decision process by offering the most current thinking on each subject area.

Question 29. How would you utilize such an advisory group?

Answer. An advisory committee, if brought into existence, would act as a catalyst and focal point for insight into the industry and how it functions in

relation to various elements of the revised U.S. Grain Standards Act, and its counsel would carry weight when FGIS considered controversial areas of the bill.

Question 30. What interior points have experienced weight problems?

Answer. The Federal Service has not previously had any responsibility for official weighing or for the supervision of weighing. Consequently, we have no information about weighing problems at interior points. However, over the years we have heard widespread complaints about differences in weights between interior and export points.

Question 31. Why prohibit agencies performing the weighing services at those interior points from using official weights?

Answer. The term official weights and official weighing are reserved to the Administrator of FGIS or to any delegated State agency or to a local governmental agency or any person designated by the Admiinstrator pursuant to subsection 7A of the Act. Agencies performing weighing services outside of the Act must be considered as performing unofficial weighing.

Question 32. Is FGIS aware of American Association of Railroads plan to discontinue class one and two weights supervision at interior locations?

Answer. We are not aware of their intention in this regard. We believe that their actual intention is to discontinue class one and two weights at those export locations where FGIS or a delegated State agency is providing weighing services. It is our understanding that they also plan to upgrade the class of weighing in the interior by discontinuing class three and four weights and offering only class one or two weights at all interior locations. If the particular location elects not to accept class one and two weights, then the AAR will drop that location from their listing. It is too early to tell what effect, if any, this policy will have on grain marketing procedures.

Question 33. Has FGIS met with the AAR on this subject?

Answer. A meeting is scheduled with the AAR in Chicago on February 28, 1977, to discuss the U.S. Grain Standards Act and the AAR plans.

Question 34. Has FGIS surveyed any grain elevators with class one and two weights to see if they desire "FGIS Official Weights in lieu of AAR weights"?

Answer. We have discussed this question with many trade groups, including the National Grain and Feed Association and no one is able to predict what the demand for official weighing or supervision of weighing at interior points will be. We have been told by some elevator operators that they would not ship grain to a port without an official weight at origin under any circumstances. We have been told by others that they see no need for official weights at both interior and export and since the grain received at export must be officially weighed they plan to trade on the basis of destination weights.

Question 35. Would Exchanges and Boards of Trade be prohibited from using the words "Official Weight Certificate" at interior locations?

Answer. Exchanges and Boards of Trade would be prohibited from using the words "Official Weight Certificate" at interior locations unless they were designated to provide official weighing services under the U.S. Grain Standards Act. Although official policy has not been established, Exchanges and Boards of Trade providing unofficial weighing services would be prohibited from using the word "official" on their weight certificates at interior locations. This prohibition is felt necessary in order to maintain the integrity of the system since it would be virtually impossible for supervisors to know when official and unofficial inspection or weighing was being performed if the same individuals could perform either. This prohibition will be effective upon implementation of appropriate regulations and these regulations will be published in the Federal Register sometime within the 18-month period from November 20, 1976 to May 20, 1978.

Question 36. Would farmers be precluded from storing their grain in terminal elevators unless they had FGIS weights?

Answer. This would depend upon the location of the grain being stored. If the grain was being stored at interior locations and there was no CCC loan program, a farmer would not need FGIS weights. If CCC required "official" weights, they would have to be performed by a designated agency under the U.S. Grain Standards Act. If the grain was being stored at an export elevator, FGIS weights would be required.

Senator DOLE. Finally, many of the things that you testified about, Mr. Wilkinson, are certainly true. I do not quarrel with any of the

testimony. However, there could be a very abrupt change if we acted on legislation which was introduced by a number of Senators last evening and is hopefully pending before the committee, or at least under consideration.

Do you think we have touched all of the bases in this legislation, or are there other areas that deserve some attention?

Mr. WILKINSON. I think, for purposes of your concern, those four critical areas that we talked about, I think you touched on those.

We would not say that that alleviates all areas of special concern. We know that, as we proceed to implement all of the ramifications of this legislation, Senator, there will be others developed.

But I think that the critical ones are already mentioned and you gentlemen have touched on them here this morning.

Senator DOLE. Is it safe to assume that the administration supports the changes, or can you speak for the administration?

Mr. WILKINSON. I am not sure that all of these have been evaluated or that our Secretary of Agriculture, Mr. Bergland, has had an opportunity to personally evaluate the recommendations that you now are proposing. So I cannot speak for the administration to that extent.

Senator DOLE. From a personal viewpoint, are they changes that you think should be made?

Mr. WILKINSON. Personally, the three of us very definitely believe they would help in the implementation of the act and would alleviate many concerns of our farmers and our trades people.

Senator DOLE. Thank you.

With reference to the advisory committee, could they be of some assistance as other problems arise?

Mr. WILKINSON. We would like to have the authority that you would grant to the advisory committee—advisory to the Administrator of the service—to face some other problems that perhaps today we do not anticipate.

Senator DOLE. I know you have not had much time to study the legislation. It has just barely been introduced. When you carefully consider it in the General Counsel's office and with others, if you find mistakes or other areas that need attention, if you could send those to us it would be helpful.

Mr. WILKINSON. Yes.

Senator HUDDLESTON. Senator Bellmon?

Senator BELLMON. Thank you, Mr. Chairman.

In order to get the record straight, I would like to ask all witnesses about the history of this bill. Some—or a lot of people here may get the opinion that this law was the idea of the USDA. As I remember, Mr. Wilkinson, the USDA did not want this act.

Is that true?

Mr. WILKINSON. The USDA recognized there was a need to improve the marketing program. The administration's proposal retained the system of the private inspection agency——

Senator BELLMON. Now, wait. Let us answer the question.

Did USDA want the act or not?

Mr. WILKINSON. Would you then restate the question?

Senator BELLMON. Did the administration want this act or not? As I recall, you were up here testifying against it; is that the case?

Mr. WILKINSON. Yes.

Senator BELLMON. Right.

I am trying to be on your side here. I think some people feel like you are the heavyweights in this act because you are doing something that is distasteful to the industry; but you are doing what Congress has instructed you by law to do?

Mr. WILKINSON. We are attempting to do specifically what Congress asked us to do.

Senator BELLMON. So the bad guys are up here and not down there. You will agree with that?

Mr. WILKINSON. No comment, sir. [Laughter.]

Senator BELLMON. All right.

The President signed it.

Now, the USDA did not want the bill. But is there any chance that you are deliberately overadministering the bill in order to generate opposition to it?

Mr. WILKINSON. I can truthfully tell you, sir, that we are not at all attempting to overregulate or overimplement or even speed up implementation of this act. We are attempting to do it exactly as we interpret the act and as advised by our attorneys.

Senator BELLMON. Then you are acting in good faith?

Mr. WILKINSON. Yes, sir.

Senator BELLMON. And you will respond perhaps officially for the record to the Dole bill, as to whether or not this bill will correct what you now perceive to be some mistakes or inadequacies of the present law?

Mr. WILKINSON. Yes.

Senator BELLMON. All right.

We have in my State a great many who are upset about the act and perhaps with good reason. But, as I recall from the testimony, what really brought on the trouble at the gulf ports was a lack of adequate supervision by USDA, probably due to the fact that you did not have a sufficiently adequate budget for supervision.

Is this the case?

Mr. WILKINSON. Oversimplified, we would say yes to that. There are other reasons, but you know them as well as we do.

Senator BELLMON. That is what led the Congress to the fee schedule. We were concerned if we set up a system like this and left it up to the Appropriations Committee or to the Office of Management and Budget, that we might again be in the situation where your regulatory supervisory service was starved and you were not able to meet your responsibilities.

So we put the fee schedule in place. Is that the case?

Mr. WILKINSON. Yes.

Your first action was to grant a supplemental $5 million.

Senator BELLMON. Which was after the irregularities had occurred?

Mr. WILKINSON. Yes, sir; but before you passed the new law. Then in the new law, you recognized this would be a changing situation and you granted the user-fee concept which, as the industry expanded, we, too, could expand, or if it contracted, we, too, could contract.

Senator BELLMON. So that is the basis for the fee schedule. You were trying to make certain that this new system would not fail—we were trying to make certain that this new system would not fail be-

cause of a lack of financial support from the Congress. That is how we got into this.

Now, you told us this morning that the additional cost to the grain grower from the supervision, Mr. Wilkinson, will be less than one-tenth of 1 cent a bushel.

Mr. WILKINSON. Eighty cents per thousand; eight one-hundredths.

Senator BELLMON. In farmers' terms, that means less than 1 penny?

Mr. WILKINSON. Yes, sir.

Senator BELLMON. There has been talk around here about it going to cost the farmers 2 or 3 cents a bushel. Can you explain how that would happen?

Mr. WILKINSON. Yes.

I would explain it this way—because some people have very properly taken that fraction of a cent and multiplied it by the number of inspections that may have been made on that particular lot of grain or as it is commingled somewhere in the marketing channel and——

Senator BELLMON. How many marketing inspections would one particular lot of grain need to receive in order to cost 2 cents per bushel?

As I figure it, it takes 16 inspections.

Mr. WILKINSON. Twenty inspections. This is the mathematician here.

Senator BELLMON. Has that ever happened?

Mr. WILKINSON. Not that we know of.

Senator BELLMON. What is the maximum number of inspections one lot of grain might receive in the normal marketing process.

Mr. GALLIART. I suspect two. Including reinspection if there is a problem and possibly three with an appeal inspection.

Senator BELLMON. So the maximum amount this bill might cost the grower would be three-tenths of a cent a bushel?

Mr. GALLIART. At most.

Senator BELLMON. One-tenth of a cent multiplied three times.

Mr. GALLIART. Let me clarify what I said about the three inspections.

This could occur at a terminal elevator, Senator, the inbound inspection, you know, and the reinspection. You not only have that but you have the inspections that are requested for the outbound grain.

When the grain leaves the terminal house and it goes to the export house, in other words——

Senator BELLMON. And that makes two.

And how many others could possibly occur?

Mr. GALLIART. Actually, it starts at the country elevator.

Senator BELLMON. OK. The country elevator is one; the terminal is two; the export terminal is three; and——

Mr. GALLIART. Well, it depends on how many times it has moved.

Getting back to the country elevator again, there is one there.

At the terminal elevator, you could have one inspection going in and possibly a reinspection and possibly an appeal.

Senator BELLMON. Does that make four?

Mr. GALLIART. That is four.

And then going out of the terminal elevator you could have the same situation.

Senator BELLMON. How many is that?

Mr. GALLIART. I am giving you the maximum now.

Senator BELLMON. Right.

Mr. GALLIART. And then when it goes to the export house——

Senator BELLMON. How many, six?

Mr. WILKINSON. Seven.

Mr. GALLIART. And then when it goes to the export house, it could very well be inspected again, Senator, coming in.

And in most cases this grain has been commingled. It is not in the same boxcar or the same truck.

Senator BELLMON. But as far as the producer is concerned, these all add to his cost of marketing?

Mr. GALLIART. Every time a request for inspection is asked for, then it could increase the cost.

Senator BELLMON. Now, you still have not answered my question: How many maximum inspections might occur for one lot of grain? You have gotten us up to seven. Are we beyond seven?

Mr. GALLIART. I suspect nine.

Senator BELLMON. Nine?

Mr. GALLIART. But keeping in mind that this grain has been commingled several times and it is not in the same boxcar.

Senator BELLMON. So the answer to the question then is that this act conceivably could add a little less than nine-tenths of a cent per bushel to the grower's cost? In other words, it would reduce his income by a maximum of nine-tenths of a cent per bushel.

Mr. WILKINSON. Three-quarters of a cent, Senator.

Senator BELLMON. Three-quarters of a cent? All right. That is the answer I was trying to get.

Now, the alternative is that the Congress would appropriate money to take care of the cost of supervision; is that right?

Mr. WILKINSON. That is the alternative that is being explored.

Senator BELLMON. Senator Dole, I want to put in the record figures showing the appropriated $240 million per year for the meat inspection system.

FUNDING FOR INSPECTION AND GRADING BY USDA OF COMMODITIES OTHER THAN GRAIN

[In millions of dollars]

Commodity	From user fees	From appropriations
Cotton	0.2	8.0
Tobacco	.8	5.0
Livestock	16.3	240.0
Fruits and vegetables	15.6	.6
Poultry	9.0	.03
Eggs	.2	5.5
Dairy	3.0	None

Source: Agricultural Marketing Service and Animal and Plant Health Inspection Service of the U.S. Department of Agriculture.

Is there some reason that we will appropriate an adequate amount there—I assume that is adequate—for meat inspection and yet not appropriate enough for grain inspection? I wonder why we fell down in making funds available to you.

Do you happen to know why it is we seem to adequately fund the meat inspection and not the grain inspection?

Mr. WILKINSON. I think some here would go back to the days of 1967 when the new Federal Meat Inspection Act was explored and passed by the Congress; and there was a human health factor involved in that. It was a mandatory program over all meat processing plants; and it therefore was expensive—therefore, there was an extensive funding program by the Federal Government and the State governments for those that have chosen to remain involved.

The "mandatory" is the main thing, Senator.

Senator BELLMON. So there is a basic difference then in the way the systems operate, which makes it likely that Congress would provide funding for the meat inspection program?

Mr. WILKINSON. Yes. I indicated human health and mandatory considerations.

Senator BELLMON. All right.

Then another criticism that I have received in my State about the bill and the way it is being administered is that apparently the way the program is now being run, you will put most of our local boards of trade out of business, out of the business of weighing and inspecting grain.

Mr. WILKINSON. We have tried to indicate this morning that we have not even arrived at that stage as to how we would develop a criteria to determine whether there is a conflict of interest which "would jeopardize the integrity of the service." We are asking for guidance. And we have a time frame that would give us an opportunity to secure such guidance—especially through the new advisory concept.

Senator BELLMON. Have you made any statements, either official or unofficial, indicating that local boards of trade are doomed?

Mr. WILKINSON. The only statement that I think I could be credited with making was that it was our interpretation that waivers were not to be considered automatic; that there was criteria to be required and, in turn, there was to be a reporting to you within 30 days of each waiver which would be granted, which to me did not indicate automatic waiver.

Senator BELLMON. But there is still the possibility that local boards of trade, if its record is good and if its competence is high, could continue in business?

Mr. WILKINSON. I do not know what the criteria might be that would be recommended to us by the advisory committee and by the industry and so I am not in a position to say yes or no at this point unless Mr. Galliart can react.

Senator BELLMON. I am asking you if there is a possibility they may.

Mr. WILKINSON. Yes; I presume there would be a possibility, or the waiver would not have been considered by you.

Mr. BELLMON. Back for a moment to the fee situation, as I recall the terms of the act, we intended for you to set up a trust fund, which you have done.

Is there a possibility to set these fees higher than will be needed so you can build up a reserve; and if you do build a reserve, that they could later be reduced?

Mr. WILKINSON. We have indicated how we established the base for this trust fund. We would now definitely indicate to you that if we found the fees to be more than necessary, as we proceeded to conduct the supervisory work—especially if we were forced to take over more areas at export because the States withdrew—then there would be a change in our fee schedule.

This is true with other trust funds. They are carefully observed by OMB and other entities of our Government. So they do not become excessive, Senator.

Senator BELLMON. They may also need to be raised if it turns out you are not charging enough.

Mr. WILKINSON. As someone will soon say, that is history of the Federal Government, I presume.

Senator BELLMON. You mentioned they can be observed by OMB. Is there provision for congressional review of those fee schedules?

Mr. WILKINSON. I know of none, but there may be a system between OMB and somebody——

Senator BELLMON. Here in Congress we generally do not think too much of OMB.

Mr. WILKINSON. All right.

I was about to make a comment, but I will not dare, Senator, on that subject.

Senator BELLMON. All right.

The other objection we get from our growers and our grain tradesmen at home is that the Federal Grain Inspection Service will not be able to handle the harvest crunch which always hits and is intense for 2 or 3 weeks and then it passes.

Have you made any preparation for the heavy movement of grain during June and July?

Mr. GALLIART. We feel we can handle any workload that comes our way. We have been doing it in our appeal work, which sometimes requires 24 hours a day and 7 days a week to meet the workload.

In the case of the harvest, like in Oklahoma, we will not be doing the original work. That will be done by the inspection agency and we will supervise them. We will have adequate personnel to do so.

Senator BELLMON. Are you going to be all set up in our State and be ready to go at harvest?

Mr. GALLIART. Yes.

Senator BELLMON. So there will not be any hangups and the grading will be handled as efficiently as it has been in the past?

Mr. GALLIART. We do not anticipate a problem.

Senator BELLMON. Senator Clark raised the GAO example of the grading errors in the inland ports.

As I recall that inland report, much of those so-called errors were due to the staff, that as grain is handled, sometimes there is shattering or cracking of grain, which automatically puts it into a different sampling.

Is that still going to be a problem? Are you going to ever get around to a system of grading grain based primarily on its feeding quality, and taking out some of the subjective judgments that have to be made now?

Mr. GALLIART. Well, Senator, that is our objective. For your information, we have established a departmental research committee to look into grain standards matters. We are also in the process of establishing an advisory committee to help us improve our standards and our grading procedures. And I hope we can eliminate much of this subjectiveness we are involved in today in grading grain.

Senator BELLMON. Well, now, Mr. Galliart, I had a bill here a couple of years ago to do away with the subclass of Yellow Hard Winter wheat. And we were told at that time by the USDA that if we kept hands off, you were going to take care of the problem.

Have you?

Mr. GALLIART. The subclasses are scheduled to be eliminated from the Hard Winter class, Senator, May 1.

Senator BELLMON. May 1?

Mr. GALLIART. Up until May 1 we will still be analyzing grain for subclass. I also understand that contracts are now being let by the exporters for subclass counts, which will not totally eliminate the subclasses. But I hope that, as they get along in this business of contracting, that the exporters will encourage the importers not to ask for subclass counts but consider protein as a quality indication characteristic.

Senator BELLMON. Now, you just told me that we still need a law doing away with that subclass.

Mr. GALLIART. No, it will be eliminated.

Senator BELLMON. But you said the exporters can ask for those counts.

Mr. GALLIART. Because the service is available, they can ask for a subclass count. It will not be a grading factor; it will be just for extra information.

Senator BELLMON. If I were a foreign buyer of grain in this country, I would automatically ask for a subclass count because it would give me another bargaining chip.

Mr. GALLIART. That is correct.

Senator BELLMON. How do you get rid of that nonsense? We all agree that the Yellow Hard Winter subclass does not indicate its baking quality as being inferior in any way. How are we going to end this nonsense and get to the place where our grain is sold on its merits? And we all know that this is a big hangup. One grader can look at a sample of grain and put it in one subclass and a different grader can put it in a different subclass.

This is a problem in Oklahoma. They grade the grain in Enid and put it in a certain subclass and then it goes to Houston and it goes into a different subclass because someone else's judgment is different.

Mr. GALLIART. I suspect the only way you could eliminate the problem would be to refuse to provide the service when requested and I am not so sure, Senator, we could do that. If we have the ability to analyze for subclass, even though it is special information, I suspect we have to provide that service.

Senator BELLMON. Then you are telling me we need a law that tells you to quit doing that. Is that what you just said?

Mr. GALLIART. I suspect that is right.

Senator BELLMON. All right. I wish you had told us that 2 years ago so we could get rid of this nonsense.

Is there any reason that Federal Grain Inspection Service fees will be higher than the private trade fees have been in the past?

Mr. WILKINSON. Dave.

Mr. MANGUM. Well, we did a time and motion study on how much time it takes to perform certain services and when we did that, we determined that it took specific time frames for each of the activities involved in the analysis of any particular kind of grain and we determined to recoup our costs—and we determined that in order to recoup our costs, we would have to have a certain number of dollars.

Now, I cannot answer why these fees at the private agencies are what they are because quite frankly, Senator, some of these fees I doubt can be adequate to recover their cost.

Senator BELLMON. Well, as I recall, the GAO study pointed out there were places where some grain inspectors were making like $70,000 a year or something in that neighborhood. What will you be paying your grain inspectors?

Mr. MANGUM. Our starting salary for a GS–5 I believe is $4.47 an hour. It ranges up for a GS–9 of from $6.78 to $8.81 an hour depending on the longevity step he happens to be in. Our top GS–9 will get less than $9 an hour.

Senator BELLMON. And if the inspector works 12 hours or 15 hours a day during harvest, he would be paid time and one-half or double time?

Mr. MANGUM. That is correct.

Senator BELLMON. Are you going to be able to move the inspectors around to where there is work for them or will they be in one locality?

Mr. MANGUM. Our inspectors will be located on an as needed basis from elevator to elevator and from point to point; yes.

Senator BELLMON. Mr. Chairman, to try to get this business about increased costs down to where it can better be understood, I have figures in front of me for certain land terminals and the one at Enid, which is Oklahoma's principal terminal, show that the cost of grading a hopper car has been $6 for a closed hopper car. It has now gone to $10.50. And out of that $2.40 is due to the new fee for supervision. The other increase would have happened anyway. In other words, if it had not been for the new law, the cost of inspecting a hopper car would have gone from $6 to $8.10; but because of the new law, it has gone to $10.50. So the increase, as you indicated, is about eight-one hundredths of a cent per bushel.

Mr. MANGUM. That is about a 25-percent increase.

Senator BELLMON. Similar increases have occurred at other points.

Mr. Chairman, I have no further questions.

Senator HUDDLESTON. Thank you.

On the conflict-of-interest waiver, have you set any kind of time schedule on when you will develop your guidelines and will be moving in that area?

Mr. WILKINSON. No; we have not yet. We are just beginning to think of what might be taken into consideration. This information would be refined and hopefully available to an advisory committee; and then we would go out into the area and receive recommendations from the people who would be affected.

Senator HUDDLESTON. That is an area you think the advisory committee would be helpful?

Mr. WILKINSON. Very definitely.

Senator HUDDLESTON. Senator Clark I think has accurately stated the attitude of most of the Members of Congress relating to the conflict-of-interest problem. Do you anticipate that you will take into account or are you able to take into account, consistent with the law, the past performance of the various agencies who may have been conducting these services?

Mr. WILKINSON. That very definitely should be taken into account but it may not be the only thing that would be considered.

Senator HUDDLESTON. You would develop a whole set of criteria?

Mr. WILKINSON. Yes.

Senator HUDDLESTON. Senator Dole, do you have anything?

Senator DOLE. I want to assure Senator Bellmon that there is a provision in the law to make certain that we do have adequate personnel during wheat harvest time.

Mr. WILKINSON. Yes.

Senator DOLE. It was mandated in the law.

Mr. WILKINSON. Defintely.

Senator DOLE. The Plainview Exchange in Texas has been told that they are in "black and white" conflict of interest. Yet even with the stringent requirement of the law, the Plainview Exchange can be operated legally as a designated agent by a single person, namely, the chief inspector at the exchange. Now, it seems to me this might be a real conflict of interest.

Do you have any comment about selling it to a single person who happens to be the chief inspector at the exchange?

Mr. WILKINSON. If he qualifies as apparently he does, Senator, as chief inspector now, then we would not presume there would be a conflict of interest. He would be the owner of that inspection agency. There would not be ownership by grain elevators and there would not be policy direction by grain representatives. This private ownership is the system that is in many cases located around the country now.

Senator DOLE. If a chief inspector buys up the interests and runs the exchange, it would not be a conflict of interest?

Mr. WILKINSON. That is the way we would see it at this particular time if he bought out that particular entity in the case of Plainview.

Senator DOLE. Have you said they are now in a "black and white" conflict situation?

Mr. WILKINSON. No, to my knowledge we have not said it is in black and white. I did receive a call or we received a call from the chief inspector and he had representatives of his board with him. They were trying to develop an orderly process for transition from the present system to one which they hope would be clear. They did ask whether their proposals would, in our estimation, be deemed satisfactory. And we indicated if they sold to the chief inspector, that it would appear to be, Senator, as long as there was no investigation that would indicate problems with that chief inspector.

Senator BELLMON. Mr. Chairman, may I ask one additional question?

Senator HUDDLESTON. Yes.

Senator BELLMON. You may think I am kind of hung up on this Yellow Hard Winter business and, if you do so, you are right.

My question, Mr. Wilkinson, is: Could a foreign buyer get the subclass grade in Canada, Australia, or any place else?

Mr. WILKINSON. I will have Mr. Galliart respond to that.

Mr. GALLIART. Subclass basically is unique in this country.

Senator BELLMON. It is unique in this country?

Mr. GALLIART. There is some indication of subclass in the other countries but not to the extent here.

Senator BELLMON. Is there any defense for subclass in this country.

Mr. GALLIART. Well, subclass is a historical thing as you know. It started I think back when the standards were promulgated in 1916. And it was at that time and still is—contrary to some of the comments that I have heard—a very rough measure of quality. And it is the kind of measure that can be performed by an inspector and fairly quickly. So over the years we have used it as an indication of quality.

One of the things that I might mention to you, in the north part of the country where you are dealing with Spring wheat, they very much like subclasses there. This is a good indication of quality.

Senator BELLMON. Is it better for milling purposes than Yellow wheat?

Mr. GALLIART. Well, it is higher quality wheat, Senator, that is usually mixed.

Senator BELLMON. The gluten can be determined chemically.

Mr. GALLIART. Yes.

Senator BELLMON. Then why do we not determine it chemically?

Mr. GALLIART. I agree that protein is the best indicator.

Senator BELLMON. Why cannot we settle on protein?

Mr. GALLIART. One of the problems with protein testing is the time factor. It is a chemical test that requires an hour or more to run. And when you are dealing with 75 or 80 trucks that are lined up for analysis, you just do not have that much time.

I think we will see the time in the not-too-distant future, Senator, where we will have an electronic device to measure protein. We are hoping that will come to the fore very quickly. We still have some bugs to iron out.

Senator BELLMON. Now, you have made a defense of this subclass. Do you feel it should be retained?

Mr. GALLIART. Senator Bellmon, I have disliked subclass since the day I discovered it. I was an inspector for over 10 years. I did subclass analysis in Oklahoma. I would rather discontinue subclass.

Senator BELLMON. Thank you very much.

Senator HUDDLESTON. Senator Young.

Senator YOUNG. I think that the new procedure will tend to make a more uniform and accurate inspection. Let me ask you this question. If I took a sample of wheat and sent it to 12 different Federal inspectors and they were not aware I was doing that, do you think they would all come up with exactly the same grade based on protein, color, test weight and all?

Mr. GALLIART. Well, sir, protein is a chemical test and there are some variations that may occur. But in the normal course of things, you certainly will have some variations between inspectors.

Senator YOUNG. That is one problem I have with the GAO. I never knew them to have much expertise in the farming business. I think maybe they did a thorough job of inspecting grain, but I do not have too much confidence in them in this particular area.

Senator HUDDLESTON. Any other questions? Senator Clark.

Senator CLARK. Yes. Just a couple.

Again I would like to just for the record say that the bill we passed in the Senate did not in fact assign supervisory fees to the users. You will recall if we had an all-Federal system that would have been paid for out of appropriations, there would have been no user fees. User fees were in fact recommended by the Department and adopted in the House bill. And we gave in on that point after we lost on the Federal system in the process of conference.

And second, the language on recordkeeping, which went into the bill, was in fact recommended to us by the Department. We took it whole and wrote it into the bill upon the recommendation of the Department. In fact, I remember that Senator Bellmon offered an amendment, which was adopted, which said the farmers——

Senator BELLMON. My amendment was amended and adopted.

Senator CLARK. This particular one though just dealt with whether users would have to keep records. And it passed. And it was only because of that amendment that in fact farmers do not have to keep the same records.

Now, one last point on conflict of interest because there has been a lot of discussion about it and great interest. And some of the members will remember that this came up in the confirmation hearings of the Secretary of Agriculture, of Mr. Bergland. And I think it ought to be read in the record at this point because it has come up several times here. I asked Secretary Bergland the following:

> As you recall, one of the points of contention in the conference on grain inspection is the question of the conflict-of-interest provision and that was finally resolved and became law and went into effect. Although it was a very tough conflict-of-interest provision, it does allow the Administrator the waiver provision as you recall. In terms of your own feelings and oversight over the Administrator himself, do you feel that those waivers ought to be or should be carefully given in a selective way?

And Mr. Bergland responded:

> They should be very carefully given in a selective way. It is not contemplated that the waiver be granted at the whim of the applicants.

And so I gather it is not going to be a question of simply applying and if you do not have a bad record, that a waiver is going to be automatically given. Is that your understanding of what Mr. Bergland was saying?

Mr. WILKINSON. That is our understanding, Senator.

Senator CLARK. Just one clarification. As I understand it, if what we call the "Dole bill" passes, there will no longer be any additional costs, supervisory costs to users. That will be picked up directly by the appropriation process as we had originally had in our Senate bill.

It that not correct?

Mr. WILKINSON. As we understand it—having seen it just this morning, Senator—this would be our understanding, yes.

Senator CLARK. So the problem that has been cited around the country a great deal as to the costs, the problem would be entirely solved if that act took place. Is that correct?

Mr. WILKINSON. The supervisory costs.

Senator CLARK. That is what I mean, supervisory costs.

Mr. WILKINSON. Not all costs. Yes, sir.

Senator CLARK. All of the costs regardless of how many inspections occurred, it would be covered?

Mr. WILKINSON. That is correct.

Senator CLARK. Well, I have other questions but we have so many witnesses, I think I will quit.

Senator HUDDLESTON. If there is nothing further of these witnesses, Mr. Wilkinson, we appreciate your coming and we appreciate your willingness to hear the problems that many people are experiencing. I think it is somewhat unusual to have an oversight hearing at this early stage of implementation of a new act and we recognize that; but we thought that it might be helpful to prevent some mistakes just simply by having a better understanding of what is really happening out in the field. It is that hope that causes us to proceed with these hearings at this time. I appreciate the fact that you are going to have a representative here to hear the testimony of the other witnesses.

Mr. WILKINSON. Thank you very much.

Senator HUDDLESTON. The next witness is Mr. Paul Hughes, secretary, Midsouth Soybean & Grain Shippers Association, accompanied by Gary E. Williamson, manager, Browder Grain, Inc., Fulton, Ky.

Mr. Hughes, if you will identify yourself and your associate for the record?

STATEMENT OF PAUL C. HUGHES, SECRETARY, MIDSOUTH SOYBEAN & GRAIN SHIPPERS ASSOCIATION, BLYTHEVILLE, ARK.; ACCOMPANIED BY GARY E. WILLIAMSON, MANAGER, BROWDER GRAIN, INC., FULTON, KY.

Mr. HUGHES. Mr. Chairman and members of the committee, I am Paul C. Hughes, manager of Farmers Soybean Corp., an independent grain firm located at Blytheville, Ark.

I am also a past president and past director of the Memphis Board of Trade.

Today I am appearing for the Midsouth Soybean & Grain Shippers Association as its secretary.

With me is Gary E. Williamson, manager, Browder Grain Co., Fulton, Ky., who is also a director of the Midsouth Soybean & Grain Shippers Association.

Mr. Chairman, we want to thank you for holding this hearing and extending to us an invitation to make statements. However, in the interest of time we will make just one statement.

The Midsouth Soybean & Grain Shipers Association is a voluntary regional association of country grain firms located in those parts of the States of Kentucky, Missouri, Tennessee, Arkansas, Louisiana, and Mississippi that have as a common bond the movement of grain to the export elevators located in the Mississippi River gulf area.

Our membership of about 125 members receive most of their grain from farmers by truck and ship most of their grain by rail, barge or truck.

We were and are in complete agreement with many of the provisions of the Grain Standards Act of 1976, such as those sections providing for an administrator, the placing of official weights under USDA supervision, the increasing of penalties and the stepping up of Federal supervision.

However, there are several sections of the bill as now written or the regulations and fees coming from this bill that we are not in complete agreement.

Mr. Chairman, in accordance with the idea of speeding up the time, I will not read this part on section 12(d) because I believe you are going to handle it pretty well in your bill except I would like to point out I believe the record of keeping treating, drying, blending, and other processes of grain is an almost impossibility even for a terminal elevator to do or an export elevator and not just country and subterminal.

We thought one of the things that held the Grain Standards Act of 1976 in the conference committee for over 5 months was that to do with private inspection agencies operated by boards of trade, grain exchange, chamber of commerce and the like. We, in our area, were told that the conference committee agreed that if they could meet the conflict-of-interest provision by setting up autonomous committees to run the agency and were approved in USDA they could operate. The FGIS has now said on several occasions that they were not going to encourage such agencies to function. This, we thought, is contrary to the wishes of the conference committee.

We in the Midsouth can see no reason why the Memphis Board of Trade, Louisville Board of Trade and the Little Rock Grain Exchange should be forced to close. They have provided up to 90 years of service to the grain trade without scandal.

You might ask why we have such an interest in keeping our local inspection services operating. If nothing else, it is because of the economy they offer the trade. Since we use the Memphis Board of Trade inspection service, we will use the cost of their service as our examples. Without going into all the rates, let us discuss the cost to the country shipper and our customers for the official inspections of a 3,000 bushel hopper car. The Memphis Board of Trade before February 1 would inspect that car for $6 per car or 0.2 of a cent per bushel. The charges at the gulf were similar. FGIS has announced their charge at the gulf and other points at $18 per car or 0.6 of a cent per bushel or 300 percent higher. After February 1 the Memphis Board of Trade will have to increase their charge $2.40 per hopper as a supervision fee for FGIS at the rate of 80 cents per 1,000 bushels, so today the Memphis Board of Trade cost is $8.40 versus $18 for FGIS or still 230 percent cheaper.

In other words, FGIS inspections would cost 230 percent more per bushel than private inspection with stepped up FGIS supervision.

Senator HUDDLESTON. Let us start right there and see if those figures are consistent with the figures the Agency has. Are they?

Mr. HUGHES. I do not believe you can blow these out of the water. You might.

Senator HUDDLESTON. Let us see if Mr. Wilkinson can respond. Did you calculate that?

Mr. WILKINSON. Let Mr. Mangum respond.

Mr. MANGUM. If I got your figures correct, sir, you said your fee for a hopper car was $6 per hopper car?

Mr. HUGHES. That is right.

Senator HUDDLESTON. 3,000 bushels.

Mr. MANGUM. We are going to add to that $2.40 because an average hopper car has 3,000 bushels per hopper car.

Mr. HUGHES. That is $8.40.

Mr. MANGUM. OK. That brings it up to $8.40 for the entire cost at his board of trade, which is about a 25-percent increase, which we said earlier.

Senator HUDDLESTON. Do you agree with that?

Mr. HUGHES. Well, actually, Memphis, Tenn., was $2.10. And I do not know why I am getting a little different figure than them on my calculator, but I come up actually to 0.26—now, a little more than a quarter of a cent per bushel, six-tenths of a cent at a gulf location or any other location that FGIS would operate.

Mr. MANGUM. I think we are comparing apples and oranges here. We are addressing the Memphis Board of Trade in comparing costs, which was $6, and we are adding $2.40 to that for supervision. That is one inspection.

Now, if that particular load of grain goes down to an export situation, then we have an original inspection, which we perform, which is entirely different. It is no longer supervision; it is the original inspection process itself.

Mr. HUGHES. Which is $18 a car, which I am saying here, Mr. Chairman—which is 230 percent higher.

Senator HUDDLESTON. They would not be inspecting them. They are only providing supervision?

Mr. HUGHES. In Memphis, only supervision; and in New Orleans, they are providing inspection, which is higher.

Senator HUDDLESTON. All right.

Mr. HUGHES. In other words, this should put the lie to the statement that the Government can do it cheaper once and for all.

One of the things that can hurt a Government agency and destroy its credibility is for folks to start laughing at its regulations. If FGIS regulations concerning the collections of fees on warehouseman lot sample inspections wasn't so serious, it would be funny. In the Grain Standards Act of 1968 which is considered one of the major bills passed in the Johnson administration, the act provided for a yellow official grade certificate on what are called warehouseman lot samples.

Until February 1, the Memphis Board of Trade were charging $3 flat for such an inspection, regardless of container.

This FGIS in their schedule of charges say they will do the inspection for $9.50 flat, regardless of the container or 317 percent of the Memphis charge.

However, the FGIS has ordered that after February 1, the Memphis Board of Trade must remit to them 80 cents for each 1,000 bushels that the container held.

So today Memphis must charge $5.40 for a warehouseman lot inspection from a hopper car and $39,000 for a 45,000-bushel barge.

Now, the FGIS $9.50 charge will be 176 percent higher than Memphis on hopper cars but will be 410 percent cheaper than Memphis on 45,000 bushel barges. It's silly for FGIS to tell the trade they need 176 percent more than Memphis for a hopper car but will do an inspection on warehouseman lot samples for barges for 410 percent less than Memphis.

Mr. Chairman, we had a recommendation here for what we thought would make some improvement and which is in line with your bill and Senator Dole's bill, Mr. Chairman, for advisory committees.

The only question that we have is that a 7- or a 10-man committee could be too small if everybody was not there at a particular meeting, so that the recommendations which came from that committee could be weighted if, for instance, all the grain people were there. So it could be weighted by that. Or if there were more producers there or more consumers or whoever it is, it could be weighted by that. And we are suggesting a 25- or 30-member committee, which was more in line with the size that I believe was used by the Commodity Futures Trading Commission when they made their rules and regulations that they operated by.

Mr. Chairman, we appreciate this opportunity to appear and make our statement. The Midsouth Soybean & Grain Shippers Association is willing to work with your committee, FGIS, or any other group to maintain a good grain inspection and weighing system in our country.

We stand ready to respond to questions concerning our statement.

Senator HUDDLESTON. Any questions?

Senator DOLE. I think it is a very good statement.

Senator HUDDLESTON. Mr. Williamson, do you have a comment?

Mr. WILLIAMSON. Yes, Mr. Chairman, I have two comments.

You asked in the beginning to have us give a comment on your proposal. The only two I can see immediately would be—and they look very good—would be: What would be the relationship of your advisory committee to the Administrator of FGIS? In other words, to what extent would he be bound by their decisions?

The second point might be: What is the definition of an "inland terminal elevator" versus a "country elevator," as related to recordkeeping requirements—once you make the decision what recordkeeping requirements must be made.

Senator HUDDLESTON. Well, that is fine.

Senator DOLE. No; I think it is good to raise these questions, and we will try to work them out. We have had comments on the advisory committee. The second question does raise a good point.

Senator HUDDLESTON. Thank you.

I note there is an attachment to your statement, Mr. Hughes, it will be included in the record.*

*See p. 146 for the attachment to the statement submitted by Mr. Hughes.

Our next witness is Mr. George Wood, accompanied by Harley Donnell.

Before you proceed, Senator Dole has a suggestion here.

Senator DOLE. We are in the process of trying to combine some of the panels. Many of us and myself in particular have to be on the floor this afternoon. We would like to hear from every witness, but it is not going to be possible. We are trying to put together an alliance here of Kansas, Iowa, and North Dakota, where representatives from each of those groups could appear at the same time and comment on the legislation and make any other points they wish to make. We will accept your full statements for the record. Otherwise, it is going to dwindle off so that maybe only one member would be here, and we will not have the give and take. Is that right?

Senator YOUNG. Yes.

Senator HUDDLESTON. Senator, that is satisfactory to us if it is to the panels.

Senator YOUNG. I think each group should have at least 10 minutes.

Senator HUDDLESTON. Yes.

Are you suggesting, Senator, that Kansas, Iowa, and North Dakota go together?

Senator DOLE. Right.

They would each have time to express their own views, because the problems are different in North Dakota than Kansas, but rather than have 20 or 30 minutes for each panel, we would combine them. We would like to have as much opportunity to hear them all as we can.

Mr. Taggart is going to work out something.

Senator HUDDLESTON. All right.

We will proceed, then, while Mr. Taggart sees whether or not that is a feasible way to proceed.

Mr. Wood?

STATEMENT OF GEORGE WOOD, VICE PRESIDENT, NATIONAL GRAIN & FEED ASSOCIATION, CAMDEN, N.C.; ACCOMPANIED BY HARLEY DONNELL, CHAIRMAN, NATIONAL GRAIN GRADES COMMITTEE, FORT WAYNE, IND.

Mr. WOOD. Thank you, Mr. Chairman, and members of the subcommittee.

I am George Wood, vice president of F. P. Wood & Son, Inc., Camden, N.C. With me is Mr. Harley Donnell, vice president, grain, Central Soya Co., Inc., Fort Wayne, Ind., who is chairman of the Grain Grades Committee. We appear on behalf of the National Grain & Feed Association, of which I am second vice president.

I will be very brief, Mr. Chairman, because I know time is of the essence. I have just read a brief synopsis of those bills that were introduced by you and Senator Dole. Both bills contain some of the recommendations that we were planning to make to this committee. Those bills continue recordkeeping provisions, which we will address ourselves to.

Both bills mention an advisory committee, and one bill refers to fees and cost. We will address ourselves to these provisions also.

I appeared before another subcommittee of this committee on July 8, 1975, to testify on Senate Joint Resolution 88, and sent a letter to you on March 15, 1976, on S. 3055.

In that testimony and letter, we asked that the committee not overreact to the conditions found at the gulf ports. The GAO report and the testimony of Mr. Gallinghouse would lead one to believe that the conditions at the gulf ports were symptomatic of conditions throughout the entire grain inspection system. They further inferred that ongoing investigations would reveal widespread violations of the law. To date, nothing of the kind has developed.

The national association and its members are vitally interested in the integrity of the inspection service and pay for that service. The national played a large role in the enactment of the 1916 act which was designed to resolve intermarket differences in grain grades and to facilitate the efficient marketing of grain.

A major effort of the national from 1965 to 1968 was to work for amendments to the act to bring it in line with changes in the grain-marketing system.

We also appeared before Appropriations Committees supporting funds for research for a device or devices which would make the grading of grain more objective.

We do not condone the irregularities that occurred at the gulf ports. But the 1976 amendments did overreact.

Section 12(d), which requires anyone who has obtained an official inspection to keep records for 5 years, has caused great concern and confusion in the industry. The records which are required to be kept cannot possibly be maintained.

And I was delighted, Mr. Chairman, to see that in your bill and Senator Dole's bill, you have addressed yourself to that particular issue.

Grain is a fungible commodity, unless identity is preserved, which is commingled when it is received and generally is blended as it is shipped out to make contract grade. Blending makes the producer's poor quality grain merchandisable.

I think it would be impossible for the country elevators and the terminal elevators alike to keep records on blending and other provisions of this bill. We are opposed to that.

With respect to handling, treating, drying, blending, and other processing, these terms are not defined in the act. And I think it would be awfully difficult for us to keep those records.

In order not to unduly burden the record, I will comment only on blending.

If low-quality grain is purchased and stored for later delivery, in and of itself it is not a merchandisable commodity.

By upgrading it by blending with a high quality commodity it can be sold. The skillful elevator operator can mix the low-quality grain and high-quality grain by adjusting the outflow valves of the bins so that he gets a mix or blend which meets contract terms.

This permits the low-quality grain to enter the marketing channels and increases the amount of our marketable commodities for food and feed. There is no practicable way to determine the exact amount of low- or high-quality grain which made up the mix so that blending records would be impossible to maintain.

We would be happy to discuss with you or your staff the impracticality of the other requirements of recordkeeping on treating, cleaning, drying and other processing.

Unlike other regulatory agencies such as the Interstate Commerce Commission, the Federal Trade Commission, the Federal Power Commission, the Securities and Exchange Commission and others, the Federal Grain Inspection Service is to be supported by the industry regulated, other than Washington administrative costs.

We see no logic for this arrangement, since it is the producer as well as the consumer who garners the benefits and such inspection carries out the intent of the act—to facilitate the marketing of grain. This includes benefits to the producer, the consumer, and the economy in assisting our balance of payments in foreign commerce.

Recognizing the costs and the possible increases due to low estimates and inflation, some of our processing members, fearful of the costs and recordkeeping requirements, have informed their sellers that they will purchase only on their weights and grades.

They, of course, must use U.S. grades, but they will conduct their own inspection and their own weighing. The end result of this trend is hard to forecast, but if it persists, we in the grain industry will go back to pre-1916 conditions, where intermarket differences in grading created chaos.

Did Congress intend that we move back 60 years to an inefficient grain marketing system? We think not, but that is what our more pessimistic members are predicting, and our leaders are fearful of.

The total cost of implementing the U.S. Grain Standards Act of 1976 will be greater than the direct cost FGIS supervision and the cost of inspection and weighing. These costs and other indirect costs which result from the administration of the act will increase the cost of marketing grain and will reduce the price of grain to grain producers.

Furthermore, other features of the act will increase marketing costs, which are not as visible to the outsider but exist nevertheless.

The cost of not using official inspection can only be dealt with in general terms. The disuse of official inspection can only lead to lack of uniformity or inadequate measurement of grain quality.

We think the U.S. economy, the grain marketing system, and the U.S. producer will face increased costs, which are excessive, unnecessary and for which equal compensation by increased benefits is not envisioned.

Over the years, the Federal appeals system has tended to reduce differences in intermarket grading. We see great difficulties in maintaining the progress made when the FGIS does the appeal work over their own personnel. Under the previous system, a third disinterested party was conducting appeal inspection. By the 1976 amendment, the disinterested party was removed and FGIS does it all and the impartiality of the appeals is lost.

There is some confusion over the requirements for registration of firms engaged in the business of buying grain for sale in foreign commerce.

This confusion must be resolved in the legislative process and not left to the whim of the Administrator of the FGIS. We would be happy to work with you and your staff in resolving this confusion.

The Administrator may designate a board of trade, chamber of commerce, or grain exchange as the official agency if he determines that any conflict of interest which may exist is not such as to jeopardize the integrity or the effective and objective operation of the functions performed by such agency.

There is an absence of legislative history as to the extent that such waivers are to be granted. We would suggest that in this hearing your committee develop guidance on conflicts of interests for the Administrator.

We have recommended to the Acting Administrator of the FGIS that he follow the pattern used by the Commodity Futures Trading Commission in their development of regulations in a highly complex area.

Large advisory committees were established comprised of knowledgeable men who were able to ask meaningful questions of witnesses to establish every aspect of the problem area and its possible solution.

A transcript was made which was available to committee members for reference. The committees' recommendations were presented to the full Commission for consideration and resolution. The regulations which are being promulgated are covering the really tough areas which Congress left to the Commission.

We would suggest that your subcommittee urge the Administrator to set up three advisory committees, one on inspection, one on weighing and the third on standardization.

The committee membership should be large, 25 to 30 members, coming from every segment of the grain marketing system, including producers.

It should also include recognized authorities from academia and be assigned legal counsel. Committee members should be permitted and encouraged to question witnesses to establish a record of which a transcript would be available to the committee in developing their recommendations and to the Administrator in making his decisions.

It is recommended that the act be amended as follows:

(1) Section 12(d) delete the words "treating, cleaning, drying, blending, and other processing."

(2) Section 17A, insert the word "regularly" between the words "persons" and "engaged,"—and this deals with the registration; and we think it ought to be for those at export terminals where they are regulated in buying grain for export.

(3) Sections 7(j)(1), 7(j)(2), 7A(l)(1), 7A(l)(2) and 17A(e) be amended to reflect supervisory costs are to be supported by appropriated funds—as you have suggested in your bill, Mr. Chairman.

So, Mr. Chairman and members of the subcommittee, we appreciate this opportunity to appear before you today and we stand ready to attempt to answer any questions you may have.

Senator HUDDLESTON. Thank you.

Mr. Donnell, do you have a statement?

Mr. DONNELL. No, sir.

Senator HUDDLESTON. I think many of your concerns have already been touched on today and, of course, some are addresesd in the new legislation that was introduced yesterday.

There is one question I had on blending.

You say it is impossible to know the amount of the different grades. Would you not almost have to know how much lower quality grain goes into a blend?

Mr. WOOD. It is impossible to determine the exact amount, Senator. Blending has bothered this committee all along but there are many good things about blending.

I appeared before another subcommittee of the Senate Agriculture Committee on July 18, 1975. I pointed out then in our own operation we had recently purchased some milo from a farmer which had been damaged by frost and was very low in test weight. We could not use that particular lot of milo for feed because of the low test weight and the high fiber content. In order to have a usable product, we had to blend the lot with higher test weight milo to reduce the fiber content.

Senator HUDDLESTON. If you blend it, then you have a lower test weight.

Mr. WOOD. But when we blended a higher test weight and a lower test weight, the composite lot was lower in fiber and it could be fed to livestock.

Senator HUDDLESTON. Senator Young?

Senator YOUNG. No questions.

You had a good statement.

Senator HUDDLESTON. Thank you very much. We appreciate it.

We are going to try to keep working you witnesses right along and have the committee take shifts. Senator Young will take over the chair for the next session.

Senator DOLE. North Dakota will come together with Kansas. The next couple of witneses only want a few minutes each.

Senator HUDDLESTON. OK.

Mr. Brooks, I understand, is next.

[Senator Young assumed the Chair.]

STATEMENT OF WILLIAM BROOKS, PRESIDENT, NATIONAL GRAIN TRADE COUNCIL; ACCOMPANIED BY RONALD E. PRATT, PRESIDENT, TERMINAL GRAIN ELEVATOR MERCHANTS ASSOCIATION, CINCINNATI, OHIO

Mr. BROOKS. Mr. Chairman, in order to expedite my talk, I will stand up to remind myself that I have got to sit down very quickly.

With me is Ronald Pratt of the Terminal Grain Elevator Merchants Association. That association is one of our members.

Mr. Pratt has a statement, which he has submitted. We would like to incorporate our statement in the record and I would like his statement in the record.*

Senator YOUNG. So ordered.

Mr. BROOKS. We have not had a chance to really study Senator Dole's proposal and Senator Huddleston's proposal, but let me say I like the idea; and we are going to give some study to this.

I would like to read just a brief statement from President Carter's observations last night, because I think it applies to these bills, as it will to one of the things he was talking about.

*See p. 148 for the prepared statement of Mr. Brooks and p. 154 for the prepared statement of Mr. Pratt.

Early on in his talk, the President said:

> In many other areas—other than energy—we must move carefully with full involvement by the Congress, allowing time for citizens to participate and careful study in order to develop predictable long-range programs that we are sure we can afford and that we know will work.

I get the feeling that the present act was not adopted under those circumstances, and I commend you for the idea of requesting delay in its implementation.

I would like to say that in addition to the topics that have been covered in the bill and in the remarks so far and in addition to the ones we talked about in our statement, I think you should look into the Civil Service Department requirements or limitations on the hiring of persons already licensed under the old act.

You are already going to look into reporting the elevator situation, which is repeated in several other places. And I would urge you also to look at that section of the act which has to do with the limitation of the place where submitted samples can be submitted and examined in order to determine a grade.

Having said those things, I would suggest that possibly the legislation that you have introduced might carry with it not only the provisions it does, but some language to the effect that for a 6-month period, or 180 days or perhaps a 9-month period, that the effective date of this act be postponed; not to stop anything going on if there are changes in the gulf that can be made, or changes elsewhere that can be made; but in order to be sure that nobody rushes in in haste so they have to repent later at leisure.

I would like to comment on a remark that Senator Clark made.

He referred to some rate of error tables in the General Accounting report. I would like to direct the subcommittee's attention or the committee's attention to part 6 or one of the later parts of the hearings before the two subcommittees a year ago.

You will find there a letter from Mr. Lowell D. Hill. I believe his name is, who was on the staff of the committee as a consultant. who commented adversely on those error rates as developed by the Comptroller General. I can supply the exact citation for that when I get back to my office.*

So we thank you for a chance to present our statements; and Mr. Pratt is here to answer any questions. He is in the business of handling grain in a large terminal. And he will answer any questions you may have for me.

Senator YOUNG. I would like to make this observation, Bill.

You are a very competent witness.

How many years have you been around here in this capacity? About as long as I have?

Mr. BROOKS. I did not welcome you here. [Laughter.]

But it is good to see you.

Senator CLARK. You mentioned something about the Civil Service. It is really difficult for a civil service worker to be fired——

Mr. BROOKS. I did not have reference to that, Senator. I had reference to the hiring policies of the Department or the FGIS which permits them, or rather the statute and the conference report that

*See p. 150.

recommends that these fellows, who have been licensed and are experienced, be given certain preferential treatment, Senator, as the Department or FGIS expands their own service.

And what they have done here is they have gone to the Civil Service and they cannot get, I am told, the kind of allowance for their past experience which these people already in the business already would like to have.

Senator YOUNG. Good point.

Mr. PRATT. As a practical matter, I think we would like to see you look into this Stockton, Calif., matter. Our organization of terminal elevator operators represents over 1 billion bushels of commercial storage. The same kind of thing is developing, for instance, in Duluth, where you have domestic companies transferring grain from Duluth to Minneapolis and in turn to Buffalo for flour-making purposes; and we are adding inspection costs on there to such a degree that the added costs are going to wind up back as Wheaties.

In other words, they are considering those houses as export houses. It is a matter Senator Dole has alluded to in Stockton, Calif., and we have the same problem.

Now, on the matter of inspection costs, I would like to make two points: First, that we understand that as they develop the five regional offices, which somebody has tried to determine where they are going to be, these costs will have be multiplied into the factors. And probably we will have a 10-percent annual increase. And we can see the same kind of volume in 7 years doubling these costs some place along the line.

Then in regard to inspections and the number of inspections that you get into, Memphis is really maybe not a good example as being typical of the whole country with one hopper car finding its way from the mid-South shippers to New Orleans; but it is typical at New Orleans because the present inspection rates, before the Government started doing the inspections, was only $6 a car, and now it is $18 a car.

Those total costs include the two inspections in and out, plus the outbound inspections at the vessels at those particular places. And those costs do multiply the costs up into that of a 2 or 3 cent a bushel area that somebody was trying to get the base of.

I think the Department should look further into the multiplication of inspections. And it does not come just at a rate of eight-tenths of 1 percent; it multiplies much faster than that, because each of these terminal operations needs inbound inspections, and because of the commingled grain, and outbound inspection. I do not want to belabor that point, but I think it is a fact that your multiplication of those particular costs do increase the total cost. And you try to determine where the 2 cents or 3 cents a bushel came from.

And with today's margins, which are considerably reduced from what they were some years ago—as a matter of fact, 30 years ago, when I came into the business, the grain elevator margins were the same as they are today.

But it cannot be absorbed and it must be passed back to the consumer or the producer.

Thank you.

I will be glad to answer any questions.

Senator DOLE. In your statement you touch on the shortfall of inspectors being trained on the job at the expense of the private sector.

If we are successful, that may be avoided. I know you have not had an opportunity to look at the bills introduced because that just came out last night, but——

Mr. PRATT. I think it goes a long way toward helping some of the problems that exist today.

Senator DOLE. In regard to the Stockton elevator situation, I understand there may be some of those in Kansas, too. So my interest is even higher than it was. [Laughter.]

Hopefully there can be some resolution. It does not seem fair to me to classify them as export elevators when they really are both.

I do not have any further questions. I appreciate the testimony.

Again, Mr. Brooks and Mr. Pratt, if you have a chance to look at the legislation and think there are other proper areas that should be addressed, that will be very helpful. I think the last witness just touched on one, with reference to section 12(d). But there may be other areas we might have overlooked that we should know about.

Mr. PRATT. Thank you, sir.

Senator YOUNG. We would like to call Kansas and North Dakota, both delegations. We have quite a few of them.

If you would all come up to the table, we have an understanding that each has 10 minutes.

STATEMENT OF DON WOLDEN, MANAGER, FARMERS COOP ELEVATOR, CHAFFEE, N. DAK.*

Mr. WOLDEN. Mr. Chairman and distinguished members of the committee, my name is Don Wolden. I am the manager of the Farmers Coop Elevator at Chaffee, N. Dak. I am also president of the North Dakota Grain Dealers Association. We represent a majority of the licensed and bonded country elevators in North Dakota.

I would like to add we have with us today from the Wheat Commission, Ron Fraase, and George Smith. They are in opposition to this bill as well.

One thing that I would like to mention is this: That we, as a country elevator, if we were to have one Federal inspection, we would then come under Federal jurisdiction. And I do not believe this was brought out in its entirety.

If this would happen, with 600 elevators receiving one Federal inspection, we could see the work force of this group of Government employees certainly multiply.

One other point I would briefly like to bring up is that it is so impossible to preserve the identity of a given load of grain once it is dumped in the receiving pit. The question we have is: Does putting two loads of wheat, varying in protein content by one-half of 1 percent, putting it in the same bin, does that constitute blending? Or if I should treat 1,000 bushels of wheat for seed, must I know from whom each bushel was obtained and the grade of all quantities? Must I know and record that information if I merely clear a given lot?

*See p. 155 for the submitted statement of Mr. Wolden.

Gentlemen, thank you for your time. This is all I have. Maybe Dick has something further.

Senator YOUNG. May I ask the Department of Agriculture, can this problem be taken care of without legislation?

Mr. WILKINSON. You are speaking of that one inspection, Senator? That would encumber this elevator into the recordkeeping system, and that would have to—require legislation. And in fact we would make it stronger. It is not one Federal inspection. It would be one official inspection by a private agency of the State, as long as it is an official inspection. It would then require recordkeeping by the elevator.

Mr. WOLDEN. This makes it worse yet.

Senator YOUNG. You can go on.

STATEMENT OF RICHARD W. GOLDBERG, NORTH DAKOTA GRAIN DEALERS ASSOCIATION, WEST FARGO, N. DAK.*

Mr. GOLDBERG. Senator, I would like to make just a couple of comments.

My name is Richard Goldberg and I am president of the Goldberg Feed & Grain Co. of West Fargo, N. Dak.

Gentlemen, just two quick comments.

There has been a lot of discussion this morning about the costs that are going to be borne by the farmers of this country. Both the Department of Agriculture witnesses and Senator Clark and others alluded to what the initial costs would be at the country level and they get something under a penny.

I think you have to recognize, gentlemen, that any buyers as a part of his cost of doing business is going to build in his costs to the seller. The seller in this case is the farmer. I think that a 2- or 3-cent cost is a more realistic figure.

Some sources say that the total inspection costs—involving both weighing and inspection—is somewhere in the range of $300 million.

If you can accept the $300 million figure and you take the 13 billion bushels of grain that were inspected last year, you come up with 2¼ cents per bushel for every farmer in the United States. I think you do have to spread these costs all the way from the export facilities in New Orleans, back to Chaffee, N. Dak., because we are all going to pay for it; and when I say "we," I mean the farmers in this country.

One other thing—to follow up on Mr. Wilkinson—it is true we have voluntary inspections. However, in order to sell grain in North Dakota, you do have to have an official inspection in order to get a buyer to buy your grain.

We are locked into the inspection system, no matter which way it goes or how much it costs; and it is critical to us.

Senator YOUNG. Would the other North Dakota witnesses identify themselves for the record?

Mr. SMITH. Senator, we have Mr. Thom here from the Minot Inspection Service. Someone may want to ask him some questions.

Senator YOUNG. Do you want to speak on anything?

Mr. THOM. No.

*See p. 156 for the full statement of Mr. Goldberg.

STATEMENT OF GEORGE SMITH, NORTH DAKOTA WHEAT COMMISSION, AMENIA, N. DAK.

Mr. SMITH. My name is George Smith from North Dakota, and a member of the North Dakota Wheat Commission. And I just want to say too that we, as a wheat commission member and a wheat producer in North Dakota, that I think these costs that we talked about today are sort of a foot-in-the-door. When you get this Federal inspection really going and find our needs and find your costs of transportation, offices, personnel, and so on, this is really just peanuts here today, as far as I can see—this 2½ cents a bushel. This is just one farmer from North Dakota's opinion on the things; but that is the way I feel about it.

When the Federal Government begins to do something, they do it in a big way, and they really go after it. And we are going to absorb all the costs. And that is why we are here today.

You are going to bring the costs back to us and we can see them coming. And that is why this room is full of people.

If you Senators say the Federal Government can pay all the costs, well, we will not like it, but we will not scream quite as hard. But that is just a remark from one of us from North Dakota.

I appreciate the time to express myself.

Mr. GOLDBERG. Senator, could we substitute "wheat" for "peanuts"?

Senator YOUNG. Is Jim Thom here?

STATEMENT OF JAMES THOM, PRESIDENT, MINOT GRAIN INSPECTION, INC., MINOT, N. DAK.*

Mr. THOM. I am James Thom and president of——

Senator YOUNG. We have not heard from any of the grain inspectors so far.

Mr. THOM. I am a grain inspector from Minot, N. Dak.

About the only comment I have is that we have a problem here and it has all pretty much been covered.

I would like to see the trade people, the inspection people, and the Federal people that are high up sit down and come up with some realistic things and try and cut expenses so this thing can be worked out in an equitable way.

Senator YOUNG. A suggestion was made a while ago that we postpone the effective date of this act. We could work in some suggestions such as you have made, if that were done.

I believe that is all of our witnesses.

Senator DOLE. The advisory committee would take care of some of the things Mr. Thom mentioned such as working out future problems with a more realistic approach.

Senator YOUNG. Would that conclude your statement?

Mr. THOM. Yes.

Senator YOUNG. Have we finished all of our North Dakota witnesses?

I will ask Senator Dole to introduce the Kansas witnesses.

Senator DOLE. Mr. Kampschroeder, who is going to present the Kansas witnesses?

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*See p. 157 for the prepared statement of Mr. Thom.

STATEMENT OF HARRY O. KAMPSCHROEDER, DIRECTOR, KANSAS STATE GRAIN INSPECTION DEPARTMENT, TOPEKA, KANS.

Mr. KAMPSCHROEDER. We have for you Joseph Gregg, president, Morrison-Gregg-Mitchell Grain Co., accompanied by Willis C. Theis, president, Kansas City Board of Trade.

We also have John Cranor, executive vice president, Kansas Grain & Feed Dealers Association, Hutchinson, Kans.; and George Voth, vice president and general manager of Far-Mar-Co., Inc., at Hutchinson, Kans. And we have Leonard Weddle, chairman, Kansas Wheat Commission, Minneola, Kans.

You have my testimony here in writing. I know it is going to be put in the record.

Senator DOLE. Yes; that will be in the record.*

It might be well to identify you again for the record as Harry Kampschroeder, director of our Kansas State Grain Inspection Department.

Mr. KAMPSCHROEDER. Yes.

And in order to save time, I will make a few comments here on my testimony.

It is well known that Kansas State Grain Inspection Department was established in 1897. We have been in continuous operation in sampling, weighing, and analyzing protein. And there has not been a major problem in Kansas, even though in 1976 we had a thorough investigation by the FBI, GAO, the Office of Investigation of the U.S. Department of Agriculture, and special committees of the House of Representatives and the Senate. In fact, Kansas has been referred to as a model agency.

So with no major problems, the farmers of Kansas cannot understand why we should have a big supervision cost imposed upon us. This is an overreaction to the problems at the gulf.

In fact, in December of 1976, we had indications that at Kansas City, our feeds would be $162,000. Later on, when this 80 cents per 1,000 bushel cost on our activities came about, so that that's on our activities for an average year with the half a million dollars that we would have to pass on to the farmers of the State of Kansas.

Also, this has been asked before, that: What constitutes supervision? We have people coming out into our offices now with a few weeks training. I understood from the prior testimony they are hired out of the colleges. But we have inspectors that have been out there 15, 18, and 20 years. These people are unable to come into our office and say, "OK; you graded five cars. Let me look at those." And they are unable to check them right there to see if the people are doing it right. That has not happened.

So as far as supervision is concerned, we are not getting supervision at the present time. In fact, the industry thinks it is more harassment than it is supervision.

Also as far as the monitoring program is concerned, in relation to the supervision, we feel the monitoring program is really administrative cost and should not be identified with supervision fees. We feel monitoring should be paid out of appropriated funds.

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*See p. 158 for the statement of Mr. Kampschroeder.

We request the new act be funded by Federal appropriations throughout the fiscal year, which you have in your new proposed bill here.

Also as far as weighing is concerned, the new act gives the Federal Grain Inspection Service a monopoly on the word "official."

The FGIS has openly admitted they know nothing about weights, and has called on our department for literature and information concerning weights.

First, to remove the word "official" from our weight certificates would cause the grain industry and farmers and producers in Kansas and elsewhere to lose a vast amount of money.

We presently provide official weights and are designated—and to be designated as an "official weighing department" by the GIS would add another quarter of a million dollars in supervision fees above the $500,000 already mentioned in the talk.

So we feel that we should retain the right to bear the word "official" on our weight certificates.

Also we had a problem with the GIS on what constitutes a clean car. To date, we have had no reply. This costs both the Kansas Grain Inspection Department and the industry time and money due to the loss of railroad car utilization brought on by different opinions as to what a clean car is because of inexperienced FGIS employees.

Senator DOLE. That would not require legislation.

Mr. KAMPSCHROEDER. No; it would just require an act to determine what is a "clean car." We are encountering problems on that in Kansas.

So that is about all I have to say. This 80 cents per thousand does not sound like much, but it is being borne out in the testimony that by the time you multiply this by several inspections, it amounts to quite a bit.

And also on behalf of the department I would like to say that your bills here, which you introduced, we have not had a chance to study them in detail; but on the face of it, it would certainly help the State of Kansas.

Also I hand carried this House Concurrent Resolution No. 5012 from the Kansas State Legislature, which perhaps could be made a part of the record.

Senator DOLE. Yes; it will.

[The resolution referred to above follows:]

HOUSE CONCURRENT RESOLUTION No. 5012

(By Committee on Agriculture and Livestock)

A concurrent resolution memorializing the Congress of the United States to continue stringent oversight of the Federal Grain Inspection Service, to amend the U.S. Grain Standards Act of 1976 to make it more responsive to the needs of American farmers and consumers and to fund costs of supervision of the federal grain inspection from federal appropriations rather than through fees ultimately paid by farmers.

Whereas, The U.S. Grain Standards Act of 1976 was passed by Congress in response to problems at seaports; and

Whereas, The Kansas grain inspection department has been a model throughout the United States for grain inspection agencies on the state level and its program of state grain inspection has been an example of excellence which other states have strived to achieve; and

Whereas, The basic integrity of domestic grain inspection systems, especially the Kansas system, was upheld after thorough investigations by the FBI, the Internal Revenue Service, the General Accounting Office, the office of Investigation of the U.S. Department of Agriculture, and by special committees of the House of Representatives and the Senate; and

Whereas, Notwithstanding this finding and in overreaction to problems at the seaports, the U.S. Grain Standards Act of 1976 spread a vast new bureaucracy, new red tape and new costs over grain inspection programs being operated in the states; and

Whereas, In the implementation of this act the Federal Grain Inspection Service has attempted to mandate needless new record keeping on county elevators and major grain terminals alike; and

Whereas, the Federal Grain Inspection Service is attempting to charge NEW fees for supervision of grain inspection programs in the states, resulting in an estimated additional cost for grain inspection in Kansas of more than $500,000 annually and in the nation of more than $5.3 million annually; and

Whereas, This increased cost of supervision represents only a small part of the potential costs, including the unknown costs of weighing and demurrage caused by delays in the federal inspection programs; and

Whereas, This additional cost of piling bureaucrats on top of bureaucrats would be passed along to the farmers of Kansas and other states at a time when they already are bearing the original costs of grain inspection and at a time when they face depressed commodity prices; and

Whereas, This needless bureaucracy, this new maze of federal red tape threatens to ensnarl the wheat harvest which will soon be beginning; and

Whereas, Governor Robert Bennett and members of the Kansas Congressional delegation are vigorously protesting this new intrusion by the federal government and are working to resolve the problems; and

Whereas, Members of the legislature of this state have become concerned about the developing problem;

Be it resolved by the House of Representatives of the State of Kansas, the Senate concurring therein: That Congress is hereby urged and requested to maintain strict oversight on the Federal Grain Inspection Service during the next eighteen months of implementation of the U.S. Grain Standards Act of 1976, to quickly amend the act to make it more responsive to farmers, consumers and those involved in the grain industry, and to appropriate funds for any cost of supervising the grain inspection programs underway in the states instead of allowing these costs to pass to our nation's farmers; and

Be it further resolved: That a duly attested copy of this resolution be immediately transmitted by the Secretary of State to the chairmen of both U.S. House and Senate Agriculture Committees and to each member from Kansas in the Congress of the United States.

Mr. KAMPSCHROEDER. That is about all I have to offer.

I have Mr. Joseph Gregg here, who I am sure wants to proceed.

STATEMENT OF JOSEPH GREGG, PRESIDENT, MORRISON-GREGG-MITCHELL GRAIN CO., KANSAS CITY, MO.*

Mr. GREGG. I will not take a great deal of time except to comment on your bill with reference to the advisory committee.

That worked very well in the Commodity Futures Trading Commission. I know that because I was a member of that advisory committee, as was Mr. Theis, on my right.

One thing I would like to point out: I do not know why anybody thinks the word "Federal" in front of an inspector's name means he is any better or as good or more honest.

Attached to my testimony is a story out of the New York Times of November 10 where they indicted 31 Federal food inspectors in Man-

*See p. 164 for the prepared statement of Mr. Gregg.

hattan and Brooklyn alone, on 1 day. Now, let us not kid ourselves. If a man is going to be dishonest, he is going to be dishonest whether he is Federal or not.

The one point I would like to get to is utilization of railroad equipment.

On December 22 and December 23 in Enid, Okla., a Federal appeal was called on 12 to 14 cars of grain. They got the appeals back on January 3. Now, this is the utmost of inefficiency. I would estimate that that used up a hopper car, a complete round trip, Senator, from its origins to the gulf and back to its origins again.

Now, if this is the kind of system that we would have during a wheat harvest, whether it be in North Dakota or Kansas or Oklahoma or whatever it may be, we will have real problems. And if this system breaks down, you are going to have farmers in here that will not quit, because our job is to get this wheat crop under cover and then they can make up their minds whether they want to sell or store the grain.

I agree with the gentleman from behind me from North Dakota that I think the fees you are seeing are the tip of the iceberg. I have seen too many government agencies where their expenses just accelerate, accelerate, accelerate. And I see no clause in here that prohibits the farmer from getting a real ripoff as to fees before this act is in operation a couple of years.

Thank you, Mr. Chairman.

Senator DOLE. Senator Young?

Senator YOUNG. I have one question.

One advantage of the present system of private grain inspection is that they can take a sample of wheat at Williston, N. Dak., and they will have the grade of that sample in Minneapolis the next day. Then they can direct it to the west coast or east coast, or wherever they think the market is the best.

But I think this is something you might lose if you have all Federal inspection.

Mr. GREGG. Senator Young, I would like to say to you that this same service from a private or a State agency is available within 24 hours.

Senator DOLE. Mr. Theis, do you have something to add to that?

STATEMENT OF WILLIS C. THEIS, PRESIDENT, KANSAS CITY BOARD OF TRADE, KANSAS CITY, MO.*

Mr. THEIS. Yes, sir, I do.

I am here representing the Kansas City Board of Trade and my name is W. C. Theis, chairman of their legislative committee.

Senator Dole, we have very briefly reviewed your bill and that of Senator Huddleston——

Senator DOLE. And Senator Young, too.

Mr. THEIS [continuing]. Pardon me, sir.

Senator DOLE. He is on the Appropriations Committee, so mention him first. [Laughter.]

Mr. THEIS. And you have covered all our concerns with the exception of three areas I would like to comment on.

*See p. 166 for the prepared statement of Mr. Theis.

First, as far as your advisory committee, we recommend you appoint two: One to cover inspections and the second to cover weighing. You have two definite and distinct problems here.

Second, Senator Young, I think I would like to address this to you.

We would like to see you make an effort to have appropriated funds to complete the development and the so-called scientific use of automated grain grading. That will bring about consistency with grain grading and take the human element out of it.

Senator YOUNG. When we hold those hearings, you come down and testify.

Mr. THEIS. Yes, sir, I will be here.

And the third thing as far as we are concerned in Kansas City, Senator, we beg and hope that you can expedite the amendments to the current bill so that we can go on and face our responsibilities as grain merchants performing services for the farmer.

So the bill, as it now stands, without amendment, we would hope—if you can do that—does not cut across the 1977 loan program, the Federal Government's purchasing programs, and financing of the grain trade.

Thank you very much.

Senator DOLE. Mr. George Voth.

STATEMENT OF GEORGE VOTH, EXECUTIVE VICE PRESIDENT, FAR-MAR-CO, INC., HUTCHINSON, KANS.*

Mr. VOTH. Just a comment or two.

I would like to reemphasize the problem, Senator, really originates at the ports and not at the interior points. I think it was alluded to a time or two today that there might be some problems at interior points.

If this is true in the areas that we represent, we have not been made aware of this. And I do not think the implication is completely accurate.

And mention was made also that the federalization would tend to provide more efficiency. Well, when we look at the actual record of what has happened in connection with some of the Federal inspections, we have had quite a delay, as has been mentioned before. And we can cite specific examples where these delays have added to the costs.

So there are hidden costs, in addition to direct costs.

Our testimony is a matter of record and so I will not say anything more unless there are questions.

Senator YOUNG. Far-Mar-Co. I believe is the biggest grain co-op in the United States; is it not?

Mr. VOTH. I did not want to get into a lot of detail, Senator Young, but we do operate in 8 States, and we have 600 local cooperatives who own us. And they in turn represent approximately 250,000 farmers.

When we talk of grain movements and good car utilization, we this past year moved in excess of 300 million bushels of grain. So it is important that we are able to have inspections and to move the grain as rapidly as our farmers expect us to move it.

Senator DOLE. Mr. John Cranor.

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*See p. 170 for the prepared statement of Mr. Voth.

STATEMENT OF JOHN CRANOR, EXECUTIVE VICE PRESIDENT, KANSAS GRAIN & FEED DEALERS ASSOCIATION, HUTCHINSON, KANS.*

Mr. CRANOR. My name is John Cranor and I am executive vice president of the Kansas Grain & Feed Dealers Association.

Senator, you struck a nerve when you said you could pull a sample at Minot, N. Dak., and ship it to the Twin Cities for inspection and then just make this decision on the car. You no longer can do that under this act. It is prohibited to send that sample out of the geographical area that has been designated to be served by Mr. Thom's agency.

Senator YOUNG. That would be a terrible disadvantage——

Mr. CRANOR. I think it is.

Senator YOUNG [continuing]. Because oftentimes if you know which point has the best market on that day, you can gain 5 or 10 cents a bushel.

Mr. CRANOR. This is true.

And also, if we have to ship our samples—in Kansas particularly—we have no fault with our Kansas inspection agency, Senator; but if we have to ship it back to Salina, Kans., so we can ship a car to Denver and then route it on to Portland, why we are losing considerable car utilization time. And this is the essential reason for mechanical samplers at country elevators. So we do want to make that point very strongly.

The other facet of it is we commend you on your actions you have taken. I think probably Mr. Brooks' comments about waiting 9 months or somewhat after the horse is already out of the barn—and the law stipulates that the Department people must implement this—but my heart goes out to them because they have a whale of a chore to contend with.

More particularly, we, too, would take exception to the terminology in the law that refers to mixing, blending, drying, and what have you; because even at terminals this would be extremely difficult and——

Senator DOLE. You are talking about section 12(d)?

Mr. CRANOR. Yes.

And to country elevators, again this would be a problem. And of course you would eliminate that part. And then I think we need a clear definition of what is a grain handler or a merchandiser.

Plus you have the fact the terminal elevators in Kansas in some instances are a local receiving elevator and they sold that to the farmers. So this again would be something that needs to be considered.

We thank you for letting us have the time today.

Senator DOLE. We have a real live farmer here, Mr. Leonard Weddle.

STATEMENT OF LEONARD M. WEDDLE, CHAIRMAN, KANSAS WHEAT COMMISSION, MINNEOLA, KANS.

Mr. WEDDLE. Thank you, Bob. I do represent the farm group, as the chairman of the Kansas Wheat Commission, and a farmer myself. So I know what the problem is.

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*See p. 173 for the prepared statement of Mr. Cranor.

This amendment that you have presented here, Senator, I think will certainly help us. When we look back, we remember we knew that if anything was coming out of this, it was going to come back to the farmers. And we know what has happened, too.

We are having a hard time today making a go out there as farmers. So I would just like to take this opportunity to thank you. I handed in my testimony. I want to say thank you very much.*

Senator DOLE. Is there anyone else who wishes to speak?

Senator YOUNG. Thank you very much.

Senator DOLE. I think that Mr. Theis has made a good suggestion—to perhaps separate the advisory committee or even enlarge the number.

Mr. GOLDBERG. Senator, could I make one comment about the advisory committee?

I believe your bill, Senator Dole, calls for 7 people; and Senator Huddleston's calls for 10 people. If you are going to have a broad range of interests out of those committees—including consumers, farmers, trade people, inspection people, and then split it as Bill Theis suggests into both weighing and inspection—I think you are probably going to need more people than 7 or 10.

Senator YOUNG. But you would not want it too big, either.

Mr. GOLDBERG. I am not suggesting 20 or 30 people, but you may want 6 or 7 in each category.

Senator DOLE. We want to keep everything small in the Federal Government.

Mr. GREGG. Since when?

Senator DOLE. Since January 20. [Laughter.]

Senator YOUNG. Thank you very much.

The next witnesses are Mr. Joseph L. Slater and Mr. Humphrey. Identify yourself for the record, please, and proceed.

STATEMENT OF JOSEPH L. SLATER, VICE PRESIDENT, NATIONAL ASSOCIATION OF CHIEF GRAIN INSPECTORS, DAVENPORT, IOWA; ACCOMPANIED BY JOHN HUMPHREY, SECRETARY-TREASURER, DECATUR, ILL.

Mr. SLATER. Mr. Chairman and members of the committee, I am Joseph L. Slater, vice president of National Association of Chief Grain Inspectors of the United States, and this is John Humphrey, secretary-treasurer of our association.**

I am chief inspector at the Eastern Iowa Grain Inspection Service, Inc., Davenport, Iowa, and John Humphrey is the chief inspector at Decatur Grain Inspection, Inc., Decatur, Ill.

Our national association is composed of delegated State inspection agencies, designated private agencies, boards of trade, and grain exchanges.

We feel that implementation of the act has created some turmoil. We feel the hiring of hundreds of new Federal employees, giving them a few weeks training, and turning them loose in the national

*See p. 174 for the prepared statement of Mr. Weddle.
**See p. 174 for additional material supplied by Mr. Humphrey.

grain inspection system with almost no accountability cannot be justified.

Proper supervision requires adequate trained personnel with expertise gained from years of experience. Granted, the new act requires increased personnel, but they should be phased in over an extended period of time.

Overstaffing of supervision offices resulting in excessive user fees and rigid and impractical recordkeeping requirements for elevators and processors will boomerang much of the grain inspection and weighing services right out of Federal hands.

We have positive evidence from industries in Iowa and Illinois in particular and nationwide in general that excessive costs and administrative loads placed upon the whole system is simply going to be horrendous.

This means that the grain industry in the interior is seriously considering unofficial inspection as an alternative to these financial and administrative burdens.

If we do not maintain official inspection service, we will readily slip back to the same situation that brought about the enactment of the United States Grain Standards Act in the year 1916.

That situation being hundreds of "disputes" between buyers and sellers arose concerning the quality of grain that was offered for sale and the quality of grain that was received by the buyer. These disputes were stacked up in courts all over the United States awaiting long civil court dispositions.

We feel that personnel who were taken over in the export areas are not being duly compensated for their experience and technical knowledge.

Therefore, needed grain inspection personnel are leaving the service. Trained inspectors joining the Government service should be offered remunerations commensurate with their former private jobs.

Our present system provides an adequate, instant, and independent grading system at the lowest possible cost. We, therefore, recommend that there is no cause or justification in continued intervention by the Federal Grain Inspection Service into the interior inspection areas.

What we are saying is generally, that our private and State grain inspection service over the years has performed well, considering the magnitude of its scope and many marginal factors that are involved in ascertaining the quality of any given lot of grain.

We also wish to go on record that we are meeting the challenge of grain inspection problems and, given time and assistance, will find practical solutions.

We wholeheartedly support being part of an advisory committee for formulating regulations conducive to the implementation of this act. We want the official inspection service in the United States to be retained as it is.

Cost for supervision should be under Federal appropriation. Grain inspection supervision is basically a public service and was established in 1916 with the idea that the Government pay the cost of this supervision.

It is wrong in principle and contrary to the public interest when a regulatory agency of the Government is paid for by the industry it regulates.

We support severely increased penalties for proven violations of the United States Grain Standards Act.

Also we feel conflicts of interest waivers should be granted by the Administrator to agencies with no proven conflicts that would affect the integrity of inspection.

In conclusion, the National Association of Chief Grain Inspectors of the United States wishes to go on record that given the opportunity and assistance, we can provide the grain inspection service this country needs and deserves.

Thank you.

One more comment.

We do feel, Senator Dole, that the amendment that you have presented certainly would be a tremendous added help in the implementation of this bill.

Senator DOLE. John, do you have a statement?

Mr. HUMPHREY. No; I do not have a statement, but I would like to make one comment on Senator Huddleston's bill here.

Under the first paragraph, the second sentence, it states:

> Country elevators and grain merchandisers would be excluded from these requirements.

And that means the recordkeeping requirements.

I think there is also one other area we must remember here and that is processors also.

I do not know if the definition is exactly—has exactly been brought out, but where I am from myself, we are a large consuming processing market.

Mr. SLATER. Could we add one other thing to the record?

On numerous occasions, we have attended most of the meetings and hearings here in Washington on grain inspection bills. The GAO report has come up a number of times referring to the error rate and we feel and definitely want on the record, Senator, we feel that it is not an accurate assessment of the grain inspection service of the United States, that there are many, many, many factors involved. This is not a science. This is a living product that we are dealing with and it can change each time it is handled. It can go out of condition; it can become infested; it can develop odors and most anything can happen to this product.

And at the moment, when we inspect it and grade it, we are trying to set a practical value for the quality of the product at that moment. And it is difficult to take records for appeal purposes, where a sample has been submitted for appeal, and where you have 1.2 of a point change on moisture, for instance, which would change the grade, and that is considered an error when it is not really an error, but a technical change.

It could be in the moisture machine where there is change or it could be in the man that is running it. I am talking about just a fraction of 1 percent. But each one of these minor factor changes, Senator, were calculated as errors.

Senator YOUNG. Would you agree with a question I asked earlier of one of the witnesses, that if I sent the same sample of grain to 12 different Federal inspectors, they would not all come up with exactly the same result?

Mr. SLATER. No; they probably would not.

Senator YOUNG. And not more than two would give you the same result?

Mr. SLATER. No.

Senator YOUNG. Because when you consider protein——

Mr. SLATER. It is not that scientific.

Senator DOLE. Just one point.

About two-thirds or three-fourths of all the grain officially inspected is inspected at export points, but the ratio is 70 percent supervision in the interior and 30 percent at export points.

Now, how did that happen?

Maybe Mr. Wilkinson can answer.

Mr. WILKINSON. Yes.

The reason is that the Federal has to take over at the export centers. We will be supervising ourselves, but we are not using this group of people that we talked about earlier, Senator; the Federal will take over at export.

Senator DOLE. A different group?

Mr. WILKINSON. Yes, sir.

Senator YOUNG. Thank you very much.

All your statements will be placed in the record.

Next, we have Mr. Elbert Harp, executive director, Grain Sorghum Producers Association, Lubbock, Tex.

STATEMENT OF ELBERT HARP, EXECUTIVE DIRECTOR, GRAIN SORGHUM PRODUCERS ASSOCIATION, LUBBOCK, TEX.

Mr. HARP. Thank you, Mr. Chairman. It is a pleasure to be with you.

I am Elbert Harp, executive director of Grain Sorghum Producers Association, which is headquartered in Lubbock, Tex., but the membership of our organization is scattered throughout the major grain sorghum production areas of the United States. And I am a farmer also.

I will submit my statement in the record and be glad to answer any questions you may have.*

Senator YOUNG. Thank you.

Mr. HARP. I would like to point out that, as producers, I think it has been undisputed this morning that the farmers will be paying the bill; and we are about to lose our socks anyway.

We are not very proud of our socks because they are so ragged at this point, but we hate to lose the rest of it.

Senator DOLE. Have you had an opportunity to look at any of the legislation introduced yesterday which addresses costs, fees, and recordkeeping?

Mr. HARP. I have not seen the legislation. I have heard about it. I do think that it addresses the problem somewhat but not totally.

I would like to ask a question, though, if I may.

Does this cover all Federal inspection costs, this bill?

Senator DOLE. It covers only the supervision costs.

Mr. HARP. Well, the additional cost of weighing and inspection and so forth, I think they are important, too.

*See p. 175 for the submitted statement of Mr. Harp.

Senator DOLE. Right.

Mr. HARP. You know, under the new inspection law.

Senator DOLE. Right.

It is all fee paid at export anyway.

Mr. HARP. Right; but the additional costs are overwhelming compared to the previous system, as I understand it. And most of the grain sorghum in the gulf coast area, as an example, Senator, goes into export, which has to be doubly inspected at the ports under the new system. And one-third of the Nation's total grain sorghum which is produced also goes into export.

So these additional costs—when you add the weighing costs, the additional inspections, the overtime, all of the other costs that we are encumbered with, it does add up to I think 3 cents to 5 cents.

Senator DOLE. The total projected fiscal 1978 costs will rise to about $48 million in fees, in addition to State and private of approximately $20 million plus $13 million Federal appropriations.

Mr. HARP. The farmers do not need these additional costs passed back to us. And I think, as each witness has indicated today, these costs will revert back to the producer.

Now, this conflict of interest thing, I think our Texas delegation tomorrow will have further comments on that.

But as far as your legislation, your proposed legislation, as I understand it, these advisory committees will consider this conflict of interest, but the advisory committees have no authority. And I think we need more direct instructions from you, the Congress, as to how to handle these conflicts of interest; because an advisory committee many times is without authority.

Senator DOLE. Right. They do not have much input if they do not have any authority.

We have had some other suggestions on advisory committees, such as the number of committees, the number of members of committees, and also what authority they might have.

We are not set in concrete on the legislation. We would like to have the kind of input that you are giving us.

Mr. HARP. We certainly commend you for taking this up this soon and we do hope that we can work together on correcting these problems.

Senator DOLE. We would like to get it put together and get it out of here. Congress is not too busy right now, and we have a chance to pass it.

Mr. HARP. We commend you for your efforts.

Senator YOUNG. Mr. Harp, I am a farmer, too, but I do not know much about the sorghums, and nothing at all about cotton.

Mr. HARP. Thank you.

Senator CLARK. You are going to allow me to introduce the Iowa group?

Gentlemen, please come up to the table. I think we are going to hear from Ken Ludlow first, who is executive director of the Iowa Grain & Feed Association, Des Moines, Iowa; and he is accompanied by DeWayne Bloem, manager, Alden Cooperative Elevator, Alden, Iowa; Frank Nelson, Farmers Grain Dealers Association, Des Moines, Iowa; Dale Nelson, Iowa Farm Bureau Federation & Affiliates, Des Moines, Iowa.

STATEMENT OF KENNETH LUDLOW, EXECUTIVE DIRECTOR, IOWA GRAIN & FEED ASSOCIATION, DES MOINES, IOWA*

Mr. LUDLOW. We have not seen Dale Nelson.

Senator CLARK. Please proceed in any way you think is most useful.

Mr. LUDLOW. In the interest of brevity—and we were asked to be brief—I will not read my statement. I would like to make some comments.

My name is Kenneth Ludlow and I am executive director of the Iowa Grain & Feed Association of Des Moines, Iowa. It represents 1,250 members and approximately 800 country elevators.

We are very happy to see this legislation introduced by Senator Huddleston and also by Senator Dole. We would certainly favor Senator Huddleston's comments on limiting the recordkeeping requirements for users of inspection or weighing services at the export locations and excluding the country elevators and grain merchandisers from these requirements.

There was a remark made also about processors. This could be included in there.

I say this because believe it or not, Senator, it is theoretically possible right now for 24 State and Federal automobiles carrying inspectors to arrive at one diversified Iowa country elevator—believe it or not.

Senator CLARK. I am not sure I understand that.

Mr. LUDLOW. All I am saying is that if you stretched the imagination, it is theoretically possible for 24 separate automobiles carrying State and Federal inspectors to arrive and call and inspect at one Iowa diversified country elevator.

Senator CLARK. Under what circumstances?

Mr. LUDLOW. Well, I have the list in my briefcase.

Senator CLARK. No; I do not mean that. I just mean why would that happen? They would have to be called, would they not?

Mr. LUDLOW. I said it was theoretically possible for it to happen.

Senator CLARK. I see.

Mr. LUDLOW. But you take the long list, Senator, of grain inspection, moisture meters, and so on—and go on down the line—wage and hour and use tax and fuel tax inspectors and so forth——

Senator CLARK. Oh, I see. You mean they are not all grain inspectors?

Mr. LUDLOW. No. But we do not need any more recordkeeping at the country elevator level. In fact, most of the things that are in that section could possibly be gleaned from the records which they do have to keep under Federal and State warehousing license regulations.

But we do question, certainly, Senator, the blending and the handling. I do not know what you mean by "handling," and so forth in there.

I say that because a country elevator I think is a little bit different, is a little different species of animal than the terminal is in this area. We certainly have enough recordkeeping and do not need more.

Senator CLARK. Have you had a chance to look yet at the bill that this committee is offering with regard to recordkeeping?

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*See p. 176 for the prepared statement of Mr. Ludlow.

Mr. LUDLOW. Yes. And that is why I said our organization would certainly support Senator Huddleston's bill.

Now, as I understand Senator Dole's bill, we would very much favor his point 2 on the supervision fees being assumed by the Government and not by the trade. However, we do not go along basically with Senator Dole's point 3 on the recordkeeping provisions where I think—just briefly scanning it over—he states that the FGIS, due to the development of the recordkeeping requirements, should standardize them. And I do not believe he eliminates the country elevators.

Senator CLARK. You are talking about which bill?

Mr. LUDLOW. Senator Dole's.

So between the two bills, those would be our comments on it.

We very much favor the advisory committee.

Briefly going on, we do question some of the GAO reports on the one-third factors, which you have mentioned, and which I think has been brought out by other witnesses. If we take an outbound load from a terminal point in Iowa—and a terminal point, of course, will load very close to the line on damage; a country elevator probably would not load that close to the line—but if you take a 50-car train and load it out of Des Moines and have it inspected by say the Des Moines grain people and them come in and have supervision inspection, well, you can probably find one and two-tenths difference in there.

But by the same token, if you have the Federal supervisory people inspect the train and then say to Jim Tuttle of the Des Moines agency: "Now you select samples in there," they would probably come up with the same error that you would come up with.

Now, let me say one thing, too, on this.

Manning, Iowa, shipped 15 hopper loads of corn to St. Joseph, Mo. This was about a year ago.

The grain was originally inspected by spout sampling. It was an excellent sample. It got to St. Joseph and was reinspected by probing in every 15 of those cars, the foreign material content increased, I believe, in the range of 5 to 7 percent. He had 15 cars rejected on that basis.

Now, I think you can apply some of this reasoning maybe to this type of thing—going back to this GAO thing—as far as finding out what goes on.

Senator CLARK. I think your first explanation is more applicable to this. I don't know.

Have you read that analysis of the GAO?

Mr. LUDLOW. I scanned it at one time.

Senator CLARK. It is my understanding—and I would hate to pin my life on this without going back and rereading it all—but it is my understanding these were actual supervision—in other words, these were the long-term records of what the Federal supervisors found in double checking private inspectors in the regular course of their duties.

In other words, it was not the GAO inspectors.

Mr. LUDLOW. No; I understand that GAO made the audit; did they not?

Senator CLARK. Yes. They simply looked at the records of the Federal supervisors and compared them with those that had been appealed. In other words, did they agree on the appeals? Did the Federal super-

visors agree on the appeals of the original inspection? And what they found was a variation of—oh, in Philadelphia, it was down as low as a 4-percent error rate.

In Duluth, Minn., it was as high as 34 percent.

At Grand Forks, N. Dak., it was 30 percent.

In Des Moines, Iowa, it was only 23 percent.

These were, I think simply those that had been appealed. But as you say, nevertheless, there is room for variation. There is no question about that. You will never get it perfect.

Mr. LUDLOW. The next thing I would like to ask—and Mr. Galliart is here—there is talk—and I tried to find out and I could not and, in fact, I finally called Washington and could not come up with an answer to it—that on some of the affirmative action agreements that were signed by some of the people that got us into this mess, that under the terms of some of the contracts that were signed—under these agreements—that they would have to take export grades and weights.

Is this true?

Senator CLARK. Do you understand the question? Perhaps you could just move up to the table again.

It is not altogether clear to me.

Could you be a little more basic?

Mr. LUDLOW. Did not some of the firms enter into—perhaps I am using the wrong terminology but—affirmative action agreements? Is this true?

Mr. GALLIART. Yes.

Mr. LUDLOW. OK.

Now, there is thinking, and a serious question raised, that some of these agreements—well, that these agreements were not the same; they were not standardized.

Is this correct?

Mr. GALLIART. That is correct.

Mr. LUDLOW. Now, does it tie some of those firms to export point inspection of the grain that they receive? If it does, we are in serious trouble as far as fees are concerned when you look at your fee schedule versus the interior white certificate, or yellow certificate.

Mr. GALLIART. Some agreements provide for this inbound inspection to export points.

Mr. LUDLOW. And if we have some of those firms, they might suffer from a loss of business, of course; but then you are going to subject the Iowa shipper to the schedule of fees as published in the Federal Register under a contract or noncontract basis, which would be twice as high—which would be a minimum of twice as high, then; correct?

You are tying the Iowa shipper into that if he goes to one of these firms?

Senator CLARK. What is your answer to that?

Mr. GALLIART. A couple of points.

First, there are, if I am recalling this correctly, there are only three firms that have this mandate that inbound grain shall be inspected. And this was part of the plea bargaining on the part of the grain firms with the U.S. attorney.

Senator CLARK. With who?

Mr. GALLIART. With the U.S. attorney.

And I think there are 10 in total, and there are 3 that have this provision. The remainder are strictly voluntary. They have no provision like this.

Mr. LUDLOW. All right.

Then if an Iowa shipper does business with these three firms—and nobody in Iowa is sending grain to the gulf without at least getting a submitted sample inspection on it; it is 60 cents a lot under the formula here—so he is going to have that added cost unless this firm at the gulf is going to absorb that inspection cost down there.

So for these three firms, you are eliminating Iowa-origin—white or yellow certificate or white certificate enroute inspection, you see—which could alleviate them from having to assume this very high schedule.

So I think it is something that should be looked into.

Now, going on, there is a great deal of confusion on contract versus noncontract grading. And depending upon the firm at the export point and how they would either contract or maybe go to no-contract services that is, in Iowa, on the basis of contract service, Mr. Chairman, we are concerned as to how they are going to bill the country elevator back, because they will be invoicing that on the account sale. It will be up to them to determine their costs to the elevator and we can get into some different formulas here.

For instance, on a per-hour basis, if you are unlucky enough to come in on a light day, you are going to divide the total hourly cost—that is, on a contract—and the next man coming in on a heavy day, are his inspection fees naturally going to be lighter?—you know, since you have these people that are contracted for standing by? That is an area of concern for us.

We also have an area of misunderstanding and weight supervision on interior points.

In Iowa, as far as I know, nobody has applied for official weights, and so they will stick with the class 2 AAR.

In the clase of Clinton, I believe they are about a class 5, really.

There is a question in the minds of many people in Iowa where, if they did apply for official weight supervision, if it would be full-time supervisory official—which on the Des Moines market, amounts, on an hourly basis, to up to $500 a day—or whether it would be a stop-in and look supervisory type thing. In that case, it would be something you could live with. We are vitally concerned with weights.

Senator CLARK. Well, now, do you think we can get an answer to that problem?

Can anybody throw any light on that?

I suppose everybody in the country has some of the same problems.

Could you state the problem in the simplest terms?

Mr. LUDLOW. If an Iowa-designated agency applied as an official weight certificate issuing point, would the terminals or processing plants under their jurisdiction have to have a full-time supervisor there, or could one man out of the Des Moines office make spot checks, going between the 4 to 5 terminal processing plants that we have in Des Moines?

Mr. GALLIART. I cannot respond to how many supervisors we would need at a particular point because the configurations vary.

But I will say this to you: We do not intend to have one man standing over the other man, supervising him 100 percent of the time. It would be on the basis of the amount of supervision needed to assure ourselves that he performed correctly.

I might add, about the matter of fees and weighing, it is on an hourly basis at this point in time, for this reason: An applicant for weighing can request us to supervise a particular boxcar or a particular hopper car, or whatever. And we have scheduled our fees on an hourly basis because that is about the only equitable way we can meet our costs of traveling out there, weighing at the one car, and traveling back. It is up to the applicant to pay it.

Now, when the market finally decides they want to have supervision of weighing—a whole market—we can have people on site, the amount of staffing we need; and I suspect we will give consideration to a volume rate as we do in the supervision of inspection.

Senator CLARK. Let me say, by the way, that if there are a lot of technical questions, either from this panel or others, of this nature, that you ought to feel free to submit them to this committee, and we will get the answers in writing from the Department of Agriculture; because then you have something to go on. Then you have it in writing in front of you. And if questions arise as to what the Department's position is, or what they are going to do, or how much they are going to charge, or any of these things, it seems to me that it is a logical way to try to handle the problem.

I am not just speaking in the case of Iowa here, but for any of you. Because there is so much loose talk about all of these things that I know myself I am very confused after I read all of these articles about what it is going to cost and what the redtape is and so forth, confused as to knowing whether they are accurate or inaccurate. And the only way I can know is to get them tied down specifically in writing.

When I say "them," I mean get these issues tied down.

Mr. LUDLOW. I would make one more comment on the conflict-of-interest section.

Quite simply, in the case of Iowa, I think it is a good section.

Senator CLARK. You think it is a what?

Mr. LUDLOW. I think it is a good section, Senator, to allow the waiver, if possible. I have always maintained—and I have told your staff people and the GAO people the same thing—I would feel much more comfortable about having buyers and sellers sitting across from each other than I would having a so-called disinterested party, who is no more immune to graft than anyone else.

But if you take buyers and sellers sitting across the table, I think this is one of the best situations you can have.

Senator CLARK. But you would not want to see a conflict-of-interest waived if there was not an even balance of buyers and sellers; would you? I mean, where you had unequal representation on both sides?

Mr. LUDLOW. I think if you had five buyers sitting at the table and a sixth seller, that this one man is going to keep them honest. I really believe this.

But anyway we are for this section.

Senator CLARK. But you would not favor having a board of trade—perhaps that is not a good example—having an inspection agency in

which only one was represented—would you—only buyers or only sellers?

Mr. LUDLOW. You would have possibly a more suspect situation with just one—if I understand you correctly.

Senator CLARK. That is correct.

Mr. LUDLOW. If you just had one grain firm, you mean, that was operating——

Senator CLARK. Well, only buyers or only sellers.

Mr. LUDLOW. Oh; I see what you mean.

Maybe I would be more uncomfortable on that than I would if it was evenly divided. But I still think it would be very difficult for collusion to present itself where you had buyers and sellers—whether it is singular or not. I really do.

In conclusion here, I want to make one more point——

Well, no, this has been covered.

But one thing I did is I did take the actual inspection in Iowa and our added costs will be $541,000, based upon the last financial year. But the problem here is this figure really goes over $600,000, because it does not include southwest Iowa, and I did not get the member certificates from Fremont and Omaha and in that area.

Thank you very much.

Senator CLARK. Thank you very much.

Next?

STATEMENT OF DEWAYNE BLOEM, MANAGER, ALDEN COOPERATIVE ELEVATOR, ALDEN, IOWA

Mr. BLOEM. My name is Dewayne Bloem. I would like to clarify for the record that I am from Alden, A-l-d-e-n, and not Alton.

Senator CLARK. Oh, I am sorry.

Mr. BLOEM. My statement, I think, will be entered as part of the record, so I will not read it.*

But in discussing the cost to the farmer, in several instances, I think it should be pointed out that this 80 cents per 1,000 was broken down in per-bushel lots. For example, a truck was 750 bushels. In many cases we have farmer-customers who deliver to a nearby processing plant for our account, and they deliver only a 350-bushel truck. So that makes that cost nearly double than it is projected to be. And we think perhaps that maybe that might be some area of discrimination.

Senator CLARK. Does that make sense to you fellows?

Mr. GALLIART. It makes sense, except there are also trucks at 1,000 bushels; so we try to draw a line at 750 bushels.

Senator CLARK. So that is an estimate. I see. OK.

Mr. BLOEM. Well, that is the only remark I had, other than what was said.

We would urge the adoption of either one of these bills to allow us country elevators to stay in business.

Thank you for the opportunity to testify.

Senator CLARK. Thank you.

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*See p. 179 for the prepared statement of Mr. Bloem.

STATEMENT OF FRANK NELSON, FARMERS GRAIN DEALERS ASSOCIATION OF IOWA, DES MOINES, IOWA

Mr. NELSON. My name is Frank Nelson, and I am a grain merchandiser for Farmers Grain Dealers Association of Iowa.

I am not going to read my full statement.* It is here.

I will first apologize to Senator Huddleston for spelling his name incorrectly. I originally had his name spelled right but it got misspelled in the interim. I did not get a chance to correct it in my testimony.

I think, as was said here—and we do not want to replow the same ground over again—I think this 80-cents-per-1,000 fee is what we are talking about only for Federal supervision——

Senator CLARK. You mean 60 cents?

Mr. NELSON. It is 80 cents per 1,000. The fee is broken down to 60 cents on a truck lot or 80 cents on 1,000, Senator, being $1.60 on a boxcar and $2.40 on a hopper. That is the breakdown.

Now, this is only for FGIS supervision. FGIS did not intend to take over Beaumont, Tex., or Toledo, Ohio. And in places like this, where they did have an inspection fee before on hopper cars of roughly $6, now they have FGIS original inspection fees of $18.

So there the inspection costs have tripled. And you are not talking about a cost of eight-hundredths of 1 cent a bushel; but you are talking about three-fifths of 1 cent a bushel.

I think that some of the comments you made about newspaper articles and so forth is very possible. You can have a car that is inspected and then there is a Federal appeal on it and so you start out with what used to be $6 and it is now $9. In Des Moines to cover the $2.40 of the FGIS fee, they raised their fee from $6 to $9—and the extra 60 cents is to cover increased operating costs.

So you have the $9 fee. If you call an appeal on it, you have an $18 fee and then you are up to $27 or almost 1 cent a bushel for an inspection and a Federal appeal. So it is very possible that if this grain is inspected more than once that you can come up with fees of more than one-half a cent a bushel.

Sure. FGIS is only eight-hundredths of 1 cent unless they do the original inspection. Then let us face it, you are talking about six-tenths of 1 cent right there.

We have many shippers in the State of Iowa who are shipping trains at 80 cents per 1,000 and $2.40 a car. You put together a 75 or a 100-car train and you have an FGIS fee for supervising that train of $180 to $240. That is just for the inspection.

If they have to send somebody out to supervise taking the sample and you pay at $16 or $18 an hour, you have something more on top of it.

Of course, as representing the cooperatives and the farmers in the State of Iowa, all of this is a cost of doing business which is passed on to the farmer-producers. And the idea of the whole thing, when the elevator sells the grain, either for domestic or export, when they have to pay the fees and they charge it back to the farmer.

However, when the elevator buys the grain from the farmer, the grain is bought on an unofficial grade—this grain is not graded offi-

*See p. 180 for the prepared statement of Mr. Nelson.

cially, rather it is an agreement between the farmer and the elevator. So you have a farmer paying the elevator's cost of one-third or one-half a cent—or whatever it might be, before it gets done—and this in no way protects the farmer on how much he gets paid for his grain. This is not true, of course, when farmers deliver their grain directly to terminals.

But in turn the inspection cost is deducted out of the price he receives for the grain.

Senator CLARK. Well, now, it seems quite certain to me that the amendment that I think every member of this committee is cosponsoring would take care of the problems you are talking about.

They would; would they not?

Mr. NELSON. Yes; it would.

And as to the amendments offered, which covered both the inspection costs being covered by appropriation and the recordkeeping, well, I think that they both need to be included, and I do not believe that Senator Huddleston's amendment calls for——

Senator CLARK. Senator Huddleston also supports the Dole proposal.

Mr. NELSON. Well, I support that. He did not have both points included in his bill, though.

Senator CLARK. I know.

Mr. NELSON. So as I say, in those agencies going out of business, you are talking about a lot bigger fee. And as Dewayne has pointed out, the fee on a truckload lot is 60 cents based on 750 bushels. Most farmers do not have semi's. Most farmers are delivering grain in truckload lots of 250 to 300 a bushel, therefore.

So you are talking about much closer to half a cent than you are about eight-hundredths of 1 cent.

I think that the people from the Department have already said that they figure the cost in Iowa is $590,000 for FGIS supervision. I have done some calculating on my own and I do not come up with quite this large a figure. But this is only if the present agencies that are inspecting the State of Iowa, Senator, stay in business. If they cannot stay in business and they cannot live with the regulations and we all at once start paying $18 a car instead of $6 or $9, we are going to be paying that $1 million or $2 million a year for grain inspection services in the State of Iowa.

Senator CLARK. That raises a question. Why do you come to that conclusion? You have no Federal inspection at the interior.

Mr. NELSON. Pardon?

Senator CLARK. You would not have Federal inspection in the interior, or even if they went out of business.

Mr. NELSON. They are stepping into the markets where other people choose not to inspect grain.

Senator CLARK. Do you want to address yourself to that?

Mr. WILKINSON. I think this is very important.

The Federal Government does not have authority in any permanent fashion to take over inspection in your State. It only can move in if your private inspection agency goes out of business; only until that time when we can secure another private inspection agency which would, in turn, establish its own fee schedule.

Senator CLARK. I think under the law, we did not give the authority to do this.

Mr. NELSON. That is what I am saying. If they decide they cannot continue to operate under the present rules and regulations of the Federal Grain Standards Act of 1976—be it by conflict of interest or what—if they have to go out of business, then the Federal FGIS will step in to do the service; and we are talking about——

Senator CLARK. You are assuming that no other firm would ever want to do it.

Mr. NELSON. Well, this is a distinct possibility.

Senator CLARK. I see.

Mr. NELSON. If we find that nobody else wants to try—I mean, this conflict of interest is a good point. Who would be interested in grain inspections but the grain people? In the State of Iowa, if you hire an insurance commissioner or bank examiner, you do not go somewhere else but you get a banker or an insurance man.

Senator CLARK. In other words, it would be your assumption that when we are dealing with inspection and weights and matters of this kind, that you are always better having the person involved in it whose own interests are at stake, involved in making those decisions, rather than someone else?

Mr. NELSON. I am only saying that people who have an interest in seeing that the grain inspection is available—and this is a service function—are——

Senator CLARK. Yes; I agree. "Available."

Mr. NELSON [continuing]. It is a service which functions between the buyers and the sellers. And it is extremely vital to the farmers of the State of Iowa—well, not farmers especially as much as to the elevator operators.

When the farmer sells his grain to the elevator man, it is eyeball to eyeball and they can agree upon the grade and the grain and they have a bucket or a coffee can with a sample right there in front of them. But if the elevator is selling the grain and it is going to be graded 50 miles or 100 miles or 1,300 miles away, he wants to be sure that somebody somewhere is going to put a competent grade on that lot of grain.

Well, I only want to add that I noted a newspaper article this week was commenting about coffee being imported into the United States and is almost 100 percent for human consumption and is inspected by the FDA; but only 20 to 30 percent of the coffee is inspected.

Yet we are trying to establish a grain inspection program on 100 percent of export grains. I did not have time to stop at the supermarket and find out what a pound of coffee was today, but the price the farmer receives for his corn is only about 4 cents per pound.

Also I heard on the news that our recently appointed Secretary of Agriculture, Bob Bergland, has stated his belief that he thinks the farmers should be relieved of the cost of grain inspection imposed by the FGIS Act of 1976. And I want to second that motion.

Senator CLARK. Well, I am relatively confident that that legislation will pass, what with the support of every member of this committee and the Secretary of Agriculture. With that support, I do not know any good reason why it should not.

Thank you very much.

Mr. NELSON. Thank you.

Senator CLARK. We have four additional witnesses and I hope we are going to be able to conclude today.

On behalf of the State departments of agriculture, we have Mr. Holger Danielsen and Mr. Mason Carbaugh.

Would you come up, please?

Mr. Danielsen is director of the Grain Inspection and Weighing Division, Missouri Department of Agriculture, Jefferson City, Mo.

Mr. Mason Carbaugh is the commissioner, Virginia Department of Agriculture and Commerce, Richmond, Va.

Gentlemen, can you summarize your statements?

STATEMENT OF S. MASON CARBAUGH, COMMISSIONER, VIRGINIA DEPARTMENT OF AGRICULTURE AND COMMERCE, RICHMOND, VA.; ACCOMPANIED BY W. L. JAMES, SUPERVISOR, VIRGINIA GRAIN INSPECTION SERVICE*

Mr. CARBAUGH. I will be glad to do that.

I will lead off.

I have on my right, Mr. W. L. James, who is the supervisor of our grain inspection service in Virginia.

I originally prepared this statement as testimony from the State of Virginia. Since that time, a number of States have actively responded to it. It does represent the comments and thinking of the National Association of State Departments of Agriculture, in addition to our own State.

If I might just zero in very quickly—and we do want to keep this as brief as we can—but we do want to say, as far as Virginia is concerned and I know many of the other States have enjoyed very fine working relationships with the USDA over the years. We fully expect that is going to continue under this new program. We in Virginia have been in the inspection service since 1938, so we are not newcomers to it.

The gentleman on my right has 28 years of experience in the grain inspection field, and is very knowledgeable about that and not only am I speaking about inspection, but we have had for some time 100 percent weighing supervision in Virginia.

And the thing that I want to zero in on most has to do with the level of fees.

I know there have been comments here today about that and I will not expand on them except to comment in a different vein.

There are several things I believe are involved here. One is the relationship of the fees—that is, the supervisory costs—to the cost of the actual inspection. And to kind of put that in perspective, in Virginia, the actual cost of inspection is currently 85 cents per 1,000 bushels. When we get into the actual cost of Federal supervision; that is, inspections plus weighing, that will amount to $1.15 per 1,000 bushels; in other words, I believe 35 or 30 cents higher than the actual cost of doing the work.

The other point I want to make is, the cost of Federal supervision has been a moving target. When we originally started talking about

*See p. 183 for the prepared statement of Mr. Carbaugh.

this back in November, we estimated the cost of the Federal supervision in Virginia at about $114,000 or a little bit more.

Based on the new formulas they come up with, that cost would be $438,000. So it is both the moving target—and we do not know where it is going to stabilize down the road—that we are concerned about, as well as the total cost. And frankly we think that $438,000 for supervision costs in the State of Virginia is ridiculous.

I did a little calculation based on that. And if you figure that each supervisor makes $25,000 a year—and that may not be high enough—but that is 17 supervisors.

Now, Senator, that is one supervisor for every four people we have doing the actual inspection and weighing. So I simply place it in a little different perspective than perhaps what has been done previously.

I want to say too that based on what they plan to do, it would increase our costs some 43 percent.

Now, I do not see any way that this money is not going to be passed back to the producer and the grain farmer; because I just frankly do not believe the market system is going to absorb it. If it does, I would be extremely surprised.

Our feeling is just exactly what one of the previous speakers proposes, and that is, these supervision costs should be paid from appropriated funds.

In the first place, we were talking earlier about voluntary and mandatory.

If I understand the system correctly, the inspection of grains and the weighing of grains at export is mandatory. And to that extent I think it is in the public interest that supervisory cost should be paid for from public funds. That is a principle I have held to ever since the early discussion on this program. And I continue to hold to that. And I hope that you are successful in having these supervision costs paid from appropriated funds.

It does another thing, in my judgment. By going that route, it allows the Congress to have a role in saying how much supervision is enough. And I think that might be helpful to the agency as well as to the integrity of the inspection system. So I hope that you will pursue it.

I want to make just one other point, and I hope my full statement will be entered into the record.

Senator CLARK. It will be, indeed.

Mr. CARBAUGH. I want to make just one other point and that deals with something that is not a legislative matter but it is of concern to us. It is our feeling, and a very strong feeling, that those in the supervision roles and those in the inspection roles, under the Federal system, should be subject to licensing and examining procedures exactly the same as those that are required under a designated State or a delegated State. I know they (USDA) are in the process of gearing up to get this job done; and I can understand some of the problems they are having.

But I certainly hope they will not diminish the quality and competence of the people they are asking to do this work.

Mr. Chairman, that concludes my remarks concerning the grain inspection program.

If there are any questions, I would be glad to answer them.
Senator CLARK. Thank you.
Is there another statement?
Do you wish to go ahead?

STATEMENT OF HOLGER DANIELSEN, DIRECTOR, GRAIN INSPECTION AND WEIGHING DIVISION, MISSOURI DEPARTMENT OF AGRICULTURE, JEFFERSON CITY, MO.*

Mr. DANIELSEN. I am Holger Danielsen and am director of the Grain Inspection and Weighing Division of the Missouri Department of Agriculture. I will make my statement very brief.

I am here representing the State of Missouri and several farm organizations.

Number one, we are in support of USDA's recommendations on, one amendment to section 8(J)2, which includes Federal supervision fees; and two, amendment to section 14(d)—I did hear it referred to as section 12, but I was under the understanding it was section 14(d); but it is recordkeeping—and as is in my statement, we feel that the committee needs to cover the points that have been explicitly stated; and also we feel that the monitoring regional concept and other supervision concepts, as proposed by the Federal service, ought to be looked into.

We feel that there is a duplication of service and an unneeded service and so we feel monitoring does not get to the point of actually determining whether or not the inspectors are doing a competent job.

Next, we feel that the $5.3 million in supervision fees proposed at the present time by the Federal Government as was stated earlier, is the tip of the iceberg. We feel this is a very low estimate of what it is actually going to cost once it is implemented.

And I might say one thing about the unofficial inspection service.

I feel that there is a slim possibility of an unofficial service. But we did have one of our major grain companies inform us January 31 that they would not need our services pertaining to sampling at the grain elevator come February 1. This company has eliminated our official sampling service and gone to an unofficial type. I think this is a very critical point as this could mushroom all over the United States.

I would like to comment on the GAO report.

I know that it was stated that approximately a one-third error rate was shown. I think this is a very critical report.

I was interviewed by GAO—and I felt that I was treated fairly well—but I feel that the report is very biased in the fact that it takes field inspection work and determines that there is an error involved if there is so much as one-tenth of a percent error on some certificates. And the Federal Government has proposed tolerances in the past and has some tolerances now on some grading factors; and I think these tolerances need to be used if we are going to determine whether or not there is an error.

Senator CLARK. Let me ask you a question about that.

I was under the impression an error was determined to be something that changed the grade.

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*See p. 185 for the prepared statement of Mr. Danielsen.

Mr. DANIELSEN. I was under the impression it was, too. But we in the grain inspection industry know that moisture content cannot be determined within two-tenths of the actual moisture in a given sample of grain but one-tenth will change the grade of it.

This is a problem in determining how much of an error rate we do have. And I know there were several instances where the appeals did go from like 15.5 moisture to 15.6. And if there is a grade change, it does show an error, but it is a very minute error.

Thank you very much for allowing me to appear before you today.

Senator CLARK. Thank you both very much.

Mr. CARBAUGH. May I just add that I had a chance to look at the provisions of the bill. It would appear to me that those bills would clear up and take care of most of the recommendations that we did propose in my statement.

Senator CLARK. Excellent. I am glad to hear that.

Let me just say to all of you that are here that if you have suggestions for other changes that are not covered, that we would be very receptive to those in at least considering them.

Mr. DANIELSEN. Senator, we also support the provisions of the bills introduced by Senators Dole and Huddleston. We feel these two bills will correct quite a bit of the problem.

Senator CLARK. Thank you.

We are going to hear lastly from Joe Neal Hampton and Don Dudley.

If you will come up together, please.

Joe Neal Hampton is the general manager of the Enid Board of Trade, Enid, Okla.

Joe, why not go first, and then we will have Mr. Dudley, who is executive director of the Oklahoma Wheat Commission, Oklahoma City, Okla.

STATEMENT OF JOE NEAL HAMPTON, GENERAL MANAGER, ENID BOARD OF TRADE, ENID, OKLA.

Mr. HAMPTON. Senator Clark, on behalf of the Enid Board of Trade, we appreciate the opportunity to present to this committee our reactions and opinions of the United States Grain Standards Act of 1976.

We feel that there are detrimental ramifications of the act which pertain to areas which we feel we are close enough to comment on.

Before we get started, I would like, for the record, to comment on the article you brought forth in the Des Moines Register. That article is incorrect.

Somewhere along the line there was a mixup, because what that article was actually doing was comparing the charges at Enid, Okla., to what the FGIS is going to charge for those same services at the export points. That was not what the charge increased to at Enid alone. Again, that article was comparing the Enid charges versus the FGIS charges at the export ports.

Senator CLARK. I see. That is the explanation?

Mr. HAMPTON. Yes. That article is not discussing the Enid charges exclusively.

I would like to submit my entire statement for the record.* I just want to hit a couple of areas very fast.

*See p. 188 for the full statement of Mr. Hampton.

First of all, the grain firms located in the Enid market as well as all of Oklahoma, find it hard to understand why the FGIS fees to be charged at export locations are considerably higher than what private agencies charge for providing the same service; and, why interior private inspection agencies are being assessed fees for Federal supervision that we previously provided at no cost.

And I have gone through a table here on pages 2 and 3 of my statement, Senator, that I have come up with and which compares these charges before the creation of FGIS and after it came in. And personally I find it hard to understand why the FGIS do not think it is ultimately going to cost the farmer 2 or 3 cents a bushel because——

Senator CLARK. You think it will?

Mr. HAMPTON. Yes; I do.

I would like to go through this example and show why I come up with this figure.

You take a hopper car shipped from a country point in Oklahoma to a terminal in Enid and then it will be ultimately shipped on to the gulf export point because 90 percent of the wheat grown in Oklahoma goes to export. So when this car comes to Enid, it has to be inspected and weighed and a protein will be run on it so that the firms will know the quality of the grain.

And I am not taking into consideration that they are going to be inspected on the outbound; but I am going to say they are going to be inspected when it gets to the gulf point because today an exporter will not hardly buy any grain unless he takes it on "destination grade." So they are going to grade it again at the gulf. And the act says it has to be weighed in to the elevator at the export point. And most likely there is going to be a protein test run on it again.

So when you go through my example here, you come up with 2 cents a bushel minimum.

Senator CLARK. That is two inspections and two weighings?

Mr. HAMPTON. Yes, sir.

Senator CLARK. That would cost 2 cents a bushel?

Mr. HAMPTON. Yes, sir.

Now, before the FGIS went in, this was costing the farmer eight-tenths of a cent per bushel, by my calculation.

Senator CLARK. So the added cost, which is what we are really concerned about here, is taken into account?

Mr. HAMPTON. Yes, sir.

And, you know, we have to understand that the foreign buyer is not going to pay for these new charges. The exporter is going to pass it back to the terminal and the terminal is going to pass it back to the country elevator and the country elevator is going to charge it back to the farmer. So I wanted to get that in.

Senator CLARK. You know, we are so short on time, I do not want to start a long discussion; but it has never been all that clear to me why it gets passed one way or the other.

I assume, for example, that when these companies—and six of them now have pled guilty—when these companies pled guilty to consistently short weighing customers—and some recently pled guilty to systematically doing that over several years time—now, I assume that that

gets passed on to the foreign customers. They are paying for that. They are not getting what they are paying for. And when they get a misgrade, as they were doing very consistently out of New Orleans, then clearly——

Mr. HAMPTON. Well, these service charges are being passed on to the farmer. I am not considering the quality or anything else here, but in actuality the fees will be passed back to the farmer; because with the competition in the foreign market today from all the other countries, as you know, it just is——

Senator CLARK. You could not sell it if you add it on?

Mr. HAMPTON. Right.

We have one other problem we came up with in determining the cost per bushel; and that is the fact that FGIS is basing the weighing charge at export points on an hourly basis instead of a per-unit basis, as is the custom in the industry.

This policy is completely opposite of what the grain industry has traditionally used for many, many years.

In order for the industry to pass back any such costs in the marketing of grain, such costs must be based on a per-unit schedule.

We strongly recommend that all FGIS fees follow the traditional pricing pattern in the industry and be assessed on a per-unit basis.

Senator CLARK. Yes.

Mr. HAMPTON. The recordkeeping, this has been discussed enough today.

I want to talk about conflict of interest.

It was our understanding prior to the passage of the act that Congress did not intend to force out of business any grain exchange or board of trade at interior points that was providing reputable inspection and/or weighing services under the previous act.

We interpret section 13 to say, to specify in essence that the Administrator may authorize a grain exchange or board of trade to perform supervision of weighing at interior points if he determines that their services would not jeopardize the integrity or objectives and effective operation of the function performed by the agency.

However, in subsequent conversation with FGIS people, we have been advised that a grain exchange or board of trade at interior markets such as the Enid Board of Trade, could not possibly meet the proper criteria to be designated to supervise the weighing of grain, because of its "conflict of interest" nature.

They advised us that there was absolutely nothing we could do to keep our identity and still meet their conflict-of-interest criteria in order to be designated.

We maintain that this attitude of FGIS is not in line with the intent of Congress. We affirm that the Enid Board of Trade and many other such organizations have always provided a reputable weighing supervision service, and that any such defined "conflict of interest" under the act does not jeopardize the integrity of its operations or service.

We feel that since the very beginning of the U.S. Grain Standards legislation in this country, such organizations which have and will continue to provide a reputable and honest service should be permitted or given the chance to continue their operations.

We suggest that Congress and the FGIS quickly develop a definite set of criteria to define "conflict of interest," which will meet the objectives of Congress, as outlined in section 13, part 5, of the act.

One other particularly disturbing aspect of the act of 1976 to the Enid Board of Trade is contained in section 7 with regard to weighing.

It states, in essence, that with respect to the supervision of weighing at interior points, the Administrator is authorized to designate the agency which is providing the inspection service to be responsible for providing the weighing supervision.

Perhaps Congress does not realize that there are several interior markets, including Enid, whereby the inspection service and weighing supervision service is performed by different, reputable private agencies.

Enid's Board of Trade has been responsible for providing the supervision of weights in the Enid market since 1920, and have never incurred any weighing irregularities or similarly related problems whatsoever.

We affirm that Congress did not intend to force out of business such reputable organizations as the Enid Board of Trade simply because they were not performing both the inspection service and weighing service at the time the act was passed.

We believe that it is only fair that at interior points, the agency that has been doing the weighing should be given the first opportunity to be designated as the agency to provide the supervision for weights as outlined in the act, providing that the market desire "official" weights and that the agency can meet the FGIS qualifications, regardless of whether or not the agency is designated to provide the inspection service at that market.

Since this has been submitted for the record, in summary, I would like to say that prior to the passage of the U.S. Grain Standards Act of 1976, we strongly felt that the United States had a very good inspection and weighing system, particularly at interior market locations.

It was largely through the fault of the Federal Government of continually reducing the number of Federal supervisors to administer the previous act that resulted in the violations of the act discovered at eastern gulf export points.

Perhaps the simple solution of prosecuting and severely penalizing the violators of the act, combined with proper increased supervision at export points, would have solved the problems.

However, it is apparent that over-reaction has now created several new problems for the industry, which have been previously covered in this testimony.

We would support the creation of an advisory committee of grain industry spokesmen comparable to that used by the Commodity Futures Trading Commission, to be used by the FGIS in implementing the program of the new act.

We would like to thank this committee for the opportunity to present our views on problem areas of the FGIS.

Senator CLARK. Thank you.

Mr. Dudley?

STATEMENT OF DON DUDLEY, EXECUTIVE DIRECTOR, OKLAHOMA WHEAT COMMISSION, OKLAHOMA CITY, OKLA.

Mr. DUDLEY. Senator Clark, my name is Don Dudley.

First of all, I would like to thank you very much for the opportunity of appearing before your committee here today.

In the interest of time, I will submit my complete statement for the record.*

Senator CLARK. That will be made a part of the record.

Mr. DUDLEY. I have three recommendations that I would like to briefly discuss.

First of all, it is the recommendation of the Oklahoma Wheat Commission that FGIS not be involved in the supervision, grading, or weighing at interior points and that FGIS activities be geared only to inspection at the export points.

We further suggest that a Federal appropriation be established to cover FGIS expense. It is our feeling that everyone benefits from grain inspection and grading in that quality designation helps to improve nutrition standards for all of our consumers.

Senator CLARK. You would not have any supervision at all in the interior?

Mr. DUDLEY. In the interior.

Senator CLARK. Well, why at export?

Mr. DUDLEY. We would be happy to have the interior supervision providing that it is paid for by appropriation other than passed back to the farmer.

Senator CLARK. I see.

Mr. DUDLEY. Everyone benefits from grain inspection and grading in that quality designation helps to improve the nutrition standards for all consumers.

In addition, good inspection and grading has a positive effect on commerce in our export trade, creating a better balance of payments, which in effect helps all U.S. consumers with a greater purchasing power for fuel and other imported goods, as well as more jobs for U.S. consumers.

It is our further recommendation that an advisory committee be established, composed of producers, grain industry people, and consumer representatives to consult with FGIS and to make recommendations for implementing this bill.

Thank you very much for the opportunity to appear here today.

Senator CLARK. Thank you.

I want to thank all of you for coming.

That is the last witness I have on my list, unless someone has other information.

So the hearing is recessed.

Thank you very much.

[Whereupon, at 2:30 p.m., the hearing was recessed, to reconvene Friday, February 4, 1977, in room 322, at 10 a.m.]

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*See p. 192 for the prepared statement of Mr. Dudley.

IMPLEMENTATION OF THE GRAIN STANDARDS ACT OF 1976

FRIDAY, FEBRUARY 4, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, in room 6202, Dirksen Senate Office Building at 10:05 a.m., Hon. Walter D. Huddleston, (chairman of the subcommittee) presiding.

Present: Senators Huddleston, Young, and Dole.

Also present: Senator Curtis.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY—Resumed

Senator HUDDLESTON. The subcommittee will come to order.

Today the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices will continue hearing testimony on the implementation of the U.S. Grain Standards Act of 1976. Yesterday we heard testimony from Members of Congress, the Department of Agriculture, and witnesses from several States.

Today we will be hearing the testimony of persons from several other States, including Oregon, Texas, Nebraska, and Minnesota.

I want to point out again I hope the testimony can be kept brief. There are 18 persons on today's witness list, and we hope to be able to finish the hearing by noon.

For those of you who were not present yesterday I would like to call your attention to a bill I introduced on Wednesday, S. 593, and a bill that Senator Dole introduced, which I cosponsored, S. 592. Both of these bills would amend the 1976 Grain Standards Act, and modify the recordkeeping requirement of the law; and both bills would create a Grain Standards Act Advisory Committee.

In addition, Senator Dole's bill would eliminate Federal fees for the supervision of State or private inspection and weighing agencies. Copies have been made available to all of those testifying, and I know this is short notice, but if you can make any comment on the provisions in those bills as to whether or not they might solve some of the problems that have been encountered in the early stages of the implementation of the current law, it might be helpful to this subcommittee.

The main thrust of these hearings is intended to be directed toward the recordkeeping requirements of the law and the supervisory fees, and other problems that might have been encountered as the law has been implemented to date.

So I urge those appearing to stay on track and keep their testimony as concise as possible.

We are glad to have Senator Carl Curtis, the Senator from Nebraska, with us this morning, and a valued member of the Agriculture Committee.

Senator?

Senator CURTIS. No, Mr. Chairman, I do not have a statement. I am intensely interested in this, and am cosponsor of the Dole bill.

I serve on the full committee, but not on this subcommittee, but I am very much interested in the problem. I think we have an overly amount of Federal regulation, and we must do something about it.

Mr. Chairman, I would suggest that at the point of insertion of S. 592 and S. 593 the record also show who are the cosponsors.*

Senator HUDDLESTON. Very well, that will be done.

The first witness this morning is Mr. Wells Hanley, president, Memphis Board of Trade, Memphis, Tenn., accompanied by John T. Butler, chief inspector and weighmaster.

STATEMENT OF WELLS HANLEY**, PRESIDENT, MEMPHIS BOARD OF TRADE, MEMPHIS, TENN., ACCOMPANIED BY JOHN T. BUTLER, CHIEF INSPECTOR AND WEIGHMASTER

Mr. HANLEY. Thank you, Senator.

I am Wells Hanley, president of the Memphis Board of Trade, and this statement is made in behalf of that organization and its subsidiary company, the Memphis Grain & Hay Association. Cooperating with me will be Mr. John T. Butler, who is our chief inspector and weighmaster.

I am going to keep my comments short, because I had some comments on the recordkeeping provision, but apparently there has been enough said about that. So I am going to just address myself to the latter two points, which is inspection fees and also the conflict of interest as it applies to us.

I would like to give you a little background.

The Memphis Board of Trade was organized in 1883 and is one of the oldest grain exchanges in the country. Its membership includes commercial grain merchandisers, grain processors, soybean and cottonseed processors, feed manufacturers, brokerage and commission merchants, also banks, railroads, and country shippers.

The Memphis Board of Trade established a grain and hay inspection department and standards of quality for grain and other commodities in 1885. When the Congress passed the U.S. Grain Standards Act in 1916, our inspection department became a designated official inspection agency under that act.

We built a new grain inspection station at a cost of $100,000, and this was financed entirely by the Memphis Board of Trade.

The inspection department performs approximately 30,000 official inspections annually, on barges, railcars, trucks, and submitted samples. These samples represent approximately 100 million bushels of soybeans and grain. Official inspection is furnished to anyone who desires it.

*See p. 3 for S. 592 and S. 593 showing cosponsors.

**See p. 235 for the prepared statement of Mr. Hanley.

We currently inspect grain for approximately 240 accounts, about equally divided between shippers and receivers of grain. Services are provided 7 days a week, 24 hours a day during harvest periods. The operation is financed from fees charged for the service. And the fees are the same whether you are a member or a nonmember of the Memphis Board of Trade. And they have been modest, as the department operates on a nonprofit basis.

The territory serviced by our department is west Tennessee and the grain producing areas of eastern Arkansas as far as the White River.

Now, three areas of concern of course are the recordkeeping provisions, which I am going to bypass, because I understand the bills have been introduced to simplify the system at the subterminal level.

The Federal supervision fees as currently outlined appear to be unrelated to the cost of supervising our inspection activities. In December of 1976 we were advised that the fee would be $11,135.68. In January we received the present schedule which would amount to about $83,000 per year based on our 1976 volume.

Even according to the FGIS records, the Memphis Board of Trade increase was 593 percent over their original supervisory inspection cost.

Our total income from inspections was $177,000 in 1976, thus these supervision fees would amount to almost one-half as much as our inspection fees.

One of the problems appears to be that the fee schedule is the same for a 750-bushel truck as for a 50,000-bushel barge. Thus, it charges 66 times as much for one barge grade as for one truck grade. The FGIS must know that this is not realistic as their per bushel charge for inspections figures about $16 per thousand bushels on trucks, and 96 cents per thousand bushels on barges. This is particularly important to us as about two-thirds of our inspection volume is on barges.

We strongly urge that the fees be made to reflect the cost of the supervision. Or, if this is too complicated, then we feel that the cost of supervision should be through appropriated funds, as in the past.

Our greatest concern, however, regards possible interpretations of the provisions on conflict of interest.

The law contains a provision in section 13, subsection (b), item (5) which allows the Administrator to designate a board of trade as an official agency if he determines that any conflict of interest which may exist is not such as to jeopardize the integrity or the effective and objective operation of the functions performed by such agency.

This provision has been referred to as the "Bergland amendment," as it was proposed by Mr. Bergland, who was at that time a member of the House Committee on Agriculture. This provision was included in the conference bill as recognition that boards of trade had performed admirably as official agencies and could perform just as well in the future.

The Memphis Board of Trade is one of those who has served well and is in a position to continue that service. Please consider these advantages which we can bring.

The Memphis Board of Trade has operated an inspection service for 90 years without criticism, a record that cannot be matched by any State, Federal, or private inspection agency that we know of.

The Memphis Board of Trade can, and if allowed, will provide this same quality service for another 90 years at no cost to the taxpayer. We are confident that we can do this because of the nature and objectives of our organization. The Memphis Board of Trade is a nonprofit corporation whose only interest is to promote a healthy, efficient farm commodity marketing system.

Some of you may think of a board of trade as an organization made up of big buyers located in the city. Actually, only 12 of our members fit this description, and 7 of those are also sellers; 13 of our members are country shippers; 3 of the 13 country shippers are farmer-owned cooperatives; 31, or 55 percent, of our members do not trade in commodities that we grade. Thus, we are interested only in the most expert, nonbiased, consistent inspection system possible.

Consider the advantages of having buyers and sellers represented in this process. They constantly compare the Memphis Board of Trade grades and weights with the results obtained by themselves on the same lots. This provides an immense amount of checking and counter checking. Typically, the seller will have his grades, the buyer will have his grades, and there will be the Memphis Board of Trade grades.

If either the buyer or seller thinks the board of trade grade is in error, he may call for a USDA appeal grade. It is interesting to note, however, that USDA appeal grades are called for less than 1 percent of the time, and more than two-thirds of the appeal grades uphold the original Memphis Board of Trade grade.

More than one-half of our members are persons who have no financial interest in the commodities we grade. This makes us uniquely qualified to establish an autonomous committee of noninterested parties to oversee the operation of the inspection and weighing services. This committee will be given authority to appropriate funds, establish salaries and wages, using a wage survey procedure, and to establish fees for our services. The committee will appoint the chief grain inspector.

At present, he is Mr. John Butler, a highly skilled professional, who has complete autonomy in the staffing and operation of the inspection department. The present staff of inspectors have an average of 26 years experience in grain inspection. They have been individually tested and licensed by the USDA, and are reexamined every 3 years for competence. Their tenure is based solely on their performance as inspectors.

We believe that the industry has confidence in the Memphis Board of Trade. No one is required to use our services, yet last year we handled more than 30,000 inspections for 240 different accounts. This seems to indicate that we have a lot of satisfied customers.

We know that the Department of Agriculture also has confidence in us. They have watched us and supervised us for many years with a very minimum of problems. Recently they moved most of their personnel from Memphis leaving us with very little of their supervision. We urged them to stay in Memphis and offered to work with them in providing office space on our property—and by the way, that offer is still open. All of this indicates to us that they do recognize the job that we have done, and do have confidence in us.

FGIS employees have made statements indicating that they will move very slowly in designating boards of trade as official agencies. Additionally, they have been quoted as saying they, "do not have to

give any waivers" and "will not give many." The law is written in such a way that the initiative for this action to approve boards of trade is to be taken by the Administrator of the FGIS.

It is clear to us that Congress intended to allow boards of trade to continue as official agencies at interior points where those boards of trade can demonstrate their ability to perform the functions. We have demonstrated our ability, and we urge the Senate committee to follow this matter so that organizations such as ours may continue to serve the grain industry.

We thank the U.S. Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices for this opportunity to present the views of the Memphis Board of Trade.

Senator HUDDLESTON. Thank you, Mr. Hanley.

As you point out, and was stated yesterday, there have not yet been guidelines established to make a determination on the conflict-of-interest issue.

What suggestions would you have for such a set of guidelines?

Mr. HANLEY. Well, I think definitely there should be a set of guidelines set so that the FGIS Administrator should not have to make arbitrary decisions.

Senator HUDDLESTON. What kind of situation would have to prevail to——

Mr. HANLEY. Well, our situation in Memphis is possibly unique, in that we have so many members of our board of directors who are not involved in the buying and selling of grain that is graded in Memphis. I think we would have an easier time on the potential conflict of interest, in that we could appoint a committee made up not of grain buyers and sellers at all, that could run our inspection department, although I do think in the past it has been very beneficial to the success of our inspection department, to have people that are involved in the buying and selling of grain, on our board of directors.

I do not have anything to do with the grain trade, yet being a member of the board is kind of the love of my life, because I have been on the board for 25 years, and actually, personally, it would have no bearing on my business whether the Federal Government graded or the Memphis Board of Trade graded, or we did not have an inspection department in Memphis at all.

But this is a 96-year-old institution that happens to have done a fine job. And I feel like most boards of trade in the country will be able to demonstrate that they can run their organization without a conflict of interest.

Senator HUDDLESTON. Well, I think that is where the burden lies.

If I recall correctly, the attitude of the committee and the Congress when we passed this legislation was concern about genuine conflicts of interest. And the waiver provision was put in to provide a way to accommodate boards that could demonstrate there was not in fact conflict of interest involved.

I do not think there was any intention it should be a blanket or automatic situation. The Agency is moving toward the establishment of guidelines and they have indicated they would like consultation and advice.

The two pieces of legislation that have been introduced would provide an advisory committee that might well provide some of that kind

of advice. I think it can be worked out to the best interests of all concerned.

And certainly, conflict of interest in itself is not a desirable situation in whatever area that we find it. I am hopeful that reasonable standards and guidelines can be adopted that would protect the interests of all concerned. And I think it can.

Senator Curtis?

Senator CURTIS. No questions.

Senator HUDDLESTON. You suggested, regarding the supervisory fee, that you thought that it should be totally federalized.

Mr. HANLEY. Well, no, I did not make that statement. Originally they thought Federal supervision could have been done on a cost of what the supervision was. Apparently after they decided that this was going to be a tremendous program, they decided that we were not only going to have to pay for our supervision, but would have to help pay for the administrative costs, and all of that sort of thing. That is the reason that our costs went up 593 percent in 3 weeks.

I do say that in the past it has been an appropriation, and I personally believe that this supervisory personnel should be through appropriations from Congress.

Senator HUDDLESTON. Thank you very much.

Next, T. L. Irmen, director, Toledo Board of Trade, and director, Ohio Grain & Feed Association, Maumee, Ohio.

Mr. Irmen.

STATEMENT OF THOMAS L. IRMEN, GENERAL PARTNER, THE ANDERSONS, MAUMEE, OHIO; DIRECTOR, TOLEDO BOARD OF TRADE, AND DIRECTOR, OHIO GRAIN & FEED ASSOCIATION

Mr. IRMEN. Thank you, Senator.

I am Thomas L. Irmen, general partner and manager of all grain operations for the Andersons, a partnership with headquarters in Maumee, Ohio. We are engaged in many phases of agribusiness, but our major thrust is centered on the origination, handling, merchandising, and shipment of grain.

Through our combined storage capacity of some 35 million bushels at Maumee and Toledo, Ohio, Champaign, Ill., and Delphi, Ind., we receive and ship over 155 million bushels of grain annually. The grain is purchased directly from the producers and country elevators, and is shipped via unit trains to both the gulf and North Atlantic ports, as well as direct export shipment out of the Port of Toledo via the St. Lawrence Seaway.

In my 30 years in the grain business I have been an active member of numerous nationally recognized grain associations, and an officer in many of them. In addition, I have performed virtually every grain-related function from the growing of grain to the merchandising and loading of the largest ships that traverse the St. Lawrence Seaway.

I might add that this includes more than 10 years as a grain inspector and weigher and a direct supervisor of these functions. Throughout my entire adult life I pride myself on never losing the feel for the responsibility to the people we serve, all the way from the producer to the consumer. I do not mean for all of this to sound boastful or like

an obituary, but rather to establish myself as a knowledgeable, qualified spokesman on grain-related matters.

But today I am here not only to express my personal views and those of my company, but also to express those of the Toledo Board of Trade. The board is made up tof 21 members representing 13 firms. Its primary functions in recent years have been the original inspection of grain and the supervision of grain weighing.

In 1976, these services were provided for over 178 million bushels of grain, 122 million of which went out via water. What has been a beautiful, efficient, and trustworthy market without a single blemish on its record for its entire 101 years of existence is now struggling with the implementation of the U.S. Grain Standards Act of 1976. It is without question the most upsetting and unsettling thing to hit the Toledo grain trade in its entire history. As the immediate past president of the board of trade, I led an unsuccessful fight to forestall the legislation under discussion today.

Toledo was one of the first export markets to declare its intentions to phase out our board of trade functions and go under the full jurisdiction of the Federal Grain Inspection Service.

I am told that you questioned why we did this. Many others have, too; but let me set the record straight. We did not want to. We love our Toledo Board of Trade, its reputation and its unequaled ability to efficiently and honestly serve a very demanding domestic and export market. But we really had no choice. We were told that we were dead, or at least dying, but that we did have the privilege of picking the date of our own funeral. However, we were not even allowed to die in peace. We were harassed on three fronts:

One, the USDA had hired, and was attempting to hire even more employees from our board. These losses of personnel made it virtually impossible to provide needed inspection service.

Two, the USDA had also pressured officers and directors of the board to resign, citing possible conflict of interest. One of the strengths of the Toledo Board of Trade over its more than 100 years has been the knowledge and leadership of the members of the grain industry it serves. Without competent leadership, the Toledo Board of Trade could not be assured of a succesful future inspection and weighing service.

Three, the USDA had notified the Toledo Board of Trade that as of January 12, 1977, a monthly supervisory service charge would be made for the supervision of the grading and weighing services provided by the Toledo Board of Trade. This we thought was an arbitrary, exhorbitant and completely unrealistic service charge that the board of trade could simply not absorb.

As a result, the FGIS took over all official original grain inspection in the Toledo area on January 16. The fears that we had about the costs and inefficiencies are quickly becoming reality.

In this short period of time we have watched our inspection costs triple and productivity decline. And when we complain that our operations are being hampered by the lack of productivity, the answer is always the same: "We'll simply add more people." Man-hour charges have been established, but industry is at the mercy of the FGIS as to the number of personnel assigned.

The FGIS weighing supervision is scheduled to be phased in on or about April 1, 1977, to coincide with the opening of the navigation season. At that time, we see our total FGIS costs multiplying five or six times over what our Toledo Board of Trade costs have been. This only stands to reason because we are told that local FGIS expenses must be borne completely by user fees, and we know the FGIS work force will be at least four times greater than the peak Toledo Board of Trade work force, and at a much higher hourly rate.

One thing we must keep in mind, gentlemen, Toledo has had a record of accuracy and honesty second to none in the country.

But the costs do not even end there, for the act outlines a record-keeping requirement that adds still more in-house expenses. The saddest part of this entire recordkeeping requirement is that the FGIS readily admits that for the most part it serves absolutely no purpose to them; it is simply more paper, and another invasion of a beautiful, free enterprise system.

Sure I criticize the USDA and the FGIS, but in some respects I feel sorry for them for they are attempting to interpret and implement to the letter what Congress has mandated. It is our feeling that this legislation goes far beyond what Congress originally intended, and has weakened rather than strengthened the backbone of the U.S. export program.

And, gentlemen and ladies, the people who are going to be hurt the most are the producers. Operating margins will not permit the elevators to absorb these costs, so it will be reflected back to the producers in their prices and the services we render to them. What a price to pay for the transgressions of a few greedy people.

We in Toledo urge you to set aside your pride and to reevaluate this legislation. If there ever was a case of throwing the baby out with the bathwater, this is it.

I thank you, Senator.

Senator HUDDLESTON. Thank you.

You mentioned pressure the Agency had exerted on directors. What kind of pressure was that?

Mr. IRMEN. Senator, this is not so much directed to the U.S. Grain Standards Act, as it is to the affirmative action program that is also going on concurrently with the implementation of this act. There were a number of our companies who were parts of that program, and we were pressured on that front, and also are confronted with the interpretation of the conflict of interest under this new law, which we understand has not been developed at this point.

Senator HUDDLESTON. And what was the fee schedule for original inspections under the Toledo Board of Trade?

Mr. IRMEN. I am not sure I understand your question.

Senator HUDDLESTON. What was your fee schedule for original inspections under the Toledo Board of Trade?

Mr. IRMEN. OK. Our original inspections were all on a per unit basis, with so much per car, and so much per thousand bushels if they were exported. Under the new schedule most of the charges we will be confronted with are on a man-hour basis, such as $18 or $20 or $22 an hour, depending on what the particular service is that is needed. And when you multiply the man-hours times the number of people

that are utilized for the service versus what we had in the board of trade, the inefficiency stands out like a sore thumb. And that is where we run into problems.

The total cost, when you divide that by the bushel, the per unit cost comes out three times greater on the unit grains, and we suspect once weighing supervision is in there, it will be five or six times.

Senator HUDDLESTON. Could part of that be just from the start-up costs of staffing a new system?

Mr. IRMEN. I am not sure. I would suspect——

Senator HUDDLESTON. The Federal employees, I doubt, will make as much money as the inspectors you were using.

Mr. IRMEN. I cannot answer that. I am led to believe that the costs that we are showing so far are apt to be on the low side, and they will be worked up from there as opposed to working down.

Senator HUDDLESTON. Senator Dole, any questions?

Senator DOLE. No. I apologize for being late. I could not find the prepared statement.

Mr. IRMEN. I have it here.

Senator DOLE. Fine, thank you very much.

Senator HUDDLESTON. We will now hear from the Oregon group.

STATEMENT OF ALAN PINKERTON, HELIX, OREG.

Mr. PINKERTON. Thank you, Mr. Chairman.

I am Alan Pinkerton, and I am a wheat producer from Helix, Oreg.

Mr. Morgan, who was to be here with us, was unable to come. He is chairing a meeting of the only growth industry of our area, that of the Federal land bank. [Laughter.]

I am particularly pleased, being here yesterday, with the amendments that were submitted by the members of your committee. I believe that they answer most of the points that were covered in my testimony. I assume that my remarks will be inserted in the record.

Senator HUDDLESTON. Yes; they will, in their entirety.*

Mr. PINKERTON. So I will limit my comments to just a couple of points.

We are impressed with the attitude we have found here, both of the subcommittee and of the Inspection Service personnel. This is very pleasing to us, that we had the opportunity to sit here yesterday, and got a very affirmative feeling about your hearings. And we are very appreciative of your hearings.

We at Oregon sometimes feel very far away. I heard a newscaster refer to the west coast and then speak of Denver. I flew for 3 hours before I hit Denver.

One point that was mentioned yesterday that was not answered to my complete satisfaction is that of crossing geographic lines. Perhaps the definition of geographic lines is what I do not understand, Senator, where samples taken from one area are not supposedly to be processed in another. I do not understand how that works.

This is interesting to me, because in my area I am only 5 miles from the Washington border, and wheat in our country crosses the State lines quite often, from one co-op. Quite often farmers in Oregon

*See p. 238 for the remarks of Mr. Pinkerton.

belong to a Washington co-op, or elevator; and farmers in Washington belong to an Oregon association.

Possibly Service personnel can answer that question, but what I am doing is reflecting the concerns of the farmers.

Senator HUDDLESTON. We have members from the Agency here that might respond to that.

Mr. PINKERTON. I appreciate that.

Senator HUDDLESTON. Mr. Galliart, would you like to comment on that?

Mr. GALLIART. My name is David Galliart [Federal Grain Inspection Service, USDA], and I was here yesterday. I am not sure I understand totally the specific question.

Our inspection people are not here today, but I will try to answer that to the best of my ability.

One of the problems we had in the previous act and the regulations involved submitted samples and the so-called yellow certificate program whereby we had general guidelines about where these samples could be sent for analysis purposes.

In other words, the samples could be obtained either by the country elevator operator, or by a party of interest, and then sent outside of the geographical area of the local official inspection agency.

We found that after some months of experience with this, Senator, that some of the interested parties would send the samples to the official inspection agency, where they thought they would get the best grade. This is referred to as shopping for grades.

It was not a heavily abused kind of program, but it did occur. We decided to restrict the submitting of samples and the so-called yellow certificate samples to the official inspection agency in the geographic area where the sample was obtained.

Senator HUDDLESTON. How do you determine that geographical area? Do you have zones set up?

Mr. GALLIART. We have established geographical areas for the official inspection agency to operate in. In the State of Oregon, for instance, they operate in the whole State. In Enid, Okla., the private inspector has a certain part of Oklahoma that we have designated to him. In Iowa there are about 11 inspection agencies, and each has a designated area within the State.

Senator HUDDLESTON. Are State lines involved?

Mr. GALLIART. No.

Senator HUDDLESTON. So that you cannot cross a State line?

Mr. GALLIART. No, in most cases the States operate within their own boundaries.

But we have, in several instances, Senator, State agencies or private agencies that provide inspection service beyond their boundaries—maybe 4 or 5 miles beyond their boundaries—we allow them to do that.

In this case we may have a situation where it is a matter of a geographic boundary. I am sure we can work it out. We certainly would not want an inspector driving 75 miles to obtain a sample when there is an official inspection agency just 5 miles from the applicant for inspection.

Senator HUDDLESTON. That is fine.

Does that solve your problem?

Mr. PINKERTON. Yes, Senator. That was perhaps the one specific problem I had in my remarks that had not been dealt with before.

I would again express my appreciation of the amendments that have been offered. I think they not only, particularly in the funding area, that they not only will relieve some of the concerns that producers have in my area, but they also will tend to restrict any unnecessary growth within the Service, which is another concern.

So with that I will turn the mike over to Mr. Sather.

STATEMENT OF MERRILL SATHER, EXECUTIVE DIRECTOR, PACIFIC NORTHWEST GRAIN DEALERS ASSOCIATION, PORTLAND, OREG.*

Mr. SATHER. Thank you.

Chairman Huddleston, first of all I want to say I know how to spell your name, but apparently my secretary's typewriter did not. I want to apologize for that.

Senator HUDDLESTON. Well, it is not a very exclusive name.

Mr. SATHER. Most of the things that I had in my prepared testimony have also been covered, and then, of course, when we did arrive yesterday morning, we were informed that both you and Senator Dole did introduce amending legislation. I have not completely studied that, but I have looked it over, and it looks to me like it answers a good many of the problems we were concerned with.

I particularly like Senator Dole's approach on the fees, because that was one of the things we were deeply concerned with in this—I refer to it as a monster—that was created. It left this open ended for the Inspection Service to increase fees whenever they needed more money, and with no apparent lid on it and, Senator, congressional appropriations by its own nature would tend to put a lid on this spending.

We have already seen in the first 3 or 4 months—well, as a matter of fact, we have seen in the last 1½ years a tremendous increase in the complement of the Federal Inspection Service, and they talk about increasing it even more.

In my testimony I point out that in the Portland District Office, for example, a year ago there were eight men in supervisory capacity. In that year one new grain elevator has come on line. So there is probably need for perhaps one or two more men, I suspect, but no, they have 31, or almost a fourfold increase.

We just think that is incredible. And so hopefully we can get some lid on that sort of thing.

Yesterday there was discussion on the cost of inspection. And I did do some calculations for the two States of Oregon and Washington. I obtained their budgets, and also the numbers of people they have on the staff. And according to my calculation, the cost of inspection out there—if you add everything together and average it out—the average cost is $1.71 per bushel.

The initial Federal grain inspection assessments would add 20 percent to that, and making the total $2.06 per bushel. But as was stated yesterday, this initial assessment may only be the tip of the iceberg until that legislation gets corrected.

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*See 239 for the prepared statement of Mr. Sather.

Senator HUDDLESTON. Senator Dole, any questions?

Senator DOLE. I do not have a question, but I hope you do study the amendments which were cosponsored by virtually every member of this committee. They were prepared in an effort to get some comments at this hearing. There obviously could be mistakes, as well as additions.

We appreciate comment on the advisory committee, that is, whether we should have any, one, two, or seven members, and what authority they should have.

There was some discussion after the hearing yesterday that perhaps it is easy to appoint committees around here, but they never have any impact and input. So any comments in that area will be appreciated.

Mr. SATHER. Thank you, and I shall study it. I thank you for the privilege of appearing here.

Senator HUDDLESTON. Thank you, gentlemen.

The next panel will be from Nebraska.

Senator Curtis?

Senator CURTIS. Mr. Chairman, we in Nebraska are greatly disturbed about this grain inspection law and situation, and we feel that some changes are very much needed. That it one of the reasons that I am cosponsoring one of these bills.

Our witnesses today from Nebraska are Mr. Dale Walsh, manager, Lincoln Grain Exchange, Lincoln, Nebr., and Mr. Bob Anderson, Nebraska Grain & Feed Dealers Association, with their headquarters at Lincoln.

Bob Anderson is the very efficient man in charge of the Feed & Grain Dealers Association. Mr. Dale Walsh is eminently qualified to testify on this subject. Originally a farmer, he knows this business from the farmer's viewpoint. He has spent almost 10 years in a country elevator, and has been employed by the Lincoln Grain Exchange for 14 years—the last 3 as manager.

The record of grain inspection in the State of Nebraska is good. We feel that we are being imposed upon by a costly and cumbersome system now that ought to be changed.

And our first witness is Mr. Dale Walsh.

STATEMENT OF DALE WALSH, MANAGER, LINCOLN GRAIN EXCHANGE, LINCOLN, NEBR.

Mr. WALSH. Thank you, Senator.

As most of the contents of our statement has been repeated many times, we ask that it be placed in the record, and I will restrict my comments to the conflict of interest provisions of the bill.*

Senator HUDDLESTON. Without objection, the statement will be printed in the record in its entirety.

Mr. WALSH. We feel that because of the file sample retention, Federal appeal rights, having both processors and merchandising firms in our market, country elevators having the option of selling to several different markets and the fact that grain from our market is distributed to all areas of the county where, many times, it is again officially inspected does mandate the proper inspection of grain at our agency.

*See p. 240 for the prepared statement of Mr. Walsh.

One of the most important aspects of grain inspection is timely service. Any delay, during a heavy movement of grain, can cause demurrage and possibly embargoes, both of which are very costly.

Organizations such as ours, although we may have an "inherent" conflict of interest, do have a "genuine" interest and are in a position to insure the timely service required to meet the requirements of the declaration of policy of the act which states in part, "with the objectives that grain be marketed in an orderly and timely manner, and that trading in grain may be facilitated."

We believe that the conflict-of-interest section of the act does need clarification, and would hope that criteria will be established in the writing of regulations, that will allow organizations such as ours to remain in operation, under the waiver provisions of the act.

We hope with the cooperation of everyone concerned that a workable solution can be reached.

That is all the comments I have there.

I think that we would like to commend this committee for the proposed amendments that were brought out yesterday, and we think that they are fine. And I guess that is about all of the comments that I have at this time.

Thank you.

Senator HUDDLESTON. You of course know that the legislation introduced the day before yesterday would provide an advisory committee that presumably would be able to offer some assistance to the Department in developing conflict-of-interest guidelines?

Mr. WALSH. Yes.

Senator HUDDLESTON. Senator Curtis?

Senator CURTIS. I would like to ask you just one question.

Based upon your experience, how does the operation of the inspection now by the grain exchange operate in such a way that it is conducive of an honest inspection, and an honest conduct of its business?

What are the cross influences or checks and balances inherent in it that brings that about?

Mr. WALSH. Well, basically, we have processing firms and merchandising firms as member firms. A lot of grain is bought and sold between member firms. And the grain inspector, when he grades a sample of grain, he does not know where the grain is going to go. It may be a carload of grain that goes crosstown to a processor, it may be going to the gulf, it may be going to Kansas City where it is graded by a State agency again.

Most of the country elevators, in our area, can bill carloads of grain to themselves, to Lincoln, Nebr. We will grade this grain and report the grades to them which gives them the option of selling this grain to Lincoln merchandisers, Omaha, Kansas City, the gulf, or wherever they want to.

Senator CURTIS. I reject the idea that the only honest people in the world are those in Government, or that the only people with any knowledge or commonsense are people in Government.

In fact, that is sometimes lacking. But the way this operation is carried out, the total inducement is to do an accurate and honest job of inspection. Is that correct?

Mr. WALSH. That is true.

Senator CURTIS. And in that sense it is not a conflict of interest, because the very system is one that a loss of reputation and business confidence would occur if they got careless or inaccurate. Is that correct?

Mr. WALSH. That is correct.

Senator HUDDLESTON. Senator Young?

Senator YOUNG. No questions.

Senator HUDDLESTON. Senator Dole?

Thank you gentlemen very much——

Senator CURTIS. Mr. Anderson has a statement.

Senator HUDDLESTON. I am sorry.

STATEMENT OF BOB ANDERSON, NEBRASKA GRAIN & FEED DEALERS ASSOCIATION, LINCOLN, NEBR.

Mr. ANDERSON. Senator, a lot of the material I have I understand has been covered yesterday, and I would like to abbreviate my statement, but submit the entire statement to you for the record.*

Senator HUDDLESTON. Without objection it will be included in the record.

Mr. ANDERSON. My name is Robert Anderson, I am the executive vice president of the Nebraska Grain & Feed Dealers Association, a trade association which represents over 900 members in the State of Nebraska. Our membership includes 812 grain elevators in the State.

In reviewing the 1976 United States Grain Standards Act, which created the Federal Grain Inspection Service (FGIS), it is found the act would have a very costly and detrimental affect on the Nebraska grain farmers.

In addition to being costly to Nebraska grain farmers, it will also be costly in time and money to Nebraska's grain trade, even though the additional cost of FGIS can be passed on to the farmer by grain dealers in the form of a lower price for his grain.

The association and its members are concerned by the possible additional costs in the following areas:

1. The supervision costs assessed to the trade in the form of "official" inspection, weighing and other tests at the domestic and export locations.

2. The additional recordkeeping costs made necessary by the new act.

3. The possible demurrage charges assessed to rail cars while waiting for a Federal inspection or reinspection.

4. The discounts resulting recently from Federal reinspections of wheat shipments.

Of the four items I previously referred to, I would like to give you an approximate cost for each item, as I have looked at it, which would also mean a Nebraska farmer would receive this amount less per bushel on his grain. This total will roughly amount to 9.4 cents less per bushel a farmer would receive for his grain.

And then I go through the items that I have looked at in each of the four areas.

Senator DOLE. How much was that?

*See p. 241 for the prepared statement of Mr. Anderson.

Mr. ANDERSON. 9.4 cents per bushel.

Senator DOLE. That is a new record.

Mr. ANDERSON. This is adding in supervision costs, as we look at it, and the recordkeeping costs, of taking a rough estimation of; and what with the overhead, Senator, and equating it out, $5 per hour. And there are demurrage costs. And I am using the Kansas example, where they ran at 2.6 per bushel. And discounts was a problem that the elevators also ran into in Kansas.

On the potential additional cost to the grain trade, which will in turn be passed on to the farmer, they are not meant to be total costs on each bushel of grain. But for the sake of this example, if the 9.4 cents per bushel was applied on each bushel of Nebraska grain sold through the elevator, this would mean a loss to the Nebraska economy, and Nebraska farmers, of $34,512,570. A fantastic amount, I think you will agree.

For the Nation's farmers presently experiencing low grain prices and an increased cost of doing business, even a small portion of this amount would be way too much.

The trends over the past several years have shown an increased level of Government regulations at both the Federal and the State level against the Nation's small businessman. The 1976 United States Grain Standards Act seems to be no exception, as seen from the proposed rules and regulations proposed by the Federal Grain Inspection Service.

The country elevators in the Nebraska Grain & Feed Dealers Association urge you to take whatever action is necessary to stop the implementation of the new Federal Grain Inspection Service's rules and regulations.

With any criticism, you should propose solutions:

First, costs of the new Federal Grain Inspection Service be covered by, like under the old law, appropriations from Congress. In addition to this, inspection and weighing at interior points be continued as they have in the past.

In Nebraska our grain inspection services have been efficient, low cost and a benefit to the grain trade and Nebraska's farmers. It is the association's feeling the grain inspection agencies in our State have been operating successfully without difficulties; therefore, why should they be changed.

Second, the new system of recordkeeping suggested by the act, be changed to read that only such records as have been kept in the past be required. In this way, the country elevator would not bear the equal costs and additional paper headaches. The proposed recordkeeping system seems impractical and more than the country elevator can bear.

The 900 member Nebraska Grain & Feed Dealers Association urges and hopes this subcommittee and the Congress of the United States will make the changes necessary in the 1976 United States Grain Standards Act.

Through these changes, the small country elevator will be helped instead of overregulated; Nebraska's economy will be helped through the savings of money in our agricultural economy; and, Nebraska's farmers will be helped by receiving their full price on his feed grains because they did not have to lose it through overregulation costs.

Thank you for this opportunity to present this testimony at this hearing. Any action you take to help Nebraska's grain trade and farmers will be greatly appreciated.

Senator HUDDLESTON. Senator Curtis.

Senator CURTIS. I was interested in that $31 million figure. What all did that include?

Mr. ANDERSON. That is the total, Senator, if you run 9.4 cents against the total of grain traded through the elevators in Nebraska.

Senator CURTIS. And it was $31 million, and how many hundred thousand?

Mr. ANDERSON. $34,512,000——

Senator CURTIS. Oh, $34 million?

Mr. ANDERSON. $34,512,570.

Senator CURTIS. And what all goes in that 9 and a fraction cents? That includes what items?

Mr. ANDERSON. One is the supervision costs. That would calculate out—and using the examples that were used, and this is putting in the extra personnel—it ran up to 3 cents. I got it back to 3.5 on the supervision costs. And then on the other categories it is 1.3 cents per bushel added in on the elevator recordkeeping costs. And the third item was demurrage costs on railroad and car penalties at 2.6 cents——

Senator CURTIS. Because of delays?

Mr. ANDERSON. Yes. And then 3 cents for discounts, which they ran into when they had reclassification of winter wheat.

Senator CURTIS. Is it your opinion that a sizable amount of this $34 million comes off at the net price received by the grain producers?

Mr. ANDERSON. Eventually in the grain trade it will come back to the farmer. The elevator will not be able to stay in business unless it is passed on. That is passed back to the grain producer, the farmer. And even if a portion of this was passed back, the farmer would have less of a price for his grain.

Senator CURTIS. In other words, there is no place else to get it but from the farmer?

Mr. ANDERSON. I do not think——

Senator CURTIS. Ultimately.

Mr. ANDERSON. Right.

Senator CURTIS. How does this $34 million compare to the cost prior to the enactment of this legislation that we are reviewing now?

Mr. ANDERSON. I have items I have touched on and looked at that are additional, and——

Senator CURTIS. Are all new costs arising out of this?

Mr. ANDERSON. These are all potential new costs that could arise from the act. Demurrage on delays, discounts, as we have seen them, the recordkeeping costs, and the supervision costs.

Senator CURTIS. If I understood your remarks correctly, when you enumerated these various costs, you took the conservative side?

Mr. ANDERSON. From our figures on total bushels traded in Nebraska, these would be conservative on supervision. They could be run higher on speculations. The recordkeeping costs I think could be higher. I used the example of $10,000 a year. And discounts could be higher.

Senator CURTIS. So this $34 million is a minimum figure, and it may run quite a bit more?

Mr. ANDERSON. It is possible. However, one other thing with it, it may not be that high. But just saying all things happen, if you take it in a row here, it could be at least $34 million.

Senator CURTIS. That is all, Mr. Chairman.

Senator HUDDLESTON. Senator Dole?

Senator DOLE. It might be well to have one of the Department officials take a look at that and insert a response in the record.

I do not quarrel with the figures, but I do not know where they came from. They are a little higher than we have heard previously. Of course, I understand the interest the grain and feed dealers have in the program.

I understand their concerns for the farmer, but I assume they have concerns for themselves, too. We are hearing a lot about the farmers these days, and the program, but I really have not heard all that much from the grain and feed dealers generally about themselves.

I have heard about their great concern for the farmer since this act was passed. I am glad to find this strong feeling and concern for the Kansas and Nebraska producers from the Grain & Feed Dealers Association. It is something we need, and we need to strengthen.

I see people jumping up and down in Kansas for the wheat producer—something I have not seen for years. It is really heartening to hear these various testimonials for the producers. I know they appreciate it.

Transferring the costs to the Federal Government may ease the pain, but I do not really believe that is the only thing we seek to do. We are concerned about the program, we are concerned about overkill and oversupervision, and the cost of the program—whether it is on a fee basis to the producer or not.

We are going to try to transfer that cost. The important thing is the effectiveness of the program, and assuring the producers that the grain they sell in Nebraska or Kansas, or some other State, is the same grade or quality as delivered at the port.

We are concerned about the fact that we need more credibility in foreign markets. If you have any comments on the recommended amendments, they would be appreciated. It would be helpful for the record to have someone from the Department comment.

Senator HUDDLESTON. I agree.

Does the Department want to comment now?

Please identify yourself for the record.

Mr. MANGUM. Yes; I am David Mangum with the Federal Grain Inspection Service, USDA.

I guess we all hear a lot of talk about overkill on the part of the FGIS. I think this recent statement has been a bit of an overkill, frankly, because 9.4 cents, if you projected that to the total volume inspected last year by all of the services, would come to in excess of $1 billion.

Senator DOLE. Excess of $1 billion?

Mr. MANGUM. A billion dollars. And there is no way, no matter how you work your arithmetic, that you would ever come to that kind of a figure.

The one increase that would occur in this gentleman's area would be the supervisory area, which is eight one-hundredths of a cent per bushel.

If you would like to project that—I think I have done that earlier—the figure is somewhat less than the figure he just mentioned.

Senator DOLE. What is that figure?

Mr. MANGUM. I have it here. I will get it out, if you like.

Senator HUDDLESTON. You say that is the only increase?

Mr. MANGUM. That is the only increase.

Now, he talks about demurrage, and what else——

Mr. ANDERSON. Discounts and recordkeeping.

Mr. MANGUM. We are not changing the interior system. If there was any demurrage under the new system, then there was demurrage under the old system. We are not anticipating changing the procedures used by the agencies in existence now.

As for discounts, if there were errors made in the inspection process before, there will always tend to be some errors made somewhere in the system, because we have a subjective system.

Senator HUDDLESTON. How many million bushels do you process in Nebraska?

Mr. ANDERSON. OK, what we apply to this is on feed grains, and I took a total of 613 million bushels, and I took out the feed equivalents, which are about 245 million, and we come up with in-grain channels of 367 million bushels.

And in talking to the State Department of Agriculture people running the statistics, this would be a conservative estimate of what would travel through Nebraska grain channels.

Mr. MANGUM. I have no problems with that. I have problems with the problem of arithmetic that goes with the volume. The only added figure the State of Nebraska would receive would be 80 cents per thousand bushels. That is the only additional figure, because we are not changing the rest of the program.

Mr. ANDERSON. It would not change it in the port inspections?

Mr. MANGUM. If we are going to go through the process again of how many inspections we have, which we did yesterday, it is possible there will be a number of inspections rendered and then, of course, you have to multiply by that number of inspections. But there is no way it would come to 9.4 cents.

Senator HUDDLESTON. Questions?

Senator DOLE. You did put your figures in the record?

Mr. MANGUM. Yes, it is in there.

Senator CURTIS. Did you have anything you wanted to add in light of these comments?

Mr. ANDERSON. He is referring, as I gather from his comments, he is saying that yesterday he got into how many inspections there would be, and he is referring only to inspections in Nebraska——

Mr. MANGUM. No, sir, we went through the whole process, the number of inspections at the farm elevator, the number of inspections at the subterminal, and at the terminal.

Mr. ANDERSON. I understand that, but you are referring in your comments—you are just saying one inspection, instead of one inspection in Nebraska and one at the port, for instance.

Mr. MANGUM. All right, let us look at how many inspections you would have to have in the State of Nebraska. At eight one-hundredths of a cent per bushel, sir, to get to the figure you are talking about, we are talking about 90 inspections in the State of Nebraska, 90. I do not think that has ever occurred.

Mr. ANDERSON. OK, and you are discounting any inspections at the port, or at the gulf.

Mr. MANGUM. No, I am not. There are added costs each time there is an inspection process rendered. Obviously that is going to be the case. There are added inspections now under the old act, sir, each time there is an inspection rendered.

Mr. ANDERSON. OK, but for each inspection, you are adding up your costs, and it is more than it is today.

Mr. MANGUM. In the interior, if you had three and four inspections, you would have to multiply that eight one-hundredths of a cent by that number of inspections.

When you get to exports, you have a required one inspection for export. There is a possibility that the elevator may elect to have two inspections—an inbound inspection and an exit inspection. So that would be the number of inspections that we would have to go through and multiply.

Senator CURTIS. Mr. Chairman, evidently there is quite a bit of disagreement here on the figures.

I would suggest rather than prolong the discussion, that both witnesses be permitted to supplement any thinking they want to add to how they arrived at their figures.

Senator HUDDLESTON. I think that is agreeable. I do not think we can solve the question today about how much it would cost Nebraska.

Senator DOLE. He did raise a question of demurrage. That does add a considerable amount of cost, if there is some delay in the Federal inspection.

Mr. MANGUM. That is correct, sir. Demurrage is always a problem. It was a problem under the old Grain Standards Act, and it is a problem occasionally now. We do not think it would be any greater a problem as we try to implement the act, Senator, than it was previously. We think it will be less, frankly.

Senator DOLE. That is something you may want to add, because it does add up costs.

Mr. MANGUM. It does.

SUPPLEMENTAL TESTIMONY BY MR. DAVID MANGUM, FEDERAL GRAIN INSPECTION SERVICE, USDA

Supervisory fees imposed by the Federal Grain Inspection Service on State and private agencies designated under the provisions of the revised U.S. Grain Standards Act were developed after a careful review of the manpower necessary to adequately supervise the ongoing activities of those agencies.

The supervisory fee is broken down three ways; i.e., (1) the monitoring system which incorporates sufficient manpower to adequately analyze randomly selected samples of grain analyzed by each licensee from the agencies, (2) over-the-shoulder or direct supervision of the functions performed by inspectors, technicians, and samplers and used by the State and private agencies to assure that they are in compliance with the established procedures of the Federal Grain Inspection Service, and (3) miscellaneous activities such as the supervision of file and submitted samples and supervision of those employees performing over-the-shoulder or monitoring activities.

It was determined that supervisory costs necessary to cover manpower needs would total $5.3 million and, based on a 3-year average of inspections rendered, would cost $0.80 per thousand bushels or 8/100 of a cent per bushel. To assure equity nationwide, this was uniformly applied to all agencies.

At the interior, the supervision cost per inspection would be as follows:

Truck lot $.60 basis an average of 750 bu. per trucklot.

Boxcar $1.60 basis an average of 2000 bu. per boxcar.

Hopper car $2.40 basis an average of 3000 bu, per hopper car.

Barge $40.00 basis an average of 50,000 bu. per barge.

If the lot is inspected more than once, the costs would rise accordingly.

In 1975, the Federal Grain Inspection Service and the official inspection agencies inspected 11.6 billion bushels and of that amount 3.6 billion bushels was exported; i.e., approximately three-fourths of the grain produced in the country would have received under the new system only supervisory inspection and thus only the 8/100 of a cent per bushel per inspection.

However, if grain does go into export, it will be inspected by Federal or State employees and the rate at Federal inspection points will be as prescribed; i.e., $12 per trucklot, $15 per hopper car, and $48 per barge, unless the export elevator elects to go on a commitment or contract basis, at which time it must pro rate the hourly rate to the number of inspections rendered per hour. This very likely would result in a substantial savings to individual shippers but would be fairly difficult to administer with equity.

Based on our most recent assessment of the economic impact of the fees imposed at export, on a carrier basis, it appears that an average grain inspection would cost approximately $\frac{2}{10}$ of a cent per bushel. However, the size of the conveyance impacts on the cost per bushel. For instance, a trucklot would cost 1.6 cents per bushel, a hopper car 0.6 cent per bushel, and a barge .1200 of a cent per bushel. Individual country shippers or truck operators would pay a heavy cost while a barge operator would pay a lower cost than currently levied at export points.

Senator HUDDLESTON. Thank you very much gentlemen.

We are ready for the Texas panel.

While these gentlemen are getting ready, I want to insert the following communications that we have received into the record. One is from the Department of Agriculture of Wisconsin, one is from the Department of Agriculture from the State of Minnesota, and the last is from the Department of Agriculture of the State of Montana.*

You may proceed in whatever way you have determined to be best.

STATEMENT OF FRANK HEMMEN, PRESIDENT, TEXAS GRAIN AND FEED ASSOCIATION, FORT WORTH, TEX.

Mr. HEMMEN. Thank you, Senator.

I am Frank Hemmen, president, Texas Grain and Feed Association, Fort Worth, Tex.

This is an association of over 1,200 members working in areas of grain handling, feed manufacturing, and allied industries.

I appreciate having this opportunity to be here. We are not going to be 110 minutes in testimony. Our format, with your approval, will be the opening remarks I am making now, followed by short comments of emphasis by each one of these people, who represent 35,000 miles total travel here and back, depending on which side of Texas they came from—it is 1,000 miles each way—and then a brief closing statement.

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*See pp. 230, 231, and 232, respectively.

A couple of the members of the panel said they want to say they appreciate the reassurances that we received yesterday that this would be a friendly panel; because those of us, who are not experienced at this thing, sort of picture Kefauver sitting there and some fellow here—with a picture of his hands—pleading the fifth amendment.

Also we want you to know that we are aware of the Senate's present efforts to streamline and reduce committees.

We also are aware of the President's idea of maybe putting a ceiling on Government employees. So we know we are not up here discovering America about limiting the size of the bureaucracy.

The intense concern of the agricultural community that prompted recent meetings and these hearings, is basically founded in the belief that the U.S. Grain Standards Act of 1976, as implemented by the Federal Grain Inspection Service, is not in the intent of Congress nor the law as enacted.

The timetable under which the FGIS was forced to operate placed them in a less than enviable position. We are sure that the FGIS would welcome the input of industry and further guidelines from Congress as to the scope and direction of their efforts.

Now, we are not going to address ourselves to what has now become the tired old issues of recordkeeping costs. I am sure you will be glad to see me flipping these pages like this.

But one item that does not seem to be clear in everyone's mind—and it may come from a press release the first week of January, where FGIS stated:

> All fees for Federal inspection and weighing services are charged to buyers or sellers who use the service, whether in domestic or export markets, where the inspection is voluntary.

OK. This very clearly puts the cost to the farmer in this way. Maybe that is a proper statement: "put to the farmer." This statement is not compatible with the actual customs of the grain trade; because in any grain trade, if I am a seller of grain to you, I have to prove to you with a certificate of weight and a certificate of grade that I am delivering to you the quality and quantity of grain that I sold to you, whether it be a bobtail load or a truckload or a semi or a barge; therefore, the responsibility of proof of weight and inspection and the cost of that goes back to me as the seller.

As we go back through the system, through the terminals, through the country elevator, then finally it goes back ultimately to the farmer at the originating origin—and the farmer is by nature the seller of the grain.

So if that helps to clear up that point about how it all gets back to the farmer, I am happy; because I think there was a question yesterday on that.

We are going to address ourselves particularly to the item of—well, that which we refer to as "potential conflict-of-interest."

We are not going to refer to 50 years or 70 years of history of honesty because we might all go crooked in the morning; but let us just look at the checks and balances, Senator—and I believe this is something you have been looking for—guidelines.

But in addition to guidelines, in addition to the fine piece of legislation that you put forward—and that is good for its purposes but it

does not go quite far enough in this particular area, because we do not feel something so vital as conflict of interest should be buried in the agenda of the advisory committee; because we are not sure what the authority of that committee is—but this is so important because we could have all our internal inspection and distribution system, which is the envy of the world, out of business by the time it maybe got around to discussing.

So we offer these ideas on checks and balances.

First of all, it is natural in the formation of these exchanges that the founders would be grain firms from a given area who desired a third party opinion of the quality of grain traded in that area. It is not logical that the local car dealers, for instance, would form a grain exchange. Hence, the "Nature of the Trade" ownership is natural. It is not all tied into a scheme or plot to make trouble.

All right.

This system is efficient, acceptable to all segments as we heard here—both producers and users—and it delivers grain to the market in a timely and orderly fashion, which is important to all of us and is mentioned in the legislation.

It is important to keep in mind that buyers and sellers of grain are represented in this ownership. These exchanges in the interior do not operate in a vacuum.

After a car, truck or barge is inspected at these interior points, the grain is moved to domestic feed mills, domestic flour mills, grain terminals and other knowledgeable receivers. If, for instance, a particular location showed a better grade consistently for their shippers that owned stocks than the receivers found to be the fact, then that shipping point would no longer be acceptable to the buyers. This is a check. In such a case, certainly supervision would come into play as it properly should.

Now, yesterday—and the State of Texas yields to the wisdom of Iowa—in the Iowa delegation discussion with Senator Clark, it seemed that this struck a responsive chord, and we would like to ask, Senator Huddleston and members of the subcommittee, that in order to eliminate this potential conflict of interest—and based on testimony here from the Iowa producers and grain firms and grain exchanges—would you be amenable to an amendment to the bill setting the following criteria for the boards of trade and grain exchanges:

That the board of directors or the managing body of the inspection service be composed of a balance of identifiable buyers and sellers;

Second, that chambers of commerce be governed by an autonomous committee not containing any members of the grain trade in a given area;

Third, any other criteria established by the Administrator.

Now, Mr. Wilkinson has asked for suggestions of criteria and guidelines. It is obvious these things that we listed earlier are history and they are not enough: the checks and balances and the history and so forth. But would this be in your mind acceptable to you, so that Congress can give some direction to the Administrator, whoever he might be, and avoiding the poor alternative of the FGIS saying:

Well, the best alternative is to sell out all your stock to one man and therefore he is then in compliance because you do not have conflict of interest.

But we know from experience that there are definite problems then: of succession; what happens after this one owner goes; and the obvious potential conflict when you have one man who might possibly be influenced in the future.

So we ask that question and then have just a small amount more to say.

Senator HUDDLESTON. Speaking just for myself, certainly we are looking for suggestions. We will consider yours along with the others.

Mr. HEMMEN. All right.

In the latter part of my statement, I have just a short point to make.

We have discussed three things here. We have discussed supervisory fees and we discussed the cost of recordkeeping and we discussed——

Senator HUDDLESTON. I might just point out that there is a vote taking place on the Senate floor. We are going to try to continue the committee without having to recess.

Senator Dole will go vote and when he gets back, I will go vote.

You may proceed.

Mr. HEMMEN. Did you want to go vote, or——

Senator HUDDLESTON. No; I want you to proceed.

Mr. HEMMEN. All right, sir. As I say, we have abbreviated as much as possible; but we do have another amendment.

Senator HUDDLESTON. I appreciate that.

Mr. HEMMEN. Yes. Thank you.

Now, the thing we want to describe here is not the supervision fee; but we talk here about actual FGIS fees for direct inspection of grain. And here we see this displayed at the seaboard and what the market is going to do possibly to react to it in order to keep things fluid and grain moving at the least cost.

At export points the act addresses itself to mandatory inbound weights and outbound weights and to mandatory outbound grades. It does not address itself to mandatory inbound grades.

So with this permissive part of the act at the seaboard, there are those that are looking into having knowledgeable inspectors offer unofficial grades.

Now, here you have the contrast, because this will offer the seller—delivering to export in the case of a truckload of grain—he can get his grain graded for $4 at the private exchange.

He also has his right to an official FGIS inspection for $12 to $14 per truckload—whether it is straight time or overtime. And this is per USDA–FGIS notice 4 of the publication of the fees.

Now we would like to offer a second amendment to the act. And this has to do with the fact that since these fees are mandatory, that by virtue of the fact of their being mandatory, that they be paid by the Federal Government.

Senator HUDDLESTON. You are talking about the supervision fees?

Mr. HEMMEN. All matters that are mandatory by the Federal Government should be paid for by the Federal Government. We offer this very humbly for your consideration.

Now, in the case of using the official or the unofficial, to the grain producer and the handling industry, Mr. Chairman, the honesty of the inspectors is the most important. The label "FGIS" or "official,"

is not going to change the integrity of the man. The grain inspection is a skill of judgment. A person who has inspected grain for 20 years develops the speed and accuracy natural for that length of service. He is going to be a lot faster than a man on the job 6 months.

We further urge authorization to allow existing coastal exchanges to conduct official inbound inspection—this is official inbound—under the supervision of the FGIS if that presently franchised inspection agency, Mr. Chairman, so chooses to stay in business.

We believe that there is some basis for this in the present act. Mr. Matthews will address himself to this at the time of his statement.

Now, this would allow the farmer to come in and get his $4 per truckload and get an official grade, supervised by the FGIS.

Those are the conclusions of our opening remarks.

At this time, with the permission of the committee, I would like to have each of these people enter a couple of brief thoughts.

Mr. HEMMEN. First we have Mr. Bill Nelson.

STATEMENT OF D. G. NELSON, EXECUTIVE VICE PRESIDENT, TEXAS WHEAT PRODUCERS ASSOCIATION, AMARILLO, TEX.

Mr. NELSON. Mr. Chairman and members of the committee, I am Bill Nelson. I am the executive staff officer of the Texas Wheat Producers Association. As best expressed by Senator Dole, we too are proud that the producers, the country elevators, the terminal elevators and exporters are on this issue together at the same table. We have had no problems in reaching this unified stand. We hope that when we appear before this committee or the other committees on farm programs, that we can come back and be just as unified.

Yesterday, Senator Tower and Congressman Hightower, I think, both submitted very strong and factual statements from their constituents throughout the State of Texas, which represented producers as well as members of the trade. I would urge, as they did, that those statements be given great consideration by this committee.

We have submitted a statement from the producers for the record. Basically, we had established that producers are, and have been, interested in the quality of grain which they produce and move through the trade to the ultimate domestic or foreign customer, Mr. Chairman, is the quality which they have bought and paid for.

So we commend this committee for its interest in helping us assure that. And we support the identification and the prosecution of any infringement on the act.

As to the bills submitted this week by the honorable chairman and Senator Dole, both bills address about half of the recommendations which our producers had suggested, particularly in the area of fee exemption.

We think you have correctly and wisely addressed that issue and that costs, when established, will be passed back to the producer.

We do also support the recommendation made by the spokesman for the group, Mr. Hemmen, Mr. Chairman, that all of the required Federal inspection and weighing also be done with appropriated funds, making truly a Federal system, which is deemed necessary for preserving the integrity of the American grain standards and grades. I think that should be absorbed as a federally funded cost.

We are further concerned, as Mr. Hemmen expressed, about the possible loss of our local grain exchanges. It has been pointed out that they were established because of a need by those who needed the service; that is, the grain dealers in the area, to serve the farmers.

I think it would be inappropriate to assume that just because they might be or potentially be adjudged in conflict of interest, that some disinterested party would come along and provide that same service. These exchanges have operated as nonprofit organizations principally and I doubt if a private individual would want to assume that responsibility.

So in any such case, if they should continue, it would increase the cost to the farmer as profits were added. So we would like to see the committee direct how these inland exchanges or grading centers will be exempted—not how they may be.

I say this because we are afraid that if they are not exempted they will not be continued.

And as pointed out yesterday, the FGIS has no authority, except temporarily, to operate them. So at points like Amarillo, or other inland points in the Nation, these grading centers possibly could be lost and we would have no inspection service at all.

We are concerned with the level of supervision. We would like to see Congress direct the level of supervision instead of it being at the whim of an administrator or a group.

For instance, the level of supervision which the inland exchanges have had, Mr. Chairman, apparently has been adequate, since there have been no charges brought against any of them at any point, we think this has to be true.

In Amarillo, our headquarters city, the grain exchange grades over 50 million bushels a year. We have been advised that they had a request for appeal of less than 1 percent of their grades.

Senator HUDDLESTON. We are going to have to recess while I go vote. Senator Dole will be back in 2 or 3 minutes and you may continue.

[Brief recess.]

Senator DOLE. Mr. Nelson, continue, please.

Mr. NELSON. Yes, sir.

Senator Dole, I am Bill Nelson from Texas, the Texas Wheat Producers Association, for your own information I was summarizing my statement. I was at the point of addressing myself to the level of supervision of the inland exchanges or inspection centers.

We would like to see the Congress direct the level of supervision rather than this level be directed at the whim of an administrator. We can see the possibility of a growing bureaucracy, particularly if the charges are passed on either to the producer or, as we have already recommended in your absence here, the absorption of this supervision by the Federal Government.

And to the point in your bill and Senator Huddleston's bill this week relative to an advisory committee, we have addressed ourselves to this in the statement we filed and prepared. We felt that since the fees were being paid by the producers, it was more like taxation without representation, in that, there was no point of input from the producers.

We think that your committee would give a place for a voice, but no power. This concerns us, that the Administrator would not have

to or be required to at this point in any way adhere to any of the advice which producers or others might give. That completes my statement.

Senator DOLE. It is a fairly delicate area. If the Administrator has to be bound by the advisory committee, we do not need the Administrator. We might be able to work out something in the middle.

In addition we have the Congress with its continuing responsibility for oversight. Most of us are willing to take a look at it to assure that it does not become too burdensome.

There are others who would like the Federal Government to do everything—and there are a few that sit on this committee.

STATEMENT OF W. W. HART, EXECUTIVE DIRECTOR, SOUTH TEXAS COTTON & GRAIN ASSOCIATION, VICTORIA, TEX.

Mr. HART. Senator Dole, we are going around the table this way. My statement will be very brief.

My name is W. W. Hart, and I am the executive director of the South Texas Cotton & Grain Association.

We are a group along the Gulf Coast of Texas with some 7,500 members. And this matter of cost is quite serious with us because almost the total grain crop, grain sorghum crop at South Texas goes into the export market. And we feel very definitely that our people will be paying at least 5 cents per hundredweight by the time we get the calculations made and it may be that we are not even getting it high enough. I do not know.

But anyway, based on the charges that FGIS gave, it is going to be a sizable amount. And I can assure you that this cost will be paid by the farmer. And I am not worrying about somebody else, because I have a farm, Senator, and I am interested in an elevator as well as being executive director of the South Texas Cotton & Grain Association. And I can assure you that this cost has to go back to the farmer. There is just no place else that it can go. And I am very familiar with every step that the grain takes from the time it leaves my farm, goes through the elevator, and through the terminal. And these costs are going to be sizable and they are going to be four or five times what we have been paying.

And the chairman of our group, Senator Dole, mentioned perhaps a solution of that by a definition of the conflict of interest, which you might want to look at after a while. I think it would solve our problem, along with the bill that you have introduced and they both would certainly go a long ways to solving our problem.

The Corpus Christi Grain Exchange is supposed to be taken over by the FGIS on October 1. And anything that is done to alleviate this problem is going to have to be done pretty soon, as far as we are concerned.

Thank you.

Senator DOLE. Do you pay a higher price because you live where you live than we pay for inspection in Kansas?

Mr. HART. No, sir.

According to the published records—and these are not something that I have fabricated——

Senator DOLE. Right.

Mr. HART [continuing]. You take a truck, if it goes from the farm, then it goes to the country elevator; and from the country elevator, it goes to the Corpus Christi terminal, and it will cost $12 unless it is overtime. If it is overtime, it is going to cost $14. And I am just talking about trucks, and not a complicated situation.

And then the weighing, on the basis of $14 an hour, if it is overtime, it will be $18. That is in addition to the supervisory charge that everybody is talking about, of 80 cents per 1,000 bushels.

Now, in addition to that is something I have not heard anybody even mention, and that is what it is going to cost shipside; in other words, we are talking about what it costs to get the grain to the elevator and the terminal elevator, but it is going to cost something—to supervise the weighting and grading and whatever—to get it on the ship.

So I think we would be safe in saying it is going to cost us 5 cents a 100, and it might cost more.

It disturbs me that one group is paying for the service and another group is doing the hiring and firing; but we have no control. And actually the Congress would not have very much control. I think we have something that is a monstrosity there and the sooner we get rid of it the better off we will be.

And the conflict-of-interest definition would go a long way to doing it.

Senator DOLE. That is the definition referred to earlier?

Mr. HART. Yes, sir.

Mr. HEMMEN. Yes, Senator.

I would think it would be of some help to you to state that while you were gone, we offered another amendment and we described present plans at the gulf for some elevators to give unofficial inspections using private exchanges, and the cost would be $4 a truck.

The delivering seller will have the alternative of using FGIS at their announced rates of $12 to $14 per truck. So there you see quite a contrast of $4 versus $15 if the Government does it, or rather $12 to $14 if the Government does it.

Senator DOLE. What are the problems of the unofficial?

Mr. HEMMEN. OK.

Now, we addressed ourselves later to that and said that if those coastal exchanges, the existing coastal exchanges would be allowed to conduct official inbound inspections under the authorization of FGIS—and Mr. Matthews will make a couple of comments in a minute about the present authority in the act as it exists—but that was covered.

And we also said, while you were gone, that we suggested a second amendment to the act that states that at export, where all of these costs are going in, the act is mandatory on inbound weights and outbound weights and outbound grades. It is permissive on inbound grades. But in all areas of cost at the export location that are mandatory by the Federal Government, Senator, we suggest that the Federal Government pay for those costs that they demand be assessed.

I cited other suggestions. If you read those, these comments might make more sense to you.

Senator DOLE. Next?

STATEMENT OF FRED BRUEGEL, JR., TEXAS CORN GROWERS & COUNTRY ELEVATORS, DIMMITT, TEX.*

Mr. BRUEGEL. Senator Dole, my name is Fred Bruegel, Jr., and I am from Plainview, Tex., and I am a farmer, and I am the one that is going to realize the impact of this thing apparently.

I wish to express my sincere appreciation to this committee in allowing me to present my statement.

In 1974, the biggest front page news was our prices when our prices were good. But where is the coverage now that prices are below the cost of production?

It is time for the Government to realize where food comes from and that eating is the first necessity of life.

It is time for the Government to understand how hard the American farmer works to put food on the table for people all over the world. It is time for the Government to understand that one good year does not carry a farmer through years of hail, drought, early freezes and years of below production costs.

Fortunately, producers who farm in the part of Texas I am from have extremely good yields. Unfortunately, however, they incur higher production costs because this particular area is of low rainfall and requires a great amount of irrigation, pumped from below the ground.

This method of irrigation requires a large amount of energy in the form of natural gas, which costs about three times the amount of that used by consumers in the Northern and Eastern States.

Production costs, as estimated by the Texas Corn Growers Association for our area, is $326 an acre, or about $2.18 per bushel.

At today's market, this is within 5 cents per bushel production costs.

Just this week, we heard more disappointing news. Fertilizer costs are on the rise again, due to the high demand for natural gas, which would normally be used for production of nitrogen fertilizer.

Gentlemen, it is not my intention to bore you with production costs. What I am trying to emphasize is that farmers are not so naive as to believe that the cost of administering FGIS will not be passed back to the farmer.

We have been told on many occasions by the grain trade that the cost will have to be paid by the producer. Unfortunately, farmers are last on the totem pole. We have no one to pass this cost to; so what happens? It becomes an added cost to our production.

I thank you, Senator Dole, for this opportunity to testify.

Senator DOLE. I do not think the farmer would be unwilling to pay a reasonable cost if he thought in the end he would get a higher price because of increased exports and confidence in our exports. This goes back to my basic interest, to assure a tightly supervised act with the least amount of Federal bureaucracy.

Do you discuss the Plainview Grain Exchange in your prepared statement?

Mr. BRUEGEL. No, sir, I live in that area.

Mr. MATTHEWS. Yes; it is in our statement.

Senator DOLE. Then I will take it up at a later time.

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*See p. 250 for the prepared statement of Mr. Bruegel.

STATEMENT OF DAVID SWINFORD, PRESIDENT AND GENERAL MANAGER, MOORE COUNTY GRAIN HANDLING COMPANY, DUMAS, TEX.

Mr. SWINFORD. Mr. Chairman, it is a great honor and privilege to present my testimony before your esteemed committee.

My name is David Swinford, and I am president and general manager, Moore County Grain Handling Co., Dumas, Tex., and we have the capacity of about 1,173,000 bushels and usually handle in excess of 2 million bushels of grain each year.

The ownership of our elevator is four farmers and myself, each owning 20 percent of the total stock.

There are very few independent country elevators like ours left in the Nation today. And this is due largely to the increased demands from the Department of Agriculture and the legislators that keep putting more and more rules on the farmers and the grain trade.

And I thank you, sir, because your new bill, as given, has given us new life.

We, as small, independent elevators without very high profits, cannot absorb many costs and we also ask you to bear in mind that any additional costs will have to be borne by the farmer. And our farmer in our area is going out of business. Our area is having farm sales daily because of the increased cost of production. And any small reduction in value of this man's grain may put him out of business.

You have important and influential people here. You have many people and the future of American agriculture in your hands. And we just ask that you watch this important area very carefully.

And we give you thanks for your time and consideration.

Senator DOLE. I have no questions.

Senator HUDDLESTON. No questions.

Next?

STATEMENT OF HAROLD PRIDDY, FRED SHELL GRAIN CO., RALLS, TEX.

Mr. PRIDDY. My name is Harold Priddy and I am owner and operator, Fred Shell Grain Co., Ralls, Tex.

I filed a statement yesterday which I will not read. Most of the testimony has been covered a number of times.*

I want to thank the committee for hearing us and for the work already done in offering bills to alleviate some of our problems.

However, we feel at this point that it needs to go further. And the two points that I will cover very quickly are the total funding of mandatory requirements by the Federal Government and also guidelines to the Administrator over the conflict-of-interest issue.

The suggested guidelines would offer a balance of identifiable buyers and sellers. And this would be fairly easily accomplished in our grain exchange. And it had not occurred to me until we began to examine just who is a buyer and seller how close we already are to having a wide representation. And I will identify those.

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*See p. 253 for the prepared statement of Mr. Priddy.

We have on the board of directors two independent terminal elevators, operators. We have two independent country elevator operators—of which I am one. We have two processors, Senator, a feed mill and country elevator operators. And we have one farmer—producer cooperative terminal elevator representative.

So we certainly want to arrive at a system that will eliminate in everybody's mind that there could be a conflict-of-interest, and bring in some more people.

Our grain exchange only shows an appraised value of some $35,000. So we would not have a difficult problem of raising financing to bring those in to the board of directors; but we would want to remain in part control of this inspection system.

Other alternatives available to us:

I think a move is already underway into private inspections. This may be an alternative for us rather than just shutting out our present inspection system.

I would like to address just a moment a comment about this shopping for grades thing.

It seems to be brought up quite frequently as some terrible abuse that must be eliminated. I believe the GAO report brought this out.

Now, I use this periodically as one of the checks and balances on my inspection system. If there is error, it will show up. If the grain is graded correctly, I have no further problems. And to label it as an "abuse" and to be eliminated, I think, is not quite the way it works in the trade.

Thank you.

Senator HUDDLESTON. Any questions?

Senator DOLE. What is wrong with shopping for grades?

Mr. PRIDDY. I believe it was mentioned this morning again about this elimination of this abuse of shopping for grades.

Senator DOLE. Is that an abuse?

Mr. PRIDDY. Pardon?

Senator DOLE. If it is honestly done, is that an abuse?

Mr. PRIDDY. Well, it should be eliminated, they say. So I assumed that if it should be eliminated, somebody thinks it is an abuse.

Senator DOLE. I could see where it could be abuse, but I assume different people make different grades.

Mr. MATTHEWS. This was a suggestion that USDA made about geographic destination, which I will touch on briefly.

Senator DOLE. I am simply trying to get it in perspective.

Mr. PRIDDY. The first mention that I know of was in the GAO report; and it was mentioned again this morning by a member of the FGIS team here as being something to be eliminated. I was answering that, Senator, as to why we do it.

Senator DOLE. I understand.

Mr. HEMMEN. If I may at this time, I forgot to mention Mr. Elbert Hart, who is head of the Grain Sorghum Association of Texas, who was not able to be with us this morning, and he left testimony in the record. And while you were away, Mr. Bill Nelson commented it is good to see the alliance of the entire industry producers. And you will see the broad representation as we continue on down the table.

Senator HUDDLESTON. It will be placed in the record.

The next witness is Mr. DeWayne Brown.

STATEMENT OF DeWAYNE BROWN, PLAINVILLE GRAIN EXCHANGE, PLAINVILLE, TEX.

Mr. BROWN. Senator Huddleston and honorable members of this committee, I am DeWayne Brown of Plainville Grain Exchange, Plainville, Tex., and am the secretary and manager of Farmers Grain Co., Inc., of Hart, Tex., and president of the Plainville Grain Inspection and Weighing Service, Inc., Plainville, Tex. So that represents a country elevator operator as well as a producer.

Due to the preceding testimony and the introduction of your amendments, Senator Dole, and the bill and the suggested amendments to the bill and due to the other testimony, it almost exclusively covers my written and presented testimony.

However, I want to stress further this thing about conflict of interest.

We want to stress once again that we are servicing grades between grain companies and not between producers and grain companies. And these grain companies are both buyers and sellers. And we know you are getting tired of hearing the words "buyers and sellers," but we are those buyers and sellers—and many times these are one and the same.

And in my opinion, it leaves little chance of yielding to the temptation of the toleration of favoritism of any individual, stockholder, or grain company.

That would conclude my statement because of the fact that my testimony has been covered.

We ask that my entire statement be introduced in as part of the record.

Senator HUDDLESTON. Without objection, it will be.*

Do you have any questions Senator Dole?

Senator DOLE. Does the Plainview Grain Exchange have about 28 stockholders?

Mr. BROWN. We have 25 now. We once had 28, Senator Dole.

Senator DOLE. Are these stockholders from different companies?

Mr. BROWN. Yes; these stockholders are a representation of cooperative elevators, terminal elevators, country elevators, and the same personnel, being producers in there, own——

Senator DOLE. Does the Grain Exchange directly operate the inspection agency?

Mr. BROWN. We have a chief inspector and an executive vice president. Not one of those stockholders is active in the inspection and weighing service except—with the exception of the board of directors.

Senator DOLE. Could the agency be established as a separate corporation with a separate board of directors made up of stockholders—again, balanced between buyers and sellers?

Mr. BROWN. I see no reason why we could not. I see no reason.

Senator DOLE. I am not certain how FGIS would view that, but based on the colloquy we had yesterday with one of the officials of FGIS, it might bear some consideration.

Mr. BROWN. In reviewing our directors, I do not have a complete list with me at this time, but we would be fairly well in balance, Senator, with what we discussed here this morning.

*See p. 253 for the prepared statement of Mr. Brown.

Senator DOLE. Right now?
Mr. BROWN. Yes, sir.
Senator HUDDLESTON. The next witness is Mr. Sam Attebury.

STATEMENT OF SAM ATTEBURY, AMARILLO GRAIN EXCHANGE, AMARILLO, TEX.

Mr. ATTEBURY. Mr. Chairman, my name is Sam Attebury, and I am from Amarillo, Tex., and represent the Amarillo Grain Exchange.

I have a statement to be put in the record, but I would like to just mention briefly a couple of things.*

Senator Huddleston, in your bill, I would like to suggest that it is not needed to have the inland terminal elevators subject to all of the rules and regulations of recordkeeping that the port elevators have.

The problems have been essentially at the port elevators. There are some small inland terminal elevators, and it would be burdensome to put the recordkeeping requirements on the small inland terminal elevators.

Yesterday during the hearings Senator Clark made some comments that there were 115 or so ongoing investigations by the Justice Department. The insinuation was that there was a lot of trouble in the Interior.

We are not aware of all of these difficulties and problems going on in the Interior and question their reality.

Senator Clark mentioned the GAO report, where there was an alleged error rate of 30 percent in inspections made by an Iowa inspection agency.

Later he expanded upon this, and said these were appeal inspections.

Appeal inspections are not called for unless a person thinks there is a probability or a good possibility of there being an error.

Senator HUDDLESTON. Do you have any idea of the percentage of the original inspections that are appealed?

Mr. ATTEBURY. A very, very small percentage.

Mr. Mathews will probably have more of an idea on that.

Mr. NELSON. Mr. Chairman, may I respond directly to your question, since I am in Amarillo, Tex., and do not deal directly with the inspection service except as a producer representative?

I asked our Amarillo Grain Exchange manager, Senator, what is the experience of that exchange which grades over 50 million bushels a year. He indicated that last year they had an appeal for less than 1 percent of the grains which they graded. And of those that were appealed, 10 percent were found to require a grade change.

Many of these were on moisture, Senator, like a change from 12.5 to 12.6, which did result in a grade change.

So that would be 99.9 percent pure, so to speak.

Mr. ATTEBURY. Senator Huddleston and Senator Dole, one other thing I do not think has been expressed strongly enough.

We have observed the cost of grain inspection going up and we compare the $4 to inspect a truck to $12 to $14 now with the Federal Government doing it.

*See p. 254 for the prepared statement of Mr. Attebury.

For a hopper car the fee has been generally $8 to $10 and now it is going to be $18 for the Government. These are tremendous increases. But that is not all that is going to happen. There will be additional demurrage, and all of the Federal inefficiencies and/or State inefficiencies. We are getting things away from the people who need the service, and who can see that the service is given and is given efficiently. We are cranking in more inefficiency.

I concur with the gentleman from Toledo, with the Toledo Board of Trade, where they could see trouble developing and so they got out of the inspection service. Now they are already experiencing more trouble than they ever anticipated.

When we get ready to have a harvest and need to move grain, we do not need another bureaucracy, so to speak, to help us move the grain.

I appreciate this opportunity to express my feelings.

Senator HUDDLESTON. Thank you.

Mr. Mathews.

STATEMENT OF C. G. MATHEWS, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FORT WORTH GRAIN EXCHANGE, FORT WORTH, TEX.

Mr. MATHEWS. Mr. Chairman and Senator Dole, my name is C. G. Mathews; I am executive vice president and general manager of the Fort Worth Grain Exchange, which position I have held since 1963.

I personally have no interest in grain production, grain storage, marketing and merchandising of grain whatsoever. I have complete oversight of the various departments of operation of the Fort Worth Grain Exchange.

The board of directors and the inspection committee are kept advised of the financial condition of the exchange. They are consulted for recommendations as to adjustments of fees where necessary. I submit my recommendations for wage adjustments on an annual basis. And they generally concur in my recommendations.

Therefore, I have no outside interference whatsover as far as fiscal operation of the exchange is concerned.

We have a chief inspector who has complete oversight of the technical operations and the functions of the inspections department. He has an assistant chief inspector who shares in his responsibilities, with the oversight over the sampling operation.

I have submitted an 11-page prepared statement, which I would like to be incorporated into the record and will only highlight on some of the specific issues, which I think need some attention.

Senator HUDDLESTON. Thank you.

It will be placed in the record.*

Mr. MATHEWS. First, in regard to the geographic area, which is covered on 90 statute 2872, Mr. Chairman, at page 32 of my statement I point out that submitted samples should be exempted from the geographic restrictions.

*See p. 255 for the prepared statement of Mr. Mathews.

For example, grain shipped from central Oklahoma normally, because of the freight rate structure and because 80 to 90 percent of the wheat winds up in export commerce, moves initiallv in the direction of where its ultimate destination is.

For example, a railcar shipped from Chickasha, Okla., which is not a geographic area of Fort Worth, Tex., that railcar can come to Fort Worth and be stopped in transit for an official inspection. Because of the fact that the sample is drawn from the mass of grain while it is within our geographic area, we can perform the official inspection.

On the other hand, if the country elevator in that area wishes to submit a submitted sample which he has drawn from trucks or from his bins to get a line on the quality of the grain he has, under the act—referring to the geographic area restrictions—he would have to send it to Enid, Okla.

Now, this really does not make commonsense. The grain ought to be able, especially submitted samples—which are not official and they are not used for commercial transaction purposes; they are merely to give a shipper a line of what his quality is—that is to say, throughout the year, while the grain is stored, we will receive numerous submitted samples from shippers from various places to try to identify if they are maintaining the quality of the grain.

So I think there are some specific exemptions that should be given in that respect.

Others have talked about the yellow certificate, which is the situation where a warehouseman or an elevator has employees who are licensed and bonded to take samples by use of mechanical samplers and send them to an agency. I can see some validity in the geographic restriction in that area, because the supervision area in which that mechanical sampler and yellow certificate is taken, both have—under USDA regulations—both have the primary responsibility to check and approve those facilities. So there may be some validity in that respect.

However, other people may have justified reasons for exemption of the geographic area in that respect.

Second, on page 5 of my statement, I point out that in the GAO report, the USDA has stated that it was not necessary for them to become involved in interior weighing.

Now, at the present time, most exchange boards of trade and some chambers of commerce have what is called an Association of American Railroads Western Weighing and Inspection Bureau, grain exchange and board of trade supervised weights.

Some term them or call them "official weights."

While we understand that the Senate intended that the Office of Investigation of USDA undertake a study of the inspection and weighing situation at interior points and report back in 18 months to the Comptroller General and he is directed in 2 years to report back to the respective Houses, we certainly understood that it was not the intent of the Senate for them to become involved in or to take over and displace what is a railroad's primary responsibility.

However, in December, we were advised that the Association of American Railroads intended to phase out their weight supervision program within a year. We talked to them about it. Other boards of trade talked to them about it and explained to them our understanding

of the provisions of the act. And they now tell us that they plan to continue their weight supervision program for the time being.

We certainly feel that, No. 1, the primary responsibility for ascertaining weights, as far as assessment of freight charges and for claim purposes, lies in the hands of the railroads as an operating expense.

The exchanges, boards of trade, and terminal elevators have instituted, in cooperation with the Association of American Railroads, since 1920, the supervised weights, which facilitates the flow of commerce.

Now, in the event that AAR were to just drop out of the picture, then we could have some complications as to the weighing of cars.

Railroads do not pay claims on covered hopper-car shipments merely because, Senator, there might be a difference between origin and destination weight. They do not do it. So therefore, terminal elevators, I can foresee—well, I can foresee the possibility that if they were to face added expenses in this area, that they might well suggest to the railroads, well, you just weigh all of the cars and then we have no question whatsoever as to who is responsible for losses or differences in weight.

This, of course, Senator, could reduce the effective car supply by as much as 25 or 30 percent. We do not want to see it happen and we do not think that the Senate wants to.

As far as I know, everyone is satisfied with the present weighing system at the interior points. We have had no problems with that.

I will not make any comments in connection with the conflicts of interest as that has been covered by other witnesses. I have previously stated before this committee—and that was on hearings on Senate bill 3055—about the makeup of our membership and the total functions and operations of our exchange.

There is one thing that I would like to mention that we do that may be a little bit different than some exchanges in that we do participate in freight rate proceedings.

Number one, we fought very hard to retain the right and the privilege of stopping cars in transit for inspection, which is of direct benefit to the producer in the orderly marketing of his grain. We continually participate in trying to hold down freight costs by railroads. This is directly in the interest of the producer.

The next point I would like to make very briefly deals with one of the problems that has been mentioned by Mr. Hemmen and is of concern to some of the people in the Rio Grande Valley, and this deals with the fact that the Corpus Christi Grain Exchange, for example, as a designated agency, has a designated area that encompasses a territory that extends beyond the cities of Corpus Christi and Brownsville, Tex.

They presently serve shippers located at various points within their geographical areas.

Now, under section 8, 90 Stat. 2870, which is section 7 of the act, it provides that the Administrator "shall cause official inspection at the export locations." Export locations in the act is defined as "a commonly recognized port of export as determined by the Administrator, which could be expanded or restricted."

It is my understanding of the act that it was the Senate's intent for FGIS to perform the inspections from the export elevator, Senator, onto the vessel in order to insure the integrity of the grades.

Now, this leaves a void in the geographical area as to what is now being serviced as to what might be serviced by the elimination of the Corpus Christi Grain Exchange, et cetera.

Mr. Naylor will talk to some of the specific areas that they serve. I would certainly think that the Administrator would have, within the present confines of the act, the authority to limit the area of "export location" to, say, the shipside elevator and thereby leaving open and available to inspection agencies the inbound trucks or the cars that might be inspected in transit within, say, the Corpus Christ area or the Houston area.

I believe it would allow for that if they had the authority. We would urge that be given further consideration.

I thank you for your time.

Senator HUDDLESTON. I think you made some good suggestions worthy of consideration.

STATEMENT OF GLEN NAYLOR, VICE PRESIDENT, SOUTH TEXAS COUNTRY ELEVATOR ASSOCIATION, REFUGIO, TEX.

Mr. NAYLOR. Mr. Chairman, I am Glen Naylor, vice president, South Texas Country Elevator Association, Refugio, Tex. I would like to mention there are two prepared statements, one from the Corpus Christi Grain Exchange and one from the South Texas Country Elevator Association.*

Senator HUDDLESTON. Very good.

Mr. NAYLOR. What I would like to do is make some comments about the Corpus Christi Grain Exchange. The Corpus Christi Grain Exchange not only serves the two port elevators in Corpus Christi, but also the port elevator in Brownsville, and soon to be a barge loading facility at Port Lavaca. Also two inland terminals and some outlying country elevator locations which load rail grain when they want origin inspections at their locations are served.

This service has been performed admirably and certainly to no one's chagrin whatsoever. And from that then I would like to go ahead and read from the statement that we have furnished.

We feel that by enforcing the Federal inspection on original inspection at the Ports of Corpus Christi and Brownsville, the farmers in the adjacent area are being discriminated against, in that they are forced to have original inbound inspections performed at the export elevators by FGIS, at a cost of approximately 255 percent higher than private agencies are charging for the inspection in other areas of the country.

Farmers in areas distant from the export ports will have their grain inspected near point of origin, and pay lower fees, and will not have it inspected on delivery at the export facility.

We feel this is discrimination against our local farmers, as it would take away our original official inspection at Corpus Christi.

Thank you, Senator.

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*See p. 259 for the prepared statement of Mr. Naylor.

STATEMENT OF OWEN LAFFERTY, PRESIDENT, PANHANDLE GRAIN & FEED ASSOCIATION, AMARILLO, TEX.

Mr. LAFFERTY. I am Owen Lafferty, president of the Panhandle Grain & Feed Association of Amarillo, Tex., and vice president of Wheeler-Evans Elevator Co. located at White Deer, Tex.

You are probably happy you did not see any papers in front of me.

I would like to express that the testimony given yesterday and today express the feelings of the farmers and the members of the Panhandle Grain & Feed Association.

I do not at this time wish to duplicate this.

Thank you for letting us be here.

Senator HUDDLESTON. Thank you.

Mr. HEMMEN. Thank you, Senator.

These are all important points to us, and we do feel that they are for the good of all of us. The farmers are vital to our business.

Those of us who do not farm have a vital interest, because if we lose the farmer, we have lost a pretty basic ingredient of our businesses.

Other nations have the ability to produce automobiles more cheaply maybe than we produce them here in the United States, and another nation may be able to produce washing machines, or watches at less cost, but no nation in the world has the ability to produce and distribute grain from areas of surplus to areas of deficit with the low cost and the high efficiency that we have in the United States of America.

The Texas Grain Feed Association feels that a needless bureaucracy should not be imposed on use. An imposition of this burden in areas of the system that have not conducted themselves in such a manner that would warrant such imposition we feel should be prevented by the Congress. We should not destroy the efficient movement of agricultural products in the United States.

This efficiency helps hold down consumer product costs and aid in the fight on inflation. The efficient exports of agricultural products are the prime source of revenue in offsetting our foreign balance-of-payment problem against oil imports.

The Texas Grain and Feed Association is sure it is not the intent of Congress to impose a needless or unwanted burden of bureaucracy on the farmers of the United States in the distribution system of goods.

We thank you for hearing us. Sorry it took us so long.

Senator HUDDLESTON. No apology necessary at all. We appreciate the fact that you have come here from such a long distance, that you have presented genuine concerns. You have done it well, and I think it will be very helpful to the committee in charting the course to take in this area.

Any comments?

Senator DOLE. We hope to move some legislation very quickly. I think we have had adequate testimony. There may be other problems that arise, but we are not going to be able to incorporate every suggestion in the legislation unless we want nothing passed.

We would like to pass something. So I hope there is some order of priorities on the panel, and you do not expect everything to be passed in some legislation right away. I think you ought to focus on the priorities.

We have tried to do so, and I hope you will give that input to the staff so we can move on the legislation.

Senator HUDDLESTON. Thank you very much.

Senator DOLE. Could Mr. Galliart comment on a question that Senator Bellmon raised earlier. I think he heard the question. He can either do it for the record, or submit it to Senator Bellmon.

Mr. GALLIART. We agreed we would submit it to him. I do not fully understand the question.

Senator DOLE. I do not, either.

Mr. GALLIART. We agreed to investigate it, and get back to Senator Bellmon.

Senator HUDDLESTON. The final witness before the committee is Mr. Richard Potter.

Mr. Potter, we thank you for your appearance and patience.

STATEMENT OF RICHARD POTTER, PRESIDENT, NORTHWEST AGRI-DEALERS ASSOCIATION, MANKATO, MINN.

Mr. POTTER. My name is Dick Potter. I am owner and operator of the Morgan Grain & Feed Co., Morgan, Minn., which is a typical country elevator operation in southwestern Minnesota. I am also president of the Northwest Agri-Dealers Association, a trade association having 500 members, most of whom are country elevators doing business in Minnesota.

I do have a prepared statement.* Being last on the program, I know everything has been covered except a couple of items that I would like to bring up.

One is the appeals system under the new law. Under this system the shippers of grain wishing to make an appeal on a grade, Mr. Chairman, would make it to the same body as made the original inspection. It is difficult for a person, firm, or agency to sit in judgment of themselves and render objective decisions.

If I may briefly comment on your amendments.

We do appreciate you two Senators making these amendments. And being country-oriented—especially my organization, is country-oriented—we do appreciate your thoughtfulness.

Senator Dole's amendment, in section 1, about the advisory committee, I would be in favor of that if the word "qualified" people might be inserted in that.

I would not agree with some political puppets sitting on that committee.

Of course, No. 2, we absolutely agree with.

No. 3, we have some reservations. My interpretation is that the Administrator of FGIS can throw this whole monkey on his back back at us. Therefore, I like Senator Huddleston's section 1, that country elevators and grain merchandisers would be excluded from these requirements, such as bookkeeping, et cetera.

*See p. 262 for the prepared statement of Mr. Potter.

If you gentlemen would take 30 seconds of your time, I have a layout of my facility. You can, in 30 seconds, see whether it would be possible for us to keep the records.

Senator HUDDLESTON. We can take 30 seconds; yes.

Mr. POTTER. This was drawn by an insurance company.

Senator HUDDLESTON. What does it show?

Mr. POTTER. That is my facility. We cannot keep the grain separate.

Senator HUDDLESTON. How many bushels do you handle?

Mr. POTTER. We handle about 3 million bushels, Senator, about 1 million bushels of storage, but all in bins.

As far as the requirement, it would be completely impossible.

Senator DOLE. Thank you.

Mr. POTTER. Would you like to keep that?

Senator HUDDLESTON. Certainly, and we will make that a part of the hearing files.

Mr. POTTER. I have nothing further to add, Senator.

Senator HUDDLESTON. Thank you very much.

You brought up the question of appeals. I do not think we had much discussion on that. Maybe the Agency can explain just how appeals are handled from your original inspections.

Mr. POTTER. Well, as previously stated, it seldom is that we make appeals——

Senator HUDDLESTON. Well, let the Agency tell us first, and then you can.

Mr. POTTER. All right.

Senator HUDDLESTON. Mr. Galliart, can you respond?

Mr. GALLIART. Under the system that we use, Senator, an appeal from an original inspection is performed by us, that is, the Inspection Service. That generally means that the applicant for inspection of the original inspection believed there was something wrong with the original inspection and wanted us to have a look at it. So we repeat essentially what the original inspector did in the sampling, and then the analysis, and we issue a certificate superseding the certificate issued by the original inspector.

This is called an appeal inspection.

Senator HUDDLESTON. In the case where you are operating both the inspection and the appeal, you are not using the same people on the same inspection?

Mr. GALLIART. No, the intent is to use an inspector of a higher grade, a grader of a higher grade.

Let me explain something to you about the appeal inspection under the FGIS.

We had planned originally to do our appeal inspection at our Washington, D.C., Board of Appeals and Review facilities. The Board of Appeals and Review is connected with an entirely different division, outside of the Inspection Division.

So to a greater extent, they would be more of a disinterested third party. But the industry asked us to not put that into effect for the next several months. They asked us to continue the appeals system we have, whereby a GS–7 or a GS–9 performs the first Federal inspection, and a GS–11 or 12 would perform the appeal inspection. They said

the reason they needed to continue the system was because of the time element they could not afford the waiting time to have the samples sent to Washington, have them analyzed, and the results returned, because it does take an average turnaround time of 3 days.

Senator HUDDLESTON. But it is a problem you are working on?

Mr. GALLIART. It certainly is.

Senator HUDDLESTON. Do you have any questions?

Senator DOLE. No; no questions.

What we need to do now, with the cooperation of Mr. Galliart and others, is to put our package together and get it wrapped up, and on its way.

Senator HUDDLESTON. Well, I am hopeful that is what we can do.

The record will remain open to give Mr. Galliart and his staff an opportunity to respond to any of the questions that have been brought up that they have not already had an opportunity to respond to. The record will remain open for 10 days.

I think we have a good foundation of information to proceed on the changes that have already been suggested and to refine them in whatever way might be appropriate.

I do have three documents that were submitted for the record. Statement of Clayton W. Johnson, president, Mid-State Terminals, Inc.; statement of Charles W. Wofford, executive director, Cotton and Grain Producers of the Lower Rio Grande Valley; and statement of Carl L. King, president, Texas Corn Growers Association.

And those, without objection, will be placed in the record.*

That will conclude our hearing.

We appreciate the witnesses' testimony and the patience they have exhibited. It has been longer than we anticipated, but I think we had some very good presentations.

Senator DOLE. As a suggestion, you may want to touch base with your Members of Congress on the House side and any Senators you know. I think that would be helpful.

Senator HUDDLESTON. The hearing is concluded.

[Whereupon, at 12:30 p.m., the hearing adjourned, subject to the call of the Chair.]

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*See pp. 205, 225, and 228.

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Mr. Chairman, as you have said last year the Congress undertook to develop a major piece of legislation to deal with widespread problems in the grain trade. The background and history of the development of that legislation is well known to all of us by now.

As you know, I voted against the bill last October. I voted against it because I felt that the conflict-of-interest provisions were not strict enough—that the potential for the conflict-of-interest that had led so directly and systematically to the criminal activity we found, and which is so damaging to the Nation's grain trade and to the image of U.S. grain, and therefore damaging to American farmers—I felt that the provision in the law that permitted the conflict-of-interest rules to be waived so weakened it that it should not be passed in that form.

The bill did pass, however, and was signed into law. It does provide a number of major reforms. To a very important extent, it is leading to what I hope will be beneficial changes in the way of doing business in the U.S. grain trade.

In recent weeks, since the Federal Grain Inspection Service has moved to put the provisions of the new law in operation, we have been hearing a great deal about problems. I have been told that the costs of some of the new operations are very great—greater than was anticipated. I have heard of instances where the cost of inspecting grain in truck lots in Enid, Okla., increased from $2.50 to $12—where the cost of inspecting boxcar lots of grain increased from $3 to $15—and, where the cost of inspecting hopper car lots of grain increased from $6 to $18. These increases were reported in a Des Moines Register article dated January 23, 1977. Mr. Chairman, I request that the article I refer to here be inserted in the record at this point. In a similar vein, Andy Montgomery, in a January 9, 1977 column in the Waterloo Courier, reported that "it is being estimated that the new inspection system will pressure grain costs upward by at least 2 or 3 cents a bushel."

I request that this article be inserted in the record also.

Also, I am told that some of the recordkeeping requirements place an unreasonable burden on small country elevators—that in some instances, elevators with very few occasions when inspection is required anticipate that they will be required to set up a new recordkeeping system that would require them to keep track of an extremely large number of routine housekeeping operations, among other things, and maintain these records for 5 years. They are concerned that they would be required to build a very large, new recordkeeping system that would not really help protect the integrity of our marketing system.

These are specific concerns with the new law that I have heard in sufficient detail to recount here. There may be others. I do not know how real these problems are. It is our intention in the 2 days of hearings planned here to give members of the grain trade who are just now beginning to learn to live with a new law that affects them in very major ways, a chance to document their problems and recommend solutions.

Mr. Chairman, I commend you for your sensitivity in holding such hearings. By bringing together the Federal Grain Inspection Service which is charged with implementing the new law, and those who are affected by it, you have the best possible tool for arriving at specific problems that we must give attention to and recommendations for specific changes that need to be made if the law is to work the way it was intended.

The purpose of the Congress in passing the U.S. Grain Standards Act of 1976 was to protect the integrity of our grain marketing system, and, at the same time facilitate the orderly and efficient marketing of our grain. We did not in-

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tend then to place an unreasonable cost burden on the farmer or the trade, and we did not intend to require records that are not necessary for the protection of the integrity of the trade.

We are prepared to address these and other problems as directly as possible. I am cosponsoring with Senator Dole, Senator Talmadge, and a number of other Members of the Senate Committee on Agriculture and Forestry, amendments to the Grain Standards Act of 1966 designed to remedy some of the problems we already know about.

These amendments would do three things:

1. Create a temporary advisory committee to help implement the new law.

2. Pay for supervision of State and private inspection from Federal appropriations rather than by user fees as the law now requires.

3. Modify recordkeeping requirements and require the Secretary to develop a simplified system of recordkeeping for the warehouse Act, the commodity credit Corp. and other programs. The Administrator of the Federal Grain Inspection Service would base requirements for recordkeeping on the size, type, and complexity of the operation involved.

We are prepared to address these and other problems with the administration witnesses that are to appear, and to propose legislative remedies where appropriate if administrative changes are not sufficient.

By having those who administer the law here together with those who live with it, we are beginning that process today. That is a healthy sign. I commend you all for your interest in coming here to share your insights with us. We look forward to your specific descriptions of problems and issues and your specific suggestions as to what should be done.

Mr. Chairman, I would like to take this opportunity to recognize several Iowans who have come a long ways to talk to us today. I see that four are scheduled to appear. There may be others. I would like to mention Mr. Joseph Slater, of the National Association of Chief Grain Inspectors of Davenport, Iowa; Mr. Dale Nelson, of the Iowa Farm Bureau Federation of Des Moines; Mr. Ken Ludlow, Iowa Grain and Feed Association of Des Moines, and Mr. Frank Nelson, Farmers Grain Dealers Association of Des Moines. We are very happy to have you gentlemen with us today.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Last year the Senate passed legislation to amend the U.S. Grain Standards Act. During the consideration of that legislation, I offered amendments several times in an effort to prevent an "overkill" approach to what was known as a "grain inspection scandal". I did accomplish some improvements on the Senate floor, but several of my amendments were defeated by only one or two votes. Subsequently, I was successful in obtaining some further improvements in the Joint Conference Committee in our efforts to prevent an essential Federal takeover of all grain inspection systems in the nation.

However, there were some other provisions which should have received more scrutiny as to their effect on our farmers and the grain industry as a whole. On January 18th, I held a meeting with many of my constituents from Kansas and other interested people from several states and with officials of the Federal Grain Inspection Service. As a result of that meeting, I introduced a bill to correct the problem areas that have surfaced in recent weeks as the Federal Grain Inspection Service prepares to implement the provisions of the Act.

Summaries of my bill are available here today. Briefly, it would remove the fees charged to state and private grain inspection agencies for federal inspection and weighing supervision. These fees would otherwise be passed on to our grain producers. The farmers are already paying for the official inspection, and I feel that this supervisory fee should be borne by the Federal Government through appropriations.

The bill would establish an Advisory Committee of seven members to work with the Federal Grain Inspection Service during the implementation period in developing procedures and regulations to insure that the normal flow and marketing of grain not be disrupted. We have one witness here today (Joe Gregg) who served on a similar committee during the implementation of the Act which established the Commodity Futures Trading Commission. He will give an idea of just how much such a committee can contribute to an orderly transition.

Also, the bill will modify the recordkeeping provisions of the 1976 Act by requiring the maintenance of records kept by all elevators in the normal course of business (purchase, sale, transportation, storage, weighing, and official inspection and official weighing of grain). If the Administrator deems it necessary and can justify it, he can require further grain processing records necessary to facilitate the administration of the Act.

In conjunction with these requirements, my bill would also require that the Secretary review all recordkeeping requirements for grain elevator operators under the U.S. Warehouse Act, the rules and regulations of the Commodity Credit Corporation, and the U.S. Grain Standards Act. Based on this review, the Secretary would then be required to develop a single recordkeeping system that would satisfy the requirements all of these government agencies and hopefully reduce the number of records that need to be kept.

I do not mean to imply that the Grain Inspection Act was inadequate or improper, but it is clear that, in the period since its passage, these problems have been identified. It is proper that we move to correct the inequities before full implementation of the Act over the next 18 months. Senator Huddleston, Chairman of this Subcommittee, has scheduled these oversight hearings in order to provide a closer examination of these issues. I look forward to hearing the testimony of the witnesses, and I assure you that I will work closely with Senator Huddleston and my other colleagues on this Committee to identify any additional areas of concern that may surface in the future.

STATEMENT OF HON. KEITH G. SEBELIUS, REPRESENTATIVE IN CONGRESS FROM THE FIRST DISTRICT OF KANSAS

Mr. CHAIRMAN. I appreciate this opportunity to make this statement before your subcommittee. I commend the chairman for his leadership in holding these hearings regarding the problems we are experiencing with the new Federal Grain Inspection Service.

I have the privilege of representing the nation's largest wheat producing district. I welcome the opportunity to make this opening statement. Following my comments, this subcommittee will hear from other Kansas representatives of our great wheat industry. I would like to point out it was the expression of concern from the Kansas grain industry that prompted me to call for an immediate meeting of the House Agriculture Committee back in December regarding these same problems and the obvious need to safeguard the farmer's interest.

I am confident these hearings will enable us to exercise strong oversight responsibility, protest many fine state inspection systems from unwarranted federal intervention and costs and to spell out congressional intent in such a fashion as to prevent any misunderstanding by those government officials charged with the responsibility of administering Public Law 94–582.

Mr. Chairman, my remarks will deal with three basic problems; record keeping, federal costs of supervision and the U.S. Grain Marketing Research Center in Manhattan, Kansas. In regard to the Research Center in Manhattan, I am not talking about a problem so much as a possible answer.

The language of Public Law 94–582 is confusing in regard to record keeping requirements. As it is now interpreted, any elevator that has a grain sample submitted for official inspection, whether it be an interior elevator or export terminal, will be required by the FGIS to keep a record of all purchases, sales, transportation, storage, handling, testing, cleaning, drying, blending and other processing and official inspections and official weighing of grain so that USDA representatives will be able to identify violations of the Act and identify potential problems in the marketing of grain.

Now, all of this may be warranted at the export points. But, its utility at the country elevator level is questionable to say the least. If interior elevators must comply with this regulation, such FGIS authority should not become a reason to launch government fishing expeditions. The additional personnel required to tabulate such bureaucratic red tape would pose an additional cost that would further discount prices received by farmers.

I would now like to comment on the cost and user fee problem. FGIS schedules for the collection of user fees must be carefully scrutinized. During the long and drawn out consideration of the Grain Standards Act in the 94th Congress, I kept repeating the Kansas inspection system was a model one and that we did not need total Federalization as some advocated.

The House and the Senate had different approaches to the finance question. However, the agreed upon language states the fees will be paid as the administrator determines fair and reasonable and as will cover estimated costs incurred by the Service outside the Washington office relating to direct supervision of official agency personnel.

The language goes on to exclude costs for certain other duties and functions. Now here it seems is where we have government officials taking license with congressional intent. To me direct supervision means the federal employee that goes into the elevator or climbs onto the hopper car. There are bound to be unexpected costs that one could not anticipate but I do not believe anyone on the conference committee envisioned we would be paying for a bureaucratic army over and above direct supervision. My Governor, the Honorable Robert Bennett of Kansas, is rightly demanding to know what Kansas farmers will receive for an estimated cost of $500,000 over and above state costs today. The answer, I am afraid, is nothing but superimposing an untried Federal inspection system over a model system of state inspection.

At the meeting between Federal grain inspection officials and members of the House Agriculture Committee, it was discovered the FGIS proposes five regional offices, each costing $725,000. Each of these offices will have 26 employees, consisting of a regional director, assistant director, two staff specialists each for inspection and weighing, one for standardization, one for complaints, two secretary-stenos, four clerk typists, an administrative officer, a budget technician, a personnel technician. As it stands now, the farmer is going to support all of this through user fees that will be passed right back to him in the form of lower prices at the elevator. In my opinion, the bureaucratic foxes are loose in the grain inspection chicken house. I believe the cost of federal supervision of inspection and weighing of state and private agencies should be financed by appropriations not user fees.

Mr. Chairman, I will introduce a bill later today, identical to the bill introduced yesterday by Senator Dole and 10 other Senators that will take care of these costs and recordkeeping problems. The legislation will modify the recordkeeping requirements so that extensive records would have to be kept only by those elevators specified by the FGIS Administrator. It would also require the Administrator to review recordkeeping requirements for other USDA agencies such as Commodity Credit Corporation, and Warehouse Administration, and develop uniform requirements for recordkeeping for different types and sizes of elevators in order to avoid different recordkeeping requirements for each agency. In addition, it transfers the cost of Federal supervision of inspection and weighing from user's fees to Congressional appropriations, and creates seven-member Advisory Committee representing all segments of the grain industry from the farmers to the consumers.

This committee will exist for two years to consult with the FGIS Administrator and the Secretary of Agriculture during the 18-month implementation period.

It would advise on regulation development, registration requirements for export elevators, conflict of interest, weighing provisions, improvement of grain standards, development of new supervisory systems, and any other problems during the implementation phase. This Committee would function in a similar manner to the advisory committee which assisted the Commodity Futures Trading Commission very effectively during its implementation phase. I am hopeful this "housecleaning" legislation can receive immediate consideration.

Mr. Chairman, about five years ago a new U.S. Grain Marketing Research Center became operational in Manhattan, Kansas. Congress, according to all accounts, intended to establish a center where grain marketing research would be conducted.

The purpose of the Center eminated from a House Agriculture Committee study to determine what could be done to improve the quality, condition and reliability of U.S. grain exports to Europe. In fact, a study group of the House Agriculture Committee in the 86th Congress stated from first hand observation of U.S. agricultural exports to Western Europe, that a primary reason for failure to compete more effectively in the European market was lack of quality, condition and dependability of U.S. grain exports. On the basis of this committee report, it was evident that work was needed to generate new developments in the following: facility construction; handling grain into, within, and from such facilities; aeration an drying, transportation and storage. By developing new marketing methods and practices, it was hoped that grain could flow more effectively from producing areas to the markets. It was also felt

that sufficient funds were already being devoted to research in the traditional areas of crop production and that marketing aspects had been neglected.

However, ever since the grain marketing research center was opened, it has been a function of the USDA Agricultural Research Service (ARS) under the jurisdiction of the U.S. Meat Animal Research Center at Clay Benter, Nebraska, which is supervised by the North Central Region of ARS at Peoria, Illinois, and ultimately by the ARS staff here in Washington. This unfortunate organizational structure has removed the grain marketing research center from the main marketing channels.

Ongoing research at the marketing center involves four areas; grain composition and structure, biochemistry, engineering, and grain quality and end-use properties. The projects mostly deal with basic research problems on the periphery of the marketing spectrum and in many cases will have no practical application in the immediate future. For example, the research involving stored grain insects could be handled much more efficiently by the ARS entomological laboratory in Savannah, Georgia where they have facilities and staff much more suited to such projects.

The situation is further compounded by the fact that the staff admittedly has no commercial experience in grain marketing. Consequently it is very unlikely that the Manhattan facility will make an appreciable contribution to solving the myriad of grain marketing problems that exist.

The Manhattan facility should be put in the middle of the grain marketing problems, near the commercial trade. Now is an ideal time for that to happen. For several years I have advocated that this research center should be transferred from ARS, where its contribution is insignificant, to the auspices of the Agriculture Marketing Service (AMS), where it would be assigned marketing research functions. However, now that the Federal Grain Inspection Service has been created, it could be better served within that framework.

Regardless of which agency it would be under, the Manhattan facility should be delegated authority and funding to provide valuable research into grain inspection matters such as grain characterization, standardization, and research and development on such subjects as sampling and weighing. In fact, it would seem logical that this spacious facility might also serve as a regional office, technical headquarters or auxiliary grain inspection appeals board to handle some of the grain inspection appeals that have recently flooded the USDA Board of Appeals and Review here in Washington. Manhattan's proximity to much of the appeals cases in the Gulf ports and Midwest would seem to expedite the appellate process that has taken so long during the last few months.

With our new Administration considering government reorganization, it would appear that now would be a propitious time for such a move. I have communicated this request to Secretary of Agriculture Bergland in a recent letter, and he has responded that he will give such a move due consideration. With all the ingenuity and resources available in the U.S., there is no reason why we can't develop marketing methods and procedures that will make our grain more suitable and acceptable in the world market. Certainly, we must do everything possible to improve U.S. grain marketing practices and procedures and assure the farmer and the taxpayer maximum benefit from the operations of this fine facility.

Again, I thank the Chairman and members of the Subcommittee for this opportunity to comment for the record on a matter of vital interest to the Kansas grain producer.

STATEMENT OF DONALD E. WILKINSON, INTERIM ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before this Subcommittee and share with you the progress the Department has made in implementing the U.S. Grain Standards Act of 1976. I would also like to discuss the more significant implementation problems of mutual concern to all of us.

Eleven weeks have passed since the effective date of the Act. The Department is moving to implement the U.S. Grain Standards Act of 1976, bearing in mind the overall mandate of the Congress, the 30-day effective date after signature of the revised Act, and the very specific implementation deadlines. Although we are moving with caution, we have assigned implementation priorities to the

new provisions of the Act as we do not have the resources to implement all of the provisions simultaneously. There has been some misunderstanding among inspection agencies, grain firms, and farmers regarding particular provisions of the Act. However, we have received very good cooperation from inspection agencies, grain firms, farmers, and the public.

Since November 20th we have organized the Federal Grain Inspection Agency into a functional organization. Since then we have met with many concerned groups throughout the United States to discuss various aspects of the new Act such as delegation and designation of inspection agencies, the Federal takeover process at export locations, the new Federal Fee Schedules, and the new weighing provisions of the Act.

We have developed a schedule, with the assistance of the private inspection agencies performing inspections at export locations, for the Federal takeover of these agencies during the next 12 months. The Federal takeover schedule began with the Destrahan Board of Trade when they elected to discontinue their operation December 31, 1976. As a result, we have assumed responsibility for original inspection and weighing at the two major elevators in Louisiana which had been serviced by the Destrahan Board of Trade. In addition, we assumed responsibility for inspection and weighing in Toledo, Ohio; Saginaw, Michigan on January 16 and Chicago, Illinois on February 1. On February 28, we will assume Gulf Coast Inspection and Weighing Bureau responsibilities at Beaumont, Texas. By January 1978, we will assume grain inspection and weighing responsibilities in 12 grain ports around the nation where 15 private or trade-operated agencies now operate.

Concurrent with these activities, we have initiated the development of new regulations, developed a recruitment and training program to prepare for further assumption of inspection and weighing responsibilities at the remaining 12 export locations over the coming year, and prepared budgets for the new programs. We have informed individuals and firms that will have to register and keep records under the 1976 U.S. Grain Standards Act that we plan to soon ask them for comments or registration and recordkeeping regulations.

Before we start drafting those regulations, we will solicit ideas and opinions from grain merchants, elevator owners and operators, and anyone else who might be affected by the new rules.

We have encountered considerable comment from the industry, especially with respect to the areas of supervisory fees, recordkeeping, conflict of interest, and registration. It is in these areas that I wish to spend most of my time this morning.

Let me first address the area of funding for supervision of official inspection agencies. Under the old U.S. Grain Standards Act, all supervision of official inspection agencies performed by Federal personnel was funded by appropriations from the Congress. This totaled approximately $3.1 million per annum and included field supervision as well as Washington administrative costs.

In September 1975, the Congress granted a special appropriation of $5 million to increase supervision nationwide. With these funds we hired 210 additional Agricultural Commodity Graders for supervision purposes. This provided the Department with approximately an $8 million appropriation to perform supervision in addition to its $3 million fee-supported grain appeal program. The 210 new employees were placed in a training program to supplement our existing supervision staff of 123. This gave us a total of 333 individuals which, when trained, would provide for adequate supervision of the then existing 111 official inspection agencies.

We established what we considered minimum levels of supervision required to prevent the situation which caused the irregularities in grain inspection and weighing. Under this plan, supervision is applied under two systems. The first is a statistically-based random supervisory monitoring system. Under this system, inspection performed by licensed inspectors are systematically reviewed and evaluated. We presently estimate that it will require approximately 90 man-years nationwide to effectively operate this system. The second system is what we call "over-the-shoulder supervision." This is direct one-on-one supervision plus miscellaneous activities associated with the supervisory process. Over-the-shoulder supervision is primarily designed to correct inspection and weighing deficiencies identified by the monitoring system and to correct spot-checked inspection and weighing deficiencies. This latter supervisory process will require approximately 120 supervisiors nationwide. In addition, 21 supervisiors will

be required for miscellaneous supervisory activities. The manpower needed for these two systems is the basis on which we have established total nationwide supervision requirements of approximately 231 full-time supervisors or a ratio of 1 to 10—1 supervisor to 10 licensed inspectors and samplers.

The U.S. Grain Standards Act of 1976 specifically defines the source of funding for field supervisory activities. The Act requires that all field supervision costs shall be recovered from fees charged users of inspection and weighing services. Washington cost, except registration, would be financed entirely from appropriated monies. The supervision fees are charged directly to the agencies being supervised and apply during the transition period as well as when the new system called for in the Act is fully operational. After examining several alternative methods of computing supervision costs, we selected a flat rate per bushel of grain inspected and weighed. This method was selected because it distributes the cost of supervision over the total grain inspection and weighing system and does not infringe upon the competitive position of small volume inspection and weighing agencies. Under the present minimum supervision concept, all agencies, both inland and export, will receive a proportionate and statistically determined level of Federal supervision when the system is fully operative. The Federal Fee Schedule, as published in the January 5 issue of the Federal Register, is based upon this premise.

Implementation of the fees was expedited for two reasons. First, the Act provides that 30 days after enactment no agency shall provide official inspection and weighing without a delegation or designation under the USGSA except that the agency may continue to operate until a delegation or designation is granted or decreed by the Administrator if the agency pays the supervision fees when due. Second, the program funds will be exhausted by April if supervision fees are not assessed.

Based on our minimum supervision concept we believe that approximately 231 of our present 333 Federal supervisors will be needed to carry out the intent of the Act—30 percent at export and 70 percent at interior locations. The remaining 102 Federal supervisors will be phrased into original inspection work at export points and the appeal workload at both export and interior markets, and will not be funded from supervision fees.

We have determined that approximately $5.3 million will be needed to fund the inspection supervision activities required in the Act. Based upon the flat rate system of computing supervision costs as described above, it was determined that a rate of $0.80 per thousand bushels, or 8/100 cents per bushel, would recover the supervisory cost we believe necessary to adequately supervise the 2,380 State and other official agency inspectors, samplers, and technicians that we anticipate will remain in the program.

In view of our fiscal situation, the timeframe for implementation of the Federal Fee Schedule was very tight. We understand that industry has examined possible alternatives to official inspection and weighing. One of these alternatives is the increased use of unofficial or inhouse inspections and weights. Let me give you an example of some of the possible ramifications should a market elect to withdraw from the Federal inspection system and the trade chooses to operate only with unofficial inspection. For illustration purposes, I will use Kansas City.

(1) The Kansas City Board of Trade's futures contracts are negotiated on the basis of official weights and grades, as specified by their rules and regulations. Thus, with only unofficial inspection, the Board's rules and regulations would have to be changed. Such changes must be approved by the Commodity Futures Trading Commission. If approval were not granted, or the approval process required many months to complete, futures trading on the Kansas market would cease.

(2) The rules and regulations of the Kansas City Board of Trade cash grain market would have to be significantly changed, as all trading now is based on official weights and grades.

(3) Official inspection or weighing is needed for Government purchase programs.

(4) Similarly, official inspection services are required in support of Government loan programs, as grading by licensed personnel is required for Commodity Credit Corporation loans.

(5) The Kansas market could not use the term "official weights" for settlement of railroad claims. Under the revised U.S. Grain Standards Act, only the

Federal Grain Inspection Service or designated and delegated agencies can perform "official weights."

(6) Credit and banking is almost always based upon official grades. Without official grade designations, financing of all grains would be difficult to obtain.

Of course, if an unofficial program were implemented in the State of Kansas, the Federal Grain Inspection Service is required to be available to provide an official inspection service if requested on an interim basis until a new official agency could be designated to perform official inspection and weighing.

A second area of major concern is the recordkeeping requirements outlined in section 12 of the revised Act. Section 12(d) requires that purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, or other processing records must be maintained for a period of 5 years, once an official inspection has been made. As you are aware, there has been considerable concern expressed by the industry on the impact of this requirement. However, the statute is clear that this is a mandatory requirement which does not give the Department any discretion in this area.

The conflict of interest provision of the Act may also have a substantial impact on the industry, particularly Boards of Trade and Grain Exchanges which now officially inspect grain. The Act specifies that conflicts of interest will be eliminated, but allows the Administrator to grant waivers if it can be shown that the waiver would not jeopardize the integrity or the effective or objective operation of the agency's functions. The waivers must be reported to Congress within a period of 30 days after they are granted.

The Federal Grain Inspection Service plans to develop preliminary criteria for the application of the conflict of interest provisions under the Act and then consult with interested groups to assist in the further development of criteria. This process will permit wide participation in the development of such criteria.

We also intend to solicit written comments and hold public hearings to obtain broad public participation before final decisions are made relative to these criteria. These procedures should assure the industry and the public of our intent and desire to cooperate, but also put them on notice that we intend to eliminate conflicts of interest to the maximum extent possible.

Registration is another new requirement on the grain industry. Under section 17A of the Act, we will need to develop specific criteria within the next few months to register all grain exporters. In view of staffing constraints and other priorities, we do not plan to register anyone in the immediate future. However, we anticipate the registration regulations will be issued within the 2-year period when all provisions of the Act are to be fully implemented.

At this time, my colleagues and I will be glad to respond to any questions you may have in regard to procedures we have followed to implement the revised U.S. Grain Standards Act.

[The following is an attachment to the statement of Paul Hughes, see p. 57 for his full statement.]

The last session of Congress passed the U.S. Grain Standards Act of 1976. This act contained several needed reforms but the law contained one section that we need to tell you about.

Section 12(d) reads:

"(d) Every State, political subdivision thereof, or person who is the owner or operator of a commercial grain elevator, warehouse, or other storage or handling facility or is engaged in the merchandising of grain other than as a producer, and who, at any time, has obtained or obtains official inspection or weighing service shall, within the five year period thereafter, maintain complete and accurate records of purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, and other processing, and official inspection and official weighing of grain, and permit any authorized representative of the Secretary or the Administrator, at all reasonable times, to have access to, and to copy, such records and to have access to any grain elevator, warehouse, or other storage or handling facility used by such person for handling grain."

The U.S.D.A. legal counsel interprets this section to mean that if a grain elevator such as ours uses an official inspection agency just one we have to comply with the record keeping required in Section 12(d) on all grain that we handle for the next 5 years. Since the records of treating, cleaning, drying, blend-

ing and other processing are impossible for us to keep, we see no choice but to stop using official inspections and 60 year step backwards.

For example, what is blending? As you realize that we will dump many loads of soybeans in the same tank—these loads run all different moisture—F.M. levels—damage, etc.,—we believe that the law would call this blending. Then if we loaded out to two tanks at once for the matter of speed, wouldn't this be blending? We see no way that we can keep records on this. So to avoid being in violation of the law, we have no choice but to stop using official inspection agencies.

Our reason for this notice to you is to inform you of the change we must make on our contracts.

Our contract now reads:

Grades: Ours or Memphis Board of Trade—Seller's Option.

If as a seller you elect the option of Memphis Board of Trade Grades, because of Sec. 12(d) you will have to send the sample to the Board of Trade for your account and pay the charges.

We are sorry that we have to take this position, but we do not see where we have any other choice.

If you have any question—please give us a call or come by.

MIDSOUTH SOYBEAN AND GRAIN SHIPPERS ASSOCIATION,
Blytheville, Ark., February 7, 1977.

Hon. ROBERT DOLE,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR DOLE: Just a note to thank you for the attention you gave Gary Williamson and my statement at the Sub-Committee hearing Thursday.

I appreciated the way that you and Senator Huddleston have taken the bull by the horns to correct the obvious faults of the Grain Standards Act of 1976.

On the matter of Advisory Committees, I believe that there should be at least three—one on inspections, one on weighing, and as F.G.I.S. must report to Congress within two years on any grain grade changes that might be needed—there also needs to be a committee on standardization. Also, I still believe the need to be large enough to get a good cross section without any segment dominating the committee.

Thanks again for your kind consideration at the hearing and if we can be of any help, please let me hear from you.

Sincerely yours,

PAUL C. HUGHES, *Secretary.*

NATIONAL GRAIN & FEED ASSOCIATION,
Washington, D.C., February 17, 1977.

Hon. BOB DOLE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOLE: This is to reply to your questions which were given to us at the hearing on February 3 on the U.S. Grain Standards Act.

Question 1. Do you feel that an Advisory Committee such as is provided in the bill I introduced Wednesday will assist in clarifying the implementation of the Act? How would it assist and in what areas do you feel such advice is needed?

Response. It will assist but it does not go far enough. One committee of seven members would not have the expertise to cover the problem areas of the bill, namely, inspection, weighing and standardization, nor would there be a good geographical mix. We believe there should be three advisory committees, one on inspection, one on weighing and the third on standardization, of perhaps 15 to 20 members each.

Question 2. In that bill we provided for the Administrator to review the Warehouse Administration Act, CCC Act and Federal Grain Inspection Standards Act with regards to record keeping requirements, and to thereby arrive at uniform record keeping requirements for all USDA agencies for the various different sizes and types of commercial grain elevator operations. Would this be helpful?

Response. We would suggest that this authority be given to the Secretary since the Administrator does not have jurisdiction over the Warehouse Administration Act, or the Commodity Credit Corporation Act. We would suggest that no addi-

tional record keeping requirements be imposed under any of the three Acts but rather that the records which are kept be uniformly kept.

Question 3. Do you know or could you find out and submit for the record if foreign buyers are exhibiting any favorable reaction to the improvements we have made in our grain inspection system? Do you feel they will be willing to pay more for our grain after this new system is in place?

Response. If this is so it is not noticeable. As to paying more, the answer is, No!

Question 4. What are the most common grades of grain purchased for export? Domestic? (Corn, Wheat, Soybeans, and Grain Sorghum).

Response. Export: No. 3 yellow corn, No. 2 wheat, No. 2 yellow soybeans and No. 2 grain sorghum. In export the grade sold, or a better grade, must be shipped; if not, the seller has not performed on his contract.

Domestic. No. 2 yellow corn, No. 2 wheat, No. 1 yellow soybeans and No. 2 grain sorghum. Contracted to export, the most common grades in domestic marketing represent a grade for a pricing reference point. The seller can normally ship a lower grade than the contract grade and receive a price discount and still meet his contract obligation.

Question 5. In the record keeping provision of our proposed bill we limited those required records to purchase, sales, transportation, storage, weighing, and official weighing and inspection. Records involving handling, treating, cleaning, drying, blending and other processing are left to the discretion of the Administrator when he deems them necessary.

Are those required records those which nearly every commercial elevator presently keeps?

Response. Yes. As we stated in our statement, accurate records on handling, treating, cleaning, drying, blending and other processing are impossible to maintain and we recommended deleting those requirements.

If I can be of further help please let me know.

Sincerely,

GEORGE M. WOOD,
Second Vice President,
National Grain and Feed Association.

STATEMENT OF WILLIAM F. BROOKS, PRESIDENT AND GENERAL COUNSEL, NATIONAL GRAIN TRADE COUNCIL

The National Grain Trade Council is a voluntary unincorporated organization whose policy-making members are Grain Exchanges or Boards of Trade and National Grain Marketing Associations.

These member organizations and in turn their members followed the legislative processes which resulted in the United States Grain Standards Act of 1976. They, as we, have studied that Act and have attempted to monitor or participate in the meetings held to explain possible procedures to implement and administer the Act.

We welcome this hearing where some of those procedures or contemplated procedures can be subject to this Subcommittee's oversight. We expect that as procedures, regulations, and programs are developed during the next eighteen to twenty four months, this Subcommittee's oversight interest in those matters will continue. And we are grateful that at Senator Dole's request, a meeting was held on January 18 to develop background information on some of the problems which have begun to surface under the new Act.

Following the January 18 meeting, the new Agency on January 24 announced that regulations covering the Act's registration and record-keeping requirements will be developed in a few months, after the Service has solicited ideas and comments from grain merchants, elevator owners and operators, and others who might be affected by the new Rules.

The announcement further stated that until final rules are issued, no registration will be required and present record-keeping procedures should continue so long as inspection service officials have access to these records on request.

This needed "breathing space" is appreciated.

And we hope that the Service will solicit ideas and comments in other areas where the provisions of the new Act require that regulations or rulings be issued.

The Council and its members will tender ideas and comments as these proposed regulations are being considered. All of us will approach that task or those tasks, with our objectives being (1) that the nation's grain be marketed in an orderly and timely manner; (2) that the nation's grain be marketed economically and efficiently; and (3) that trading in grain in domestic and foreign commerce be facilitated.

It appears to us that if the burdensome record-keeping requirements the registration requirements and the supervisory fee requirements of the new statute ought to be relaxed, the statute itself must be amended. And other sections may require amendments as attempts to administer other sections of the Act raise problems from the language of the statute.

Other sections that may require legislative clarification are those concerned with the inspection and weighing functions at interior markets.

It is the Council's position that at interior markets, Grain Exchanges, Boards of Trade, and other comparable organizations, whose membership or users contain a balanced mix of competing trade interests, should continue to operate inspection or weighing agencies or both inspection and weighing agencies. At some of these organizations there may be an apparent conflict of interest. At none, to our knowledge, would the integrity or the effective operation of agency-performed inspection or weighing functions be jeopardized if these agencies continue to perform one or both of these functions.

These organizations can in our judgment satisfy the Administrator, or in his absence, the Secretary, that they would, and probably already do, comply with the requirements of Section 7 (f) (1) of the new statute. Most of them, who will seek approval, have for a good many years carried on inspection or weighing functions or both of these functions. Their employees in these operating areas are conscientious, competent, and hard working. They, their supervisors, and employees have made and can continue to make substantial contributions to the orderly, timely, economic, and efficient marketing of grain.

The administrators of the new Act need to be reminded that inspection and weighing at interior markets is not mandatory, as distinct from the weighing and grading requirements at export points.

From others you will receive opinions on the added and comparative costs of grain marketing under the new regulatory scheme of Public Law 94–582. These increases will be substantial. And as these federal fees, supervisory and others, are developed, there may result something less than uniform costs to the detriment of usual marketing patterns.

It is not clear to us what new supervisory "observations", or monitoring, are contemplated under the new Federal supervisory fees at nonexport points. They are represented as being based on a statistical study. It is not clear to us what certain time-motion studies were undertaken which apparently, in connection with the statistical studies or study, have resulted in a national charge of 80 cents per thousand bushels for supervision.

Perhaps the nature of these studies and their significance will be explained to the Subcommittee and farmers and marketers of grain.

We do know that official state inspection agencies and other official agencies regard them as unnecessarily steep. And that they can be a substantial item in increasing the marketing costs to grain producers.

Apparently at non-export inspection agencies, the new service anticipates that the 80 cents-per-bushel supervisory fee may develop 48 million dollars in fiscal 1978, money which the new statute requires be obtained from "users" of the service.

The cost of these services have in the past been borne by appropriations. There is general feeling that, in lieu of this statutory mandated back door spending, the cost of these services should continue to come from appropriated funds. This feeling exists when it appears to many people that there will in fact be no added interior supervision.

There is concern, more accurately described as indignation, at interior points where there have been no charges of irregularities under the U.S. Grain Standards Act. There is a feeling at the interior that because of irregularities charged at three port areas at the Gulf, the Congress and the Executive Branch have over-reacted in and under the new Act, all to the detriment of grain producers and grain handlers throughout the country.

It now develops that at these three Gulf Port areas, twenty-four employees of official inspection agencies who are licensed under the U.S. Grain Standards Act,

were charged with law violations, not all of them violations of the Grain Standards Act. As yet, there have been no charges filed against employees of official agencies located in the interior.

There were at last count, approximately 2,500 non-Federal employees licensed under the U.S. Grain Standards Act. The twenty-four employees at the Gulf Ports charged with criminal action constitutes less than one percent of the persons licensed under that Act. And those twenty-four employees are but a small percentage of all licensees who were employed at export inspection agencies.

On the basis of this record at interior inspection agencies, one must conclude that their employees are conscientious, competent, hardworking and honest, a conclusion which the users of agency-offered inspection and weighing services have had for some time.

The new statute appears to afford opportunity for persons licensed under the Grain Standards Act as of October 21, 1976, to enter the Federal service as commodity graders covering grain with some consideration given to their prior experience as licensees under the Act.

Indications are, however, that at the Department of Agriculture or at the Civil Service Commission, perhaps at both these agencies and departments, little has been done to attract qualified licensees.

On this point the Conference Report makes the following observations—

"The Conference substitute deletes the Senate amendment. However, the Conferees intend that fairness and equity be shown in the employment of persons working for private and public agencies who are displaced because of Federal preemption of inspection and weighing functions under this Act. If qualified, the Conferees expect that these people be given preference in employment to fill available positions over other new applicants, and that, insofar as practicable, they be considered along with qualified employees of the Department for positions of at least comparable responsibility and rank to that enjoyed in the private or State system. In settling their pay within the appropriate grade, to the extent possible, cognizance should be taken of the rank, benefits and longevity the employees had under the system where employed."

This is another area which this Subcommittee may wish to consider and to register its endorsement of the observations of the conferees with the Secretary of Agriculture, the Federal Grain Inspection Service and the Civil Service Commission.

The National Grain Trade Council appreciates this chance to comment on a number of results flowing from the enactment of the United States Grain Standards Act of 1976. If, as a result of these hearings, amendments to that Act are proposed, we would hope to be able to appear again before the Subcommittee and comment on them.

[The following letters were referred to on p. 66.]

NATIONAL GRAIN TRADE COUNCIL,
Washington, D.C., February 4, 1977.

DEAR SENATOR: In my Thursday, February 3, testimony on the Grain Standards Act of 1976, in response to Senator Clark's reference to the G.A.O. table showing error rates. I stated that Lowell Hill of the University of Illinois, who I believe was a consultant on some basis or other with the Senate Committee as that Committee was considering the 1976 Act, had written a letter critical of the G.A.O.'s error rate conclusions. I also stated that this could be found in part 5 or part 6 of the hearings and that I would supply a citation for the Subcommittee now reconsidering operations under the new Act.

The letter can be found on page 68 of part 5 of the Senate Committee hearings. That part contains the G.A.O. testimony on its report.

For your information, Xerox copies of pages 68 and 69 of part 5 of the hearings are enclosed.

Although Professor Hill requested that the item enclosed with his letter be entered in the Congressional Record, I do not recall seeing it entered as he had requested.

Very truly yours,

WILLIAM F. BROOKS,
President and General Counsel.

Enclosures.

UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN,
DEPARTMENT OF AGRICULTURE ECONOMICS,
Urbana, Ill., February 23, 1976.

Mr. PHIL FRAAS,
Committee on Agriculture and Forestry, Russell Building, U.S. Senate, Washington, D.C.

DEAR PHIL: I want to thank you for your time last week. I enjoyed the discussion. During the hearings on grain quality, the GAO table showing error rates identified in comparisons of appeal grades with original inspection grades was a concern of several senators. They were perceptive in recognizing that the information in those tables had several implications that GAO did not discuss. The GAO responses to questions on the table on top of page 24 were helpful, but not complete. I would like to see the enclosed item carried in the Congressional Record.

If I can provide any additional information, please let me know. I would be especially interested in the progress of the bill concerning inspectors in foreign ports and the research request of USDA.

Sincerely,

LOWELL D. HILL,
Professor of Grain Marketing.

[Enclosure:]

ILLUSTRATION OF SAMPLING VARIABILITY, GRADING ERRORS, AND RANDOM VARIATION

It is important to know what percent of the incorrect grades of the table at the top of page 24 were borderline cases in the original inspection and whether the grade change was a matter of random variation of a very small magnitude. For example, a difference of .1 of a percentage point in moisture on two parts of the same sample is not unusual. But a 15.5 percent reading is No. 2 corn and a 15.6 percent reading is No. 3.

Every grade factor has a random variation in measurement entirely apart from errors of sampling and inspection. A simple example will serve to illustrate. An official sample requires 1000 grams of corn. Assume that this sample contains 5 kernels of heat-damaged corn and all kernels (good and bad) weigh the same. Since 1000 g. contains on the average 3796 kernels, this sample should be graded No. 2 (it has more than .2 percent but less than .5 percent heat-damaged kernels). But grade on the factor of heat damage is determined by a 250 g. sample, randomly selected from the 1000 g. as illustrated by Figure 1.

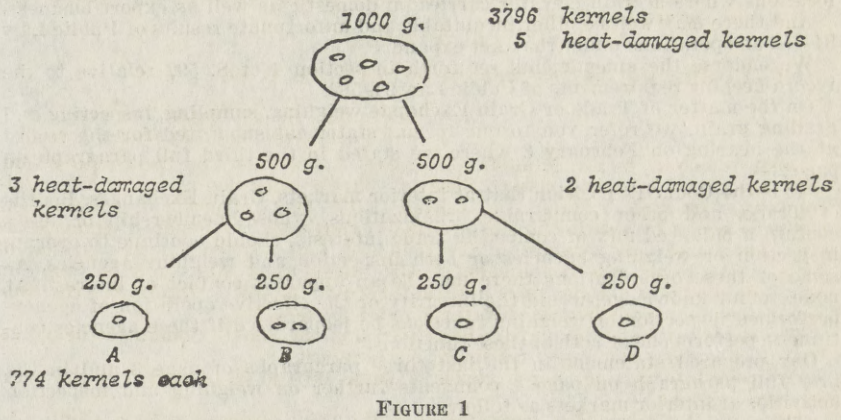

FIGURE 1

If sample B is selected for the heat damage determination, it will be graded No. 2, .25 percent heat damage. If sample A, C or D is selected they will grade No. 2 because one damaged kernel out of 774 is slightly more than .1 percent of the sample. If the single kernel in sample A happened to be smaller than average due to shriveling during drying, it could be light enough to weigh less than .1 percent and would receive a grade of No. 1. Random chance alone could cause an appeal grade on the sample to be 1 or 2 grades different from the original.

Multiply this variation by the number of measurements (objective and subjective) used in grading, any one of which could alter the grade, and the error rates in the table on page 24 take on a different importance. One might be more surprised that these error rates are not higher. As they are presented, they do not support the need for Federal legislation.

NATIONAL GRAIN TRADE COUNCIL,
Washington, D.C., February 9, 1977.

Re S. 592 and S. 593, bills to amend the U.S. Grain Standards Act of 1976.

Hon. WALTER D. HUDDLESTON,
Senate Committee on Agriculture,
Russell Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: At Subcommittee hearings on February 3, we were asked to comment on the bills introduced on February 2 by you and by Senators Dole, Clark, Talmadge, Young, McGovern, Curtis, Humphrey, Eagleton, Danforth and Tower. We would therefore appreciate having this letter commenting on the above-numbered bills be regarded as our present opinion on these bills.

At the Subcommittee hearings there were a number of grain marketing areas discussed which were and are in varying degree adversely affected by the provisions of Public Law 94–582.

These include the record-keeping requirements which are treated in both S. 592 and S. 593 and the user-fee requirements which are treated in S. 592.

There are other marketing areas of Public Law 94–582 which, in our judgment, should now be considered or reconsidered. Many of them were discussed at the hearings.

These are the registration requirements; the provisions covering inspection and weighing at all locations and their interrelationship; Board of Trade or Grain Exchange weighing, sampling, inspecting and grading grain; the opportunities which should be afforded licensed personnel employed by inspection agencies to become employees of the Federal Service; the geographic limitation imposed by the new section 7 (f) (2) and the inequitable situation prevailing at export port locations where a grain elevator carries on domestic as well as export business.

And there may well be other inequitable and unfortunate results of Public Law 94–582 as operations under that Act expand.

We endorse the amendments set forth in section 4 of S. 592 relative to the record-keeping requirements of Public Law 94–582.

On the matter of Trade or Grain Exchange weighing, sampling, inspecting and grading grain, we refer you to our formal statement submitted for the record at the hearing on February 3 where we stated in the third full paragraph on page 2—

"It is the Council's position that at interior markets, Grain Exchanges, Boards of Trade, and other comparable organizations, whose membership or users contain a balanced mix of competing trade interests, should continue to operate inspection or weighing agencies or both inspection and weighing agencies. At some of these organizations there may be an apparent conflict of interest. At none, to our knowledge, would the integrity or the effective operation of agency-performed inspection or weighing functions be jeopardized if these agencies continue to perform one or both of these functions."

Our prepared statement in the last three paragraphs of page 3 and in the first full paragraph on page 4 comments further on weighing and inspection activities at interior markets as follows:

"There is concern, more accurately described as indignation, at interior points where there have been no charges of irregularities under the U.S. Grain Standards Act. There is a feeling at the interior that because of irregularities charged at three port areas at the Gulf, the Congress and the Executive Branch have over-reacted in and under the new Act, all to the detriment of grain producers and grain handlers throughout the country.

"It now develops that at these three Gulf Port areas, twenty-four employees of official inspection agencies who are licensed under the U.S. Grain Standards Act, were charged with law violations, not all of them violations of the Grain Standards Act. As yet, there have been no charges filed against employees of official agencies located in the interior.

"There were at last count, approximately 2,500 non-Federal employees licensed under the U.S. Grain Standards Act. The twenty four employees at the Gulf Ports charged with criminal action constitutes less than one percent of the persons licensed under that Act. And those twenty four employees are but a small percentage of all licensees who were employed at export inspection agencies.

"On the basis of this record at interior inspection agencies, one must conclude that their employees are conscientious, competent, hard-working and honest, a conclusion which the users of agency-offered inspection and weighing services have had for some time."

We recommend, therefore, that the Act be now amended to establish past satisfactory performance as one of the criteria which the Administrator should consider in determining whether a Grain Exchange or Board of Trade or other comparable organization should continue its official weighing and inspection activites. This, in addition to the criteria of a balanced, mixed membership in the organization and in the users of the Service.

We recommend the approval of section 3(a) of S. 592, eliminating as it does the user-fee provisions for weighing and inspection at interior markets.

We believe that the weighing provisions of Public Law 94–582 need to be studied and revised to the end that ambiguities, uncertainties, and probable contradictions of the new Act be removed.

As that Act is written, all grade certificates apparent must contain some place where the weight of the grain inspected must be recorded. Under the new Act, it is not clear whether an agency which in the past has performed weighing services is precluded from performing these services if a second agency now qualifies to perform inspection services. And to avoid the inequitable situation now prevailing at some export locations, amendments to the Act may be in order to eliminate mandatory weighing where an export elevator carries on domestic as well as export business.

Section 10 of Public Law 94–582 substitutes a new section 8 to the Grain Standards Act. Section 8(e) of the new Act was meant to enable entrance by persons now licensed under the Act into the Federal Service as commodity graders (grain), with some consideration given to their prior experience as licensees under the Act.

On this section, our statement submitted at the February 3 hearing commented as follows:

"Indications are, however, that at the Department of Agriculture or at the Civil Service Commission, perhaps at both these agencies and departments, little has been done to attract qualified licensees.

"On this point the Conference Report makes the following observations—

'The Conference substitute deletes the Senate amendment. However, the Conferees intend that fairness and equity be shown in the employment of persons working for private and public agencies who are displaced because of Federal preemption of inspection and weighing functions under this Act. If qualified, the Conferees expect that these people be given preference in employment to fill available positions over other new applicants, and that, insofar as practicable, thy be considered along with qualified employees of the Department for positions of at least comparable responsibility and rank to that enjoyed in the private or State system. In settling their pay within the appropriate grade, to the extent possible, cognizance should be taken of the rank, benefits and longevity the employees had under the system where employed.'"

We recommend that the new Act be amended that the intentions of the conferees be clearly spelled out.

Section 8 of Public Law 94–582 rewrites section 7 of the Act and provides in a new subsection (f)(2) that submitted samples of grain can be submitted only to an agency within the geographical area where the sample is drawn.

We recommend that this section be amended, in the interest of orderly marketing, to remove this limitation.

Both pending Senate bills would establish advisory committees to aid the Administrator and Secretary in solving procedures under the Act.

We recommend that in lieu of one advisory committee there be established two advisory committees.

One advisory committee under this proposal would provide advice in the area of weights and weighing practices, the other in the area of inspection practices and procedures. Each committee would have at least ten members that would serve for a term of two years.

We further recommend that in addition to advising the Administrator or the Secretary with respect to the implementation of the Act, the committees be authorized to advise the Administrator and the House and Senate Committees on Agriculture of necessary amendments to the Act.

We believe that these Committees should serve for at least two years. And to make their service meaningful, we recommend that the new statute, in section 27(3) and (4), should be amended to provide that at export locations for a period of 24 months and at other locations for a period of 30 months, each period to run from the date of enactment of P.L. 94–582, inspection and weighing agencies might continue to operate, provided that these were, and continue to be, in compliance with the provisions of the Act.

It is our understanding that these views will be incorporated in the record of the hearings held February 3 and 4.

With kindest personal regards,

Sincerely yours,

WILLIAM F. BROOKS,
President and General Counsel.

STATEMENT OF RONALD E. PRATT, PRESIDENT, THE TERMINAL GRAIN ELEVATOR MERCHANTS ASSOCIATION, CINCINNATI, OHIO

I welcome the opportunity to appear before your Subcommittee. I am Ronald E. Pratt, President of The Terminal Elevator Grain Merchants Association and President of The Early & Daniel Company, Inc. of Cincinnati, Ohio. I will present the statement of The Terminal Elevator Grain Merchants Association and then I am at your disposal to attempt to answer any questions you may care to ask me.

The Terminal Elevator Grain Merchants Association is an association of grain elevator merchants who collectively own or control over one billion bushels of commercial grain storage in the United States.

The Constitution of the Association has one principal object: "for the purpose of cooperating with our government and its various agencies for the economic buying, handling and distributing our country's grain by making our terminal facilities available for that purpose". The members of TEGMA have been performing services for the purpose stated before and after the U.S. Grain Standards Act was passed in 1916. Grain commerce, both domestic and export, has gone on satisfactorily under the Act for all these many years with producers, handlers, processors, exporters and our foreign customers.

In a few instances, in export commerce, some grain weighing and inspection irregularities were found. We feel very strongly that those guilty of these irregularities should be punished and action taken to prevent reoccurrence in the future.

However, we believe the reaction of Congress may be considered "overkill". The U.S. Grain Standards Act of 1976 is now the law of the land. Hardly any attention in the administration of the Act or in the media has focused on the tremendous domestic grain commerce in this country. The new Act in effect punishes those engaging in domestic grain commerce.

The additional cost resulting from increased inspection charges and compliance with the cumbersome bookkeeping requirements cannot be absorbed by the high volume-low margin grain handlers and warehousemen. These increased costs will either be passed back to the farmer or passed on to processors where it will find its way to the consumer. In any case, it means lower farm prices or added consumer costs. Estimates for costs resulting under the new Act for inspection and weighing of grain indicate the new charges will approximate *four times* the cost under the old system and adding the cost of record keeping will make it *five times* as costly as the old system. Industry experience under the 1976 Act indicates that inspection productivity has not improved but has required almost three times as much personnel to perform the services.

Most of our members are licensed as Federal warehouses under the U.S. Warehouse Act or by State warehouse authorities which means they receive regular warehouse examinations by experienced governmental examiners.

There are about 183 inspection points that FGIS will either take over or supervise requiring a staff of 2,800 Federal employees, most of which will be in FGIS field offices. Additional employees will be necessary to handle the weighing requirements under the new Act.

Initially, FGIS are trying to hire inspectors presently employed by the same agencies they are replacing. The *short fall* of inspectors will be trained mostly "on the job". This in effect is "on the job training" at the expense of the private sector. Further, it's estimated that the Federal inspection fees recently published may escalate at an annual rate of 10%. Comparatively, Private, State and Board of Trade inspection agencies have had very small increases and, in some cases, have not changed for three to five years and then at much smaller incremental rates.

We think you need to look at several aspects of the new Act and take appropriate action so that the regulations do not cause undue cost burden to producers and consumers nor destroy an inspection and marketing system that has served all facets of the grain marketing system so well for such a long time.

Specifically, in the matter of weighing and inspection, consider going no further in the administration of the Act than to take care of those export inspection points that indicate a need for tighter Federal inspection. We understand there are 80 export elevators, many of which serve dual domestic and export grain markets. There is a need for future study in markets such as Stockton, California, Toledo, Ohio and Duluth where the burden of costs imposed under the Act may make the domestic portion of these locations non-competitive. Retain the present supervision system at interior points that has worked so well for more than fifty years.

If the proposed fee schedules had been implemented last month at some markets, the inspection fees alone would have been 20–25% of the handler's gross margin. Expenses of this magnitude, if necessary, should come from appropriated Federal funds.

The record keeping requirements are so comprehensive and burdensome that, first, it tends to discourage the use of official inspection and, second, it will be so expensive and laborious for the handlers that the added costs will have to be passed on to the producer or the consumer and, finally, it looks like a nightmare for Federal auditors.

Was it the intention of Congress to have FGIS an inspection service or a policing authority?

There are other sections of the new Act that may be just as onerous, confusing and costly that FGIS have not addressed themselves to at this writing.

It is obvious that the need to alleviate the problem areas of the Act are country wide. The policy that dictates "the promotion and protection of such commerce in the interests of producers, merchandisers, warehousemen, processors and consumers of grain" is being disrupted. If your Committee cannot recommend adequate relief, then we recommend that you appoint a joint committee of Federal and industry experts to hold regional meetings to hear firsthand from all segments of the grain marketing system. At the same time putting a moratorium on any further action by the FGIS.

STATEMENT OF DON WOLDEN, MANAGER, FARMERS CO-OP ELEVATOR, CHAFFEE, N. DAK.

Mr. Chairman, Distinguished members of the Committee, my name is Don Wolden. I am the manager of the Farmers Co-op Elevator at Chaffee, North Dakota. I am also president of the North Dakota Grain Dealers Association. We represent a majority of the licensed and bonded country elevators in North Dakota.

This Association comes before this hearing with one question on our mind—WHY? Why do we have such exorbitant costs associated with the new Federal Grain Inspection Service? Why does the new Service require 2600 employees—3 times the former number? Why is every step in the grain trade being required to keep the extensive records called for in the Act?, and lastly, Why is the entire industry being forced to pay the price for the sins of a few misguided exporters?

In the past 2 months much print has been generated regarding the new Federal Grain Inspection Service. We have seen estimates of costs to shippers and producers ranging from 1 to 3¢ per bushel to cover the increased weighing and

inspection service and supervision. The exact cost to North Dakota shippers and producers is impossible to determine at this time. But, to estimate let us use this example: Total wheat production in North Dakota was about 300 million bushels in 1976. If we say costs will run 2¢ per bushel and that 30% of the grain will be officially weighed or graded, the total bill for North Dakota would be almost $2 million—and that is just for wheat.

When increased costs are discussed, the number of employees has to be included. Again, why is it necessary to triple the inspection force? Who are these people to be? It is impossible to take John Doe off the street and turn him into a competent grain grader in a matter of a few weeks or even months.

The results are easy to see ahead of time—reduced efficiency in the grain trade and misgrading of grains possibly resulting in the use of unofficial grades. This is a giant step backward.

Probably the most offensive part of the Act is section 12(d), the record-keeping demands. To maintain records as the Act requires, of all, "purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, and other processing," would create complications almost beyond the imagination. For many elevators it would mean adding an extra person to the payroll, to maintain these records. Additional office space may be required for purposes of recording and filing all this information. Apparently, I must even provide a space for the federal man to inspect MY records.

Where do I as a manager draw the line regarding what information needs to be recorded? It seems, according to section 12(d), that every time I move a bushel of grain in my elevator, for whatever reason, it must be recorded.

It is impossible to preserve identity of a given load of grain once it is dumped in the pit. Does putting 2 loads of wheat, varying in protein content by one-half of one percent, in the same bin constitute blending? If I treat 1000 bushels of wheat for seed, must I know from whom each bushel was obtained and the grade of all quantities? Must I know and record that information if I merely clean a given lot?

These same questions can be asked of any other movement or processing of grain in the elevator, for whatever reason. When section 12(d) is analyzed, it is found to be ridiculous.

The requirements of allowing federal people into our books and ledgers is also absurd. This part of the Act is an invasion of privacy. It makes one wonder what these people would be looking for when they come in and go through the records under the disguise of searching for a violation of the Act.

I believe the severe provisions of the Grain Standards Act of 1976 in regards to fees and record-keeping requirements are impossible for the interior country trade to live with. I respectfully submit that the rules and regulations connected with this Act were not the true intent of Congress.

The violations which prompted the investigations of the grain export trade took place at points far distant from the small country elevators. Please do not penalize them for the transgressions of a few dishonest exporters. We suggest that the country elevator is exempted from the provisions of the Grain Standards Act of 1976, as relates to section 12(d) and the extravagant fees.

Thank you gentlemen for the allotment of time you have given us to express our views on this matter. We knew you would want to hear our opinion on this unfortunate situation.

STATEMENT OF RICHARD W. GOLDBERG, NORTH DAKOTA GRAIN DEALERS ASSOCIATION, WEST FARGO, N. DAK.

Mr. Chairman, Senator Young, distinguished members of the committee.

I am Richard Goldberg, President of the Goldberg Feed and Grain Co. of West Fargo, North Dakota. I am here today appearing on behalf of the North Dakota Grain Dealers Association. Our Association represents 600 country elevators in North Dakota, most of which are local cooperatives owned by the farmers they serve.

There are many unnecessary, cumbersome and costly features contained in the U.S. Grain Standards Act of 1976, the Federal Grain Inspection Service (F.G.I.S.), which is the agency created by the Act.

Today, I would like to address my testimony to two objectionable features which pertain to the inspection fee costs to be borne by farmers and the five year record keeping procedures required of country elevators requesting officials inspections.

1. The fees: the cost of maintaining some 2800 federal supervisiors will amount to, I am told, approximately $25,000 per employee (GS–11) including fringe benefits), for a total of $70,000,000, ultimately to be paid for by the U.S. farmer. An additional 2600 people would be employed by state and private inspection agencies at a per head cost of $20,000, or $52,000,000. This would ultimately cost the U.S. farmer approximately $122,000,000 in salaries to pay for inspection employees. Many of these federal people will be new and untrained which will further cause the inspection system to be inefficient.

It should be pointed out that delays, added costs, operating expenses, inefficiency which will cost elevators at every level of our U.S. grain marketing system, will eventually be paid for by farmers. It is important to note that not only will the producer pay for the inspection and weighing, but all other costs that are related to complying with the new law and its regulations.

In my judgment, if the present fee schedule is allowed to remain in effect, there will be widespread moves by country elevators to sell grain on an "unofficial inspection basis" to customers (overseas and domestic) who are willing to accept grain in that fashion. Reportedly, some of the "unofficial inspection" has already taken place. This procedure would move our inspection system some 60 years backward to the days when each state adopted its own inspection standards.

2. Record Keeping: The record keeping requirement is one of the worst features of the Act. Country elevators in my state average about three employees and many are run by one person. In each case, any movement of grain for blending and leading purposes will be recorded and stored for a period of five years. It is particularly difficult in my state because of the different kinds of grain produced. Some of these include: wheat, durum, flax, sunflowers, soybeans, corn, rye, millet, oats, and barley. Most elevators would handle at least four of the above and at least two counties, including Senator Young's home county, could handle up to eight different kinds of grains and many different proteins within the grain varieties. Moving grain from one elevator to another, both under the same ownership, would require a record. The cost, if able to be accomplished, would be passed on to the farmer customer.

Lastly, it should be mentioned that all additional costs, including those at the ports will back up to the country.

New equipment, people (government and private), loss of time and efficiency will be costly. Some estimates I have heard by reliable trade sources, reach the astounding figure of $300,000,000.00 That figure would relate to 2.25 cents per bushel. (using 10–13 billion bushels inspected per year). This would be an increase of 450% for an official inspection (it currently costs .05 cents per bushel for an inspection).

Another cost that I didn't mention earlier is the weighing costs under the new system at Duluth and Minneapolis. A 300% increase in both locations is expected (from 2.50 to 9.50 per car).

Thank you for letting me come here and express to you the views of the North Dakota Grain Dealers Association.

[The following statement was referred to on p. 70.]

STATEMENT OF JAMES THOM, PRESIDENT, MINOT GRAIN INSPECTION, INC. MINOT, N. DAK.

I am James Thom, President of Minot Grain Inspection, Inc. I am representing Dakota Chief Grain Inspection Assn. I have been a licensed grain inspector for 19 years. I feel I am qualified to present our concerns regarding the United States Grain Standards Act which is affecting our grain inspection, our grain marketing and the producers of our area.

We feel the Grain Industry, at interior markets, will be forced to go to unofficial inspections or close and give no service at all. For the following reasons The Dakota-Chief Grain Inspection Assn. object to the Federal supervision fees.

1. We feel the grain trade will try to buy and sell grain on an unofficial basis.
2. The producers will pay for the cost of this supervision at a time when producers are experiencing tremendous production costs.
3. Most Federal employees have gotten to be Administrative personnel and have forgotten how to inspect grain. We feel supervision of Grading Grain has come to an all time low.

4. The Federal Grain Inspection Service notified the four (4) inspection labs of North Dakota that they would be assessed $44,540, in December and then was changed to $.80 cents per 1,000 bushels, or $334,000 based on the volume of wheat grown last year in North Dakota.

5. In the last ten years the Dakota Grain Inspection Assn. has provided a service that has shortened the time it takes the country elevators to market their grain, by giving every elevator in North Dakota 24 hour service to the Minneapolis Market. This in turn has given the country elevator a faster turn around on railroad boxcars (a very important point in times of boxcar shortage) also a faster settlement time on these cars so the shippers will have their money on an average of 7 days sooner.

6. We feel we are a very important part of the marketing of North Dakota Grain and that we are doing a very good job for the North Dakota shippers.

Through Federal fees and regulations we would destroy what we have worked so hard to do.

I thank you for giving me the opportunity to appear before you today.

[The following statement was referred to on p. 71.]

STATEMENT OF HARRY O. KAMPSCHROEDER, DIRECTOR, KANSAS STATE GRAIN INSPECTION DEPARTMENT, TOPEKA, KANS.

Senator Huddleston, other distinguished Congressmen: On behalf of the State of Kansas, I would like to thank the U.S. Senate subcommittee for holding this hearing.

My name is Harry Kampschroeder. I am director of the Kansas State Grain Inspection Department.

The Kansas State Grain Inspection Department was established in 1897 at the request of the grain industries in Kansas by the Kansas Legislature. The Kansas statutes annotated set forth that the department has exclusive control of sampling, inspecting, weighing, and analyzing the protein content in certifying the official grade of all grains at places where inspection stations are now or may hereafter be established in Kansas.

During the year of 1976, the Kansas system was upheld after a thorough investigation by the FBI, GAO, Office of Investigation of the U.S. Department of Agriculture, and special committees of the House of Representatives and the Senate. In fact, Kansas Grain Inspection has been referred to as a model agency.

Since the Kansas grain inspection department has been serving the industry for over eighty years with no major problems, why then should a big supervision program be imposed upon us together with a proposed fee resulting in an average of one-half million dollars to the State of Kansas which, ultimately, would be borne by the farmers of Kansas. This is an overreaction to the problems at the ports. As to demonstrate the overreaction, we were informed, in writing, that our annual fee would be $162,000. Then, at a meeting in Kansas City on December 14, 1976, we were told that the $162,000 was to be disregarded. Two weeks later, we were informed that a fee of $.80 per thousand bushel would be imposed which is the estimated annual fee of one-half million dollars for the State of Kansas.

One of our main concerns, at this point, is what constitutes supervision. So far, the Kansas grain inspection department and also the grain trade in the State has felt that the FGIS is more harassment than supervision. We feel that all supervision done out in the field should be by licensed grain inspectors. How can supervisors with a few weeks length of service supervise our inspectors with many years of experience? What are we to receive for these supervision fees?

What is the justification of ninety employees in the monitoring program as to its relationship to supervision? We feel the monitoring program is an administrative cost and should not be identified with supervision fees. We feel monitoring should be paid out of appropriated funds. Therefore, we are requesting that the new act be funded by Federal appropriations throughout fiscal year 1977.

For years, the Kansas State grain inspection department has had a market classification as class I weights under the western weighing and inspection bureau and the association of American railroads. Following the guidelines of

ICC docket 9009, we have issued certificates of weight on hundreds of thousands of carlots of grain bearing the word "official." The new act gives the FGIS a monopoly on the word "official." The FGIS has openly admitted that they know absolutely nothing about weights and they have called on our department for literature and information concerning weights. For us to remove the word "official" from our weight certificates would cause the grain industries and the farmer-producers in Kansas and elsewhere to lose a vast amount of money. We presently provide official weights and to be designated an official weighing department by the FGIS would add another quarter of a million dollars in supervision fees over and above the $500,000 already mentioned to the Kansas farmer-producer.

We have repeatedly requested a definition of what constitutes a clean car from the FGIS; and, to date, we have not had a reply. This costs both the Kansas grain inspection department and the industry time and money due to the loss of railroad car utilization brought on by different opinions as to what a clean car is because of inexperienced FGIS employees.

Why is the FGIS attempting to mandate needless new record keeping by the State inspection departments, country elevators, and terminal elevators?

We do not need this new maze of Federal red tape that threatens to ensnarl the wheat harvest which will soon be beginning and the grain shipments for export. We feel that the entire FGIS program to the State of Kansas is unwarranted.

We are asking that the Congress be urged and requested to maintain strict oversight on the Federal grain inspection service during the next eighteen months of implementation of the U.S. grain standards act of 1976; that Congress be urged and requested to quickly amend the act to make it more responsive to farmers, consumers, and those involved in the grain industry; and that Congress also be urged and requested to appropriate funds for any cost of supervising the grain inspection programs underway in the States instead of allowing these costs to be passed on to our nation's farmers.

Enclosure.

THE STATE OF KANSAS,
GRAIN INSPECTION DEPARTMENT,
Topeka, Kans., February 8, 1977.

Hon. ROBERT DOLE,
U.S. Senator,
Washington, D.C.

DEAR SENATOR DOLE: Again, thank you for holding the subcommittee hearing on February 3, 1977, as we feel the accomplishments of this meeting will be a tremendous help to the people and farmers of the State of Kansas. Again, I want to say that our department fully endorses and supports the amendments that were introduced into the House and Senate on February 2, 1977.

Our response to the questions that you requested us to comment on is as follows:

1. We have reports that present weighing supervision organizations are planning to phase-out their operations and let the FGIS take it over. Will this be an improvement? We hope these reports are false; but, we cannot see how this would be an improvement as the FGIS, at this time, has no one trained or qualified to perform weight supervision.

2. How are your weighing procedures managed or supervised at present? Under the Association of American Railroads' (AAR) Grain Market Classifications, Class I Weights require one hundred percent supervision of weights. This is the classification that Kansas carries. The Western Weighing and Inspection Bureau (WWIB) periodically checks all terminals and elevators that are under Class I weight supervision; makes a monthly report to the AAR; and if the elevator is not up to minimum standards, the AAR takes immediate action. The AAR and the WWIB are under the Western Railroad Association and they are paid by the carriers to supervise the Kansas State Grain Inspection Department weight program. We see no reason why the FGIS should supervise the official weighing in the interior markets. This will just be an added charge to the farmers. In our opinion, Kansas has a unique system and is operated beyond a shadow of a doubt. The grain trade in Kansas has always praised the weight system as it is now operating. We would hate to see this system change because under it, we have issued hundreds of thousands of certificates without any major complaints. For your information, we are enclosing a copy of the

Association of American Railroads' Recommendations for Grain Market Classification.

3. Do supervisors presently pick up random samples from inspectors to verify the grade? No, they do not. The FGIS depends on their monitoring system to check our people which we feel is ineffective; and as I testified, we feel monitoring should be administrative rather than supervisory.

4. Do supervisors assist an inspector in checking the grade he has just made if requested? No, they do not. As I stated in my testimony, we feel that the FGIS is more harassment than supervision. Also, we feel that all supervision done in the field should be by experienced, licensed inspectors and not by three-week trained wonders.

5. How is supervision being accomplished? Insofar as our department is concerned, we have no supervision because the supervisors are untrained and inexperienced. We are finding that the supervisors in the field are demoralizing our personnel as they cannot understand why we are required to be trained, experienced, and licensed to perform our duties and along comes a FGIS employee, getting paid more, who knows nothing about what he is supposed to be doing. Also, that same comment of demoralizing state and private agency employees has been reported to me by directors of other grain producing states. I do not feel that we should be in a position of training and informing these people what is right and wrong because, with the proper training, they should be telling us what we are doing right or wrong.

6. Are all the federal supervisors presently in the field trained and experienced? No, they are not. Refer to our answers to questions 4 and 5 for more details.

7. Do they have the respect of the state grain inspectors for their knowledge of grain? As I pointed out above, I will have to answer in the negative, they do not.

8. How much practical experience do you feel a federal supervisor should have? I feel all federal supervisors, to be qualified to supervise our experienced people, should have a license to inspect all grains and also take triennial exams in all grains and also pass an examination as to proper probing and weighing of grain.

Bill, I hope the above adequately answers your questions; and if we can be of further help in this matter, please do not hesitate to call on us as this program is very important to us and all the people in the State of Kansas.

Referring to Representative Sebelius' testimony about utilizing the Agricultural Research Building in Manhattan, Kansas, for a base of operations for the Federal Board of Appeals and Review, it has been the feeling of the Kansas State Grain Inspection Department since this building was built that this would be an excellent location because of Kansas being the geographical center of the United States and it has commercial air service. We understand that the highly qualified federal employees will not move to Washington, D.C. for appeal work due to the location and expense involved in living there. We feel that Senator Dole and the FGIS should explore the possibility of moving the Board to Manhattan to expedite the service to the grain trade.

Respectfully yours,

HARRY KAMPSCHROEDER, *Director.*

Enclosure.

ASSOCIATION OF AMERICAN RAILROADS,
Chicago, Ill.

RECOMMENDATIONS FOR GRAIN MARKET CLASSIFICATION

INTRODUCTION

The mere printing of a supervised or "official" weight certificate, weighmaster's oath, weighmaster's certificate, bonding, etc., does not constitute valid arrangements for acceptance of supervised weights as such were intended and actually prescribed by the parties involved in the carriers published tariffs.

When supervised weight certificates are issued under the supervision of independent organizations, such as State Weighing Departments, Chambers of Commerce, Boards of Trade, Grain Exchanges or other like trade boards, it is interpreted to mean that said organization will assume full responsibility for all the activities of any weighmaster whom they have deputized and that said organization must be in a position to supervise the weighing performance, as well as check the operation of all grain handling facilities (as outlined in this document) where the issuing of a supervised weight certificate is involved.

Before it can definitely be determined whether or not such arrangements will be satisfactory so as to justify the carriers to consider that weights obtained may be referred to as "supervised weights", as defined in the governing tariff, the concerned parties must have information as to the kind of supervision which will be given to the weighmasters employed by the industries and if party delegated as Chief Weighmaster or Supervising Weighmaster is qualified to supervise and control the action of the Deputy Weighmasters to the extent that said organization permitting the issuance of supervised weight certificates under its name will be able to assure the accuracy of such weights. For the above reasons, the recommendations contained in this document were drawn up as standards by which grain markets and individual facilities within such markets may be classified.

GRAIN MARKET CLASSIFICATIONS

Class 1. Weight certificates issued by State Weighing Departments, Grain Exchanges, Chambers of Commerce, Boards of Trade or other like trade boards where weighing is performed by authorized elevator employees under the supervision of any of the above organizations who witness the handling and weighing of all cars and/or contents.

Class 2. Weight certificates issued by or on authority of State Weighing Departments, Grain Exchanges, Chambers of Commerce, Boards of Trade or other like trade boards where weighing is performed by authorized elevator employees under the supervision of employees of any of the above organizations who daily witness the handling and weighing of a sufficient percentage of the traffic to insure accurate weights. However, the supervising agency must supervise a minimum of 25 percent of cars and or contents during each shift at each and every elevator.

Supervision of weighing

An individual weight is considered to have been witnessed or supervised when representative of the supervising agency actually observes or witnesses (on mechanical lever system scales) the weigh beam come into balance, and the scale ticket or certificate punched or imprinted (using device with which weigh beam is equipped) with balance weight. On scales equipped with electronic digital indicator or dial indicator, the indicated weight on this device must be observed by a representative of the supervising agency and compared against weight printed on ticket, tape or certificate by automatic printer.

PHYSICAL PLANT AND SCALES

Before any individual facility can be accorded a "Grain Market Classification" it shall be examined by a representative of the Weighing and Inspection Bureau having jurisdiction to determine that the arrangement and condition of all grain handling equipment and scales is adequate. After any such facility has been accorded a "Grain Market Classification", it will be subject to periodic inspections by the proper Weighing and Inspection Bureau or carrier representatives—said inspections to be made without prior notice. Outlined below are some of the items which will be checked and the manner in which they should be found and maintained in order to justify a "Grain Market Classification" at any individual facility:

Facilities equipped with hopper scales

1. In accordance with recommendations of the AAR Scale Handbook, hopper scales must be of at least 5,000 lbs. capacity. Hopper scales should meet specifications as outlined in the Association of American Railroads—Scale Handbook's latest edition "S. 2. 27 Hopper Scales". Scales must be equipped with a weight recording device of some sort (punch type, automatic printer, etc.). Scales must be tested and approved by the appropriate authority, at least twice a year.

2. Receiving pits or sinks: Receiving pits or sinks shall be grain tight. Where two or more pits or sinks deliver to the same conveyor belt, sinks must be equipped with grain tight bottom slides or gates which will prevent one load from becoming mixed with another.

3. Elevator legs, spouts, belts, etc.: All legs, spouts and other equipment used for conveying grain from car to scales or from scales to car shall be grain tight.

4. Garners: Where garners are located above hopper scales they shall be grain tight and equipped with a slide or gate on the bottom which shall be grain tight.

5. Dust systems: No dust collecting system to be installed between car and scale unless material collected is returned to the system to be included in weight.

Facilities equipped with track scales

1. Track scales should meet specifications as outlined in the Association of American Railroads—Scale Handbook latest edition.
2. All track scales shall be tested and approved by the appropriate authority.

RESPONSIBILITIES OF SUPERVISING AGENCY
WEIGHING AND HANDLING

Scales are to be tested at least twice a year by a qualified independent scale inspector. Copy of all scale test reports must be furnished to the Weighing and Inspection Bureau having jurisdiction. Copy of all test reports to be kept on file by the supervising agency.

It is the duty of the Supervising Agency to refuse to issue Weight Certificates from scales they know to be out of tolerance.

A qualified Supervising Weighmaster (or Weighmasters as amount of business requires) shall be employed who shall witness the handling and weighing of cars and/or contents as well as supervise reporting of car conditions and inspect elevators and scales, as provided under the appropriate classification when elevator is in operation. A text of grain weighing instructions to be issued all Weighmasters, they in turn to be subject to periodic examination of its contents by the Supervisor of Weights.

The Supervising Agency will be held responsible for the screening, bonding and administering of an oath to all Weighmasters coming under supervision of said market.

It is the duty of the Supervising Weighmaster, in the process of his daily witnessing of weighing and handling of grain at elevators under his supervision, to inspect the condition of all grain handling equipment and scales in the plant and if exceptions are noted to handle for correction and depending on severity of exception to either issue a weight certificate with exceptions or to refuse to issue certificates entirely until the problem has been corrected:

Example: Elevator is unloading rail cars and a leak is noted in the elevating leg. Depending on the size of the leak and the amount of grain being lost, an exception notation can be placed on the scale ticket—weight certificate or weight certificates can be denied.

It is the duty of the elevator to properly load and unload rail cars. The Supervising Agency is also charged with responsibilities in checking to see that the elevators properly carry out these duties. If the Supervising Agency encounters improper loading or unloading of cars by an elevator, depending on the severity of the problem, a notation can be placed on the scale ticket—weight certificate or certificates can be denied:

Example: Grain is spilled on the roof of covered hopper cars while loading—depending on the amount of grain, explanatory notations can be made or certificates can be denied.

If at any time it develops that Supervising Agency is not providing adequate supervision to assure good weights, proper maintenance of scales and grain handling equipment or fully reporting exceptions to proper elevator operation the "Grain Weight Classification" status of that individual facility or entire market will be adjusted accordingly.

RESPONSIBILITIES OF SUPERVISING AGENCY CAR CONDITION REPORTS

Of equal important to the supervision of actual weighing and handling of grain is the full, complete and accurate reporting of the condition of rail cars leaving or arriving at supervised facilities.

Supervising Weighmasters, as well as elevator employees responsible for reporting car conditions, must have a thorough knowledge of different types of rail equipment used in the transportation of bulk grain. These personnel should be familiar with all types of grain doors and their proper application and installation. All cars arriving at or leaving a supervised facility must be thoroughly and carefully inspected for any leaks or other exceptions. All exceptions must be completely explained. Car condition will be recorded on the scale ticket and weight certificate and if necessary, a "Special Report" should be issued going into all necessary detail. Reference to any such "Special Report" must be made on the scale ticket—weight certificate.

In reporting car condition, overly general notations such as "leak" or "grain door leak" are not acceptable. All notations should indicate location of the exception, for instance "R" door or "L" door—"floor leak 'A' end 'R' side" or "leak through cracked sidewall 'L' side over 'B' end truck".

Seals.—A valuable and important part of any car condition report includes the recording of seal numbers on cars shipped and/or received. Seal numbers must be recorded on the scale ticket-weight certificate. If cars arrive at destination with seals missing or broken or with storm doors open, proper notations must be made.

If at any time it develops that exceptions are not being recorded or are being recorded inadequately, the "Grain Weight Classification Status" of that individual facility or market will be adjusted accordingly.

FORMS AND RECORDS

Scale ticket.—The scale ticket is the document upon which the actual scale weight is punched or typed utilizing the recording device with which scale is equipped. When more than one draft is involved on a single car weight—all drafts must be recorded. When weighing is performed over track scales, the scale ticket shall show actual recorded gross, actual recorded tare and net weights. The scale ticket must also indicate the following:

Car initial and number, Contents, Date and time, Name of elevator or plant where weight obtained, Number of ticket for that date, Type of equipment—box, covered hopper or other, Space for remarks (to outline any exceptions or refer to special reports), Type of scale—track, hopper or bulk weigher. Weighmaster must sign or initial scale ticket as must Supervising Weightmaster if that weight was witnessed.

Weight certificate.—The weight certificate is the document prepared from the scale ticket which indicates car initial and number, weight of car or contents, nature of contents, where weight obtained, date and any exceptions. The weight certificate should bear the name and emblem, symbol or seal of the supervising agency and clearly state that weight was taken under the supervision of that agency. The supervising agency should normally prepare all weight certificates of this type from the scale ticket. (See examples of weight certificates.)

Combination scale ticket and weight certificate.—Many parties have found that a combination weight certificate—scale ticket is convenient. Any such combination document should incorporate all the above listed items for separate scale tickets and weight certificates. (See examples of combination scale tickets and weight certificates.)

Daily reports.—Each elevator shall make a daily report of all cars loaded or unloaded on a standard form. Copy of this daily report to be furnished to the Weighing and Inspection Bureau office, on request. Other than Class 1—Supervising Weighmaster to affix personal initials opposite cars actually witnessed. (See examples of daily reports.)

Special reports.—Special reports will have to be issued as the occasion requires to fully report on cars with serious exceptions. Special reports will also be issued, as required, to explain poor elevator conditions, spills, leaks, etc., which are likely to affect weights. Full reference to a special report must be made on individual scale ticket—weight certificate. Copies of Special Reports to be furnished Weighing and Inspection Bureau office, on request. (See example of special report.)

Record keeping.—Copies of the previous documents must be kept on file by the supervising agency. On immediate demand, all authorized railroad representatives to have access to all records pertaining to the issuing of weight certificates. Written inquiries from railroads dealing with grain weights, shall be answered as rapidly and thoroughly as possible.

Reporting to AAR and weighing and inspection bureau.—The supervising agency shall furnish an annual list of all firms under their supervision to the AAR prevention headquarters and to the Weighing and Inspection Bureau having jurisdiction. The supervising agency to notify the above parties at once of any changes in position of Supervisor of Weights. Any change in name or ownership of firms already classified to be reported promptly. Formal application for classification of new facilities must be made to the above parties. If a new scale is installed or changes made in handling equipment of any classified facility, the AAR and the proper Weighing and Inspection Bureau must be notified.

STATEMENT OF JOSEPH B. GREGG, PRESIDENT, MORRISON-GREGG-MITCHELL GRAIN CO., KANSAS CITY, MO.

My name is Joseph B. Gregg. My Company is a family partnership, operating country grain elevators in Kansas, Nebraska and Missouri. I have been active in this business continuously for over 40 years, with the exception of some four years in the service during World War II.

I was very surprised when I first read the Conference Report on the Grain Standards Act of 1976. I cannot believe that the Conference Report reflected the intent of the conferees as far as the interior inspection stations are concerned. In Kansas and Missouri about which I am most knowledgeable, we are very fortunate to have two excellent State Inspection Departments. There may be departments as good, but there are none better that I know of in this country. All inspectors in both State Departments are licensed by the Federal Grain Inspection Service and have been since the Act was first passed.

The cost of operation of the State Inspection Departments has been covered by fees for the inspection and weighing of grain, and the cost of supervision of the Federal Grain Inspection Service has been covered by funds appropriated by Congress. Now suddenly there is to be an additional fee assessed against the State Departments for this Federal supervision, and such supervision will be no more than what we have had in the past, and no more is needed.

At the present time, if a shipper does not like the State grade, he has the right of Federal Appeal on a sample and a fee is paid to the Federal Grain Inspection for this service. To the best of my knowledge, my Company has not asked for a Federal Appeal grade for years. The reason being that we have complete confidence in the Kansas and Missouri State Grain Inspection Departments.

Why are we suddenly interested in interior inspection stations? I have not heard of any wrongdoing or problems with any of the Inspection Departments in our part of the country. Does anyone feel that the title of Federal before an Inspector's name means he is as good or better or more honest than a State or Private Inspector? This question has already been answered by the case of 31 Federal Food Inspectors in New York, as reported in the New York Times of November 10, 1976. It seems unreasonable to have State and Private Inspection Agencies suddenly saddled with additional fees for supervision, which is unneeded. If previous experience is any teacher at all, I am sure the fees will increase drastically as the years go by and bureaucracy races to unnecessary expansion. In my opinion, we are only looking at the tip of the iceberg.

There are other problems in this Act that also need attention. One being Section 14(d), which pertains to record-keeping. We have been informed by the Federal Grain Inspection Service that this does apply to country elevators, regardless how small. Anyone familiar with country elevator operations would have known that most of the operations listed in that Section do not even apply to country elevators. In wheat country, where harvest is fast, our job is to get the farmer's crop under cover as fast as possible, then he can decide what he wants to do with his grain, sell it or store it.

I predict, because of the inefficiencies of many government agencies, the movement and marketing of grain could break down causing terrible problems. As an example: An elevator in Enid, Oklahoma, called Federal Appeals on 15 cars on December 22 and December 23, 1976. These Appeal grades were given back to the shipper on January 3, 1977. This is the utmost in inefficiency. State and Private Inspection Departments routinely provide this service within 24 hours. This is the worst type of car utilization and it results in large amounts of demurrage and unnecessarily tied up railroad equipment. The length of time it took to get these Federal Appeal grades probably amounted to one round trip by box car or hopper from point of origin to the Gulf and return.

May I make the following suggestions:

1. Congress approve a supplemental appropriation to the Federal Grain Inspection Service for the balance of the fiscal year, to allow the Federal Grain Inspection Service to hold hearings throughout the grain producing areas and study all of the ramifications of this Act as it is now written, and then come up with recommendations to this committee.

2. As far as the Federal fees are concerned, many problems could be solved it the Federal Grain Inspection Service operated on appropriated funds as it always has been in the past I then think that conflicts with the States would come to an end. Congress could then monitor the Federal Grain Inspection Service expenditures.

Let us not forget that all of these new fees by the Federal Grain Inspection Service will be paid by the producer. This just adds one more unneeded cost to the farmer and he has enough problems now with low commodity prices. As I stated before, I have seen few, if any, government agencies where the cost of that agency has not continued to accelerate, and I view this as a very definite probability with the Federal Grain Inspection Service.

I thank you very much and that is the end of my testimony.

[From the New York Times, Nov. 10, 1976]

31 Meat Inspectors Accused in Payoffs

Charged with taking regular sums from New York City packers

(By Selywyn Raab)

Thirty-one Federal food inspectors were indicted in Manhattan and Brooklyn yesterday on Federal felony charges of accepting yearly payoffs of $125,000 from meatpackers and processors in the metropolitan area.

Robert B. Fiske Jr. and David G. Trager, the United States Attorneys who announced the indictments, said that more than 50 companies that made the systematic payments would soon be brought up on misdemeanor counts.

The officials said that the companies, including some of the city's largest, gave out weekly payments of $20 to $75 to avoid harassment from the inspectors, who have broad powers to close down plants for alleged sanitary violations.

Both emphasized that there was no evidence that the corruption had led to the approval of tainted or substandard meat.

Sidney Roth, president of the union local representing the accused inspectors, charged that the failure to bring felony charges against company officials indicated "a lack of evenhanded justice. A man can't be bribed without the other party having some degree of guilt," Mr. Roth asserted.

The New York Times disclosed last April 5 that bribes to inspectors were widespread in the industry and that graft had been commonplace for years without many apparent crackdowns by Federal authorities.

Inquiry on in Jersey

A large-scale investigation of payoffs by packers and processors in New Jersey also has begun. Three Federal inspectors and two meat company officials were indicted in New Jersey last September on Federal bribery charges and more indictments are expected there.

Eighteen of yesterday's indictments were handed up by a grand jury in Brooklyn. These indictments, under Mr. Trager's jurisdiction, involved plants in Brooklyn and Queens.

A grand jury in Manhattan, in Mr. Fiske's jurisdiction, indicted 16 inspectors for accepting money and other gifts from companies in Manhattan and the Bronx.

Explaining why harsher accusations were brought against the employees, Mr. Trager said: "This was more of an abuse by inspectors rather than the companies trying to gain any special advantage."

Federal investigators estimated that the accused inspectors got $2,000 to $5,000 a year in cash or, in meat products in illegal payments. Their yearly salaries range from $12,000 to $17,000.

The inspectors, who work for the United States Agriculture Department, were relieved yesterday of their inspectional duties and assigned to different jobs. Michael J. Lonergan, the regional director of investigation for the department, said the employees face possible suspension without pay pending the outcome of the criminal cases.

The indicted employees, who included one supervisor, comprised more than 20 percent of the 140-man inspectional force in the city and Long Island.

Marvin B. Segal, a lawyer for 25 of the affected companies, said that the concerns had been "coerced" for years, but that "no one had the nerve to take the first step and blow the whistle."

STATEMENTS CHALLENGED

Mr. Roth, president of Food Inspector Local 538 of the American Federation of Government Employees, challenged the joint descriptions by the United States Attorneys that inspectors had vast authority to intimidate plant owners.

"I can't believe all these men were harassing packers," Mr. Roth asserted. "These companies are run by pretty tough guys who work on tight margins and they complain all the time about proper inspections."

Industry spokesmen said that inspectors could pressure company officials by threats of closing down plants, which could cost as much as $5,000 a day. These spokesmen said that they doubted that the graft raised beef price for consumers in this area.

The accused inspectors face up to three years in prison and fines of $10,000 each. The companies, which are expected to plead guilty to misdemeanor charges, could be fined $5,000 each.

The companies involved in the corruption inquiry have total annual gross sales of $250 million in kosher and non-kosher meat and sausages. The larger plants process as much as 250,000 pounds of beef weekly.

MORRISON-GREGG-MITCHELL GRAIN CO.
Kansas City, Mo., February 4, 1977.

Mr. BILL TAGGART,
Senate Agriculture Committee
Washington, D.C.

DEAR BILL: As I left, you asked me the question as to what would be a reasonable time in which to get an Appeal Grade in Kansas City. That would be called a reinspection by both Missouri and Kansas Departments.

In the Kansas City market you would always receive the reinspection within 24 hours. In smaller markets where their railroad switching yards are much smaller, it is very possible that it could be received on the same day. It should never take the Federal Grain Inspection Service over 24 hours to deliver an Appeal Grade to the person who called for it. If it does, it is nothing but complete inefficiency.

I wish you would convey my thanks to Bob Dole and yourself for the excellent work and the help that both of you have been. I thought the hearings were very fruitful and I hope Bob felt the same. If we do get action on both the Dole and Huddleston Bills, would you hazard to guess how long it might be.

Sincerely,

JOSEPH B. GREGG.

STATEMENT OF WILLIS C. THEIS, KANSAS CITY BOARD OF TRADE, KANSAS CITY, MO.

Mr. Chairman and Members of the Committee: I appreciate the opportunity to appear before your Subcommittee to discuss a topic of vital importance to producers, handlers, and consumers of grain, both here and abroad.

I am Willis C. Theis, Chairman of the Legislative Committee of The Board of Trade of Kansas City, Missouri, Inc., and Chairman of the Board of Simonds-Shields-Theis Grain Co. of Kansas City, Missouri. I will present the statement of The Board of Trade of Kansas City, Missouri, Inc., and then attempt to answer any questions you may care to ask of me.

The Kansas City Board of Trade, which traces its ancestry back to 1856, has been a major Midwestern agricultural trading market since the 1870's. Its 214 members represent all segments of the grain industry—millers, processors, farmer-owned cooperatives, grain merchants, exporters, cash and futures brokers, futures commission merchants, and others. Although grain futures contracts have been traded in Kansas City for over 100 years, and the Board of Trade was designated a contract market in 1923, the majority of its members characterize themselves as being in "the grain trade". As such, they are involved in the important, never ending process of buying, financing, hedging, marketing, and transporting grain from producers to processors and users. In 1976, 221,422,521 bushels of grain were received and 123,170,713 bushels were shipped by our market.

We are quite concerned as to the interpretation by the U.S. Department of Agriculture of the meaning of the U.S. Grain Standards Act of 1976—and agree with the reactions of the State of Kansas' Governor and Grain Inspection and Weighing Department, the Missouri Department of Agriculture Grain Inspection and Weighing Department, and many others, to some of its inherent implications and costs.

The Federal Grain Inspection Service (hereinafter referred to as the Service) to date has done nothing to improve its original objective which was to establish grain standards and supervise the applications of such standards for uniform grading by inspectors at all grading locations. There are many serious problems and deficiencies in the present application of the intent of the Grain Standards Act—problems that are not being solved or considered by the Service at this time. From all observations, the Service has given consideration only to a material increase in cost with no improvement in service.

The major problem of obtaining uniformity in grade and grading factors (which is estimated to run as high as 25% error between inspection points) is not being improved.

As an illustration concerning the costs involved, allow me to present the following basic comparisons:

	Kansas City present inspection costs per unit		FGIS proposed cost per unit	Percentage increase
	Missouri	Kansas		
Truck	$3	$2.50	$12	380
Boxcar	5	4.00	14	250
Hopper car	10	7.00	16	128

In situations where the Service will perform only supervising of inspections and/or weights, they propose a charge to the agency being supervised (the State of Missouri, the State of Kansas, and others). The proposed charges are as follows:

Inspection—a rate based on 80¢ per thousand bushels

Weights—a rate based on 30¢ per thousand bushels

This supervision cost per unit will be charged on all units inspected and/or weighed by the State agencies and others—even though the Service will only check grading factors on a very small percent of the samples handled by the State inspection agencies.

The Service is only to check operational procedures and not uniformity of application. It has been stated by Service officials that they will not perform any additional services than they are currently performing.

Therefore, we urge and support needed amendments and interpretations to the Act so that its "Declaration of Policy" can be implemented with the objective that grain may be marketed "in an orderly and timely manner" for "the promotion and protection of such commerce in the interests of producers, merchandisers, warehousemen, processors and consumers of grain". Our contention is that the proposed rates run counter to the goals set out in the Declaration of Policy.

We also feel that official inspection and grades must be continued in as many locations in the U.S. as are needed to facilitate the orderly and timely movement of Commerce, and that they must supervise effectively such Commerce in a consistent manner. This must be done in accordance with the Congressional intent quoted above.

As it is proposed by the Service, they plan to impose a level of fees and services disregarding the need of orderly and timely marketing of grain, and without consideration of the fact that the costs of these services and disruption of operations must be passed back to the producer.

The Kansas City Board of Trade was in part established to bring order and fair dealing in grain trading, and has many rules and regulations to this end. The Kansas City Board of Trade cannot function as it should without efficient inspections at reasonable costs. Quite a few of our rules define our operation and function to be an official weight and grade market.

If the problems of the Act being implemented are not resolved in some manner so that the States of Kansas, Missouri, and others can maintain and afford official inspection and weights in our market, we will see a chaotic situation develop. This primarily relates to the cost of marketing the producers' grains, which cost must be borne by the producers.

We will quickly try to tell the chaos relating to the following effects if official inspections and weights are not available:

(A) As proposed, the Regulations would cut across many of the requirements and rules we and other exchanges have developed and operated under regarding contract satisfaction. These have served the producers and handlers of grain, processors and exporters well over the years.

(B) Please note that the possible effect of the proposed regulation (that of causing Kansas and Missouri to drop "official" Federally licensed and supervised inspection and weighing) would not allow Kansas City to operate other than as a "country station" as it could not then meet the requirements as set forth in the Designation of a Contract Market as required in Section 5a of the Commodity Exchange Act. That Act demands that we enforce our rules and regulations, and further raises the possibility of putting our designation for the trading in futures contracts in jeopardy because we would not have official inspections and weights available.

(C) The loss of official inspection and grades is related to and would affect the Government Loan Program. Without official inspections and grades, all of the terminal elevators in the Greater Kansas City switching district would be approved as country elevators, and put in a non-competitive position with relation to other subterminal and terminal elevators in the United States.

(D) The effects without official certification relating to Government Purchase Programs. Again—we find ourselves in a non-competitive position because of destination settlements for weights and grades.

(E) The effects with non-official certification on bank loans. The bonded warehouse receipts now supported by official inspection and weight certificates afford our grain, milling and feed industry credit lines of 90 percent of valuation. It is logical to assume that with certification of a non-official nature, it would limit the value of our warehouse receipt collateral to a lesser percentage of valuation which would affect farmers, mills and merchandisers. This would increase the price spread between the farmer and the ultimate consumer.

PROPOSAL AND RECOMMENDATIONS

1. Interim financing for supervision fees to be available immediately, and the Act amended to afford permanent Federal funding of fees the same as has been true since the adoption of the U.S. Grain Standards Act in 1916.

2. Establish Advisory Committees to work with the U.S.D.A. and the Administrator of the U.S. Grain Standards Act of 1976 to develop and recommend reasonable rules and regulations to the Act. These committees could well be two in number—one working with matters pertaining to inspections, and the other committee working with matters pertaining to weights. Such committees should be chaired by a top official in the U.S.D.A. and/or the Agency and its representative members selected from all interested groups, including but not limited to producers; state and private agencies; grain, milling and feed industry; economists; professors with expertise in grain marketing from land-grant colleges; and consumer groups. They should hold hearings in various markets, to get all viewpoints and problems.

3. Obtain a recommendation from this Senate Subcommittee of the Committee on Agriculture and Forestry to have appropriated and allocated research funds to complete the development of automated grain grading. The system should be practical in both cost and adaptability for all grain elevators.

4. Immediately implement such administrative action as may be necessary to further the Act's mandate to facilitate "orderly and timely" marketing of grain to insure prompt, consistent, uniform grading.

APPENDIX

CONTRACT MARKET—DESIGNATION

Sec. 5. The Commission is hereby authorized and directed to designate any board of trade as a "contract market" when, and only when, such board of trade complies with and carries out the following conditions and requirements:

(a) When located at a terminal market where any cash commodity of the kind specified in the contracts of sale of commodities for future delivery to be executed on such board is sold in sufficient volumes and such conditions as fairly to reflect the general value of the commodity and the differences in value between the various grades of such commodity, and where there is available to such board of trade official inspection service approved by the Secretary of Agriculture or the Commission for the purpose: *Provided*, That any board of trade not so located shall be designated as a "contract market" if such board of trade provides for the delivery of commodities on such contracts at a delivery point or points and upon terms and conditions approved by the Commission. (As amended by Act of October 23, 1974 (Commodity Futures Trading Commission Act of 1975, effective April 21, 1975, Sec. 103, 88 Stat. 1392.)

SIMONDS-SHIELDS-THEIS GRAIN CO.,
Kansas City, Mo., February 10, 1977.

Senator BOB DOLE,
Senate Agriculture Committee,
Washington, D.C.

DEAR SENATOR: Your letter to me of February 5, 1977 asked two specific questions.

Question 1. How far are we from automated grain grading?

Answer. My first appearance before the House Appropriations Subcommittee for Agriculture was on April 30, 1965 wherein we requested the appropriation of $750,000 to be used for the development of automated grain grading. Mr. Ted Rice of Continental Grain Company made a like request before the same Committee the year 1966. It was not until fiscal year 1967 when I along with twelve other witnesses appeared before the Senate and the House Appropriations Committee, Subcommittees of Agriculture wherein they approved a $400,000 a year appropriation to this cause which ran through fiscal year 1975. So far, the USDA has expended 3.3 million dollars on this project. At this writing, there have been 23 different research projects on this subject matter dealing with test weight, moisture content, odors, infestation, DHV count, broken kernel and FM count, etc. With this background, it is my personal opinion that if additional moneys could be made available, a component machine for automated grain grading could be produced for broad use within inspection laboratories in five to seven and one-half years.

Question 2. Until such automation is accomplished, don't you feel that increased education programs, side-by-side grading with supervisors and inspectors could do a lot to improve the uniformity in this subjective grading system?

Answer. Any education program and/or side-by-side grading with supervisors and inspectors can do a great deal to overcome the inconsistent subjective grading that we face today. However, the sooner we can develop automated grain grading and elevate the inspector to the level of a technician thereby grading grain as an exact science, the more knowledgeable will we all be, including the producer and the consumer. The cost of the development of automation and the initial cost of the scientific machines (black boxes) might well be expensive at first blush, but in the long run it is a very positive and cheap answer to the problems we have today.

With best wishes, I remain,

Sincerely yours,

W. C. THEIS,
Chairman of the Board.

STATEMENT OF GEORGE VOTH, EXECUTIVE VICE PRESIDENT, FAR–MAR–CO, INC., HUTCHINSON, KANS.

Mr. Chairman, I am George Voth, Executive Vice President of FAR–MAR–CO, Inc., a regional grain marketing cooperative based in Hutchinson, Kansas. I also serve as Chairman of the Advisory Commission of the State Grain Inspection Department of Kansas.

FAR–MAR–CO is directly owned by more than 60 local cooperatives, which in turn, are owned by 250,000 grain producers in the Midwest and Plains region of the United States. We serve cooperatives in all of Kansas and Nebraska and portions of the States adjoining them.

As their regional marketing cooperative, it is FAR–MAR–CO's job to represent these producers in the best way possible in order to improve the marketing of their grain.

It is with that objective in mind that I come before you today concerning that portion of the 1976 Grain Standards Act under which Federal supervision would be imposed, on a regular basis, upon interior, private and State inspection and weighing services.

As of this very day, for every bushel of grain now sold, farmers are paying for inspection. In addition to the inspections carried out either by State or private agencies, we have always had intermittent Federal supervision of these agencies. This is certainly as it should be.

To add Federal expense of direct, constant supervision throughout the industry seems improper. We cannot say just how much added expense we or the industry as a whole would have as a result of such supervision. There will be direct as well as hidden expenses incurred. The State inspection people have said Kansas alone will have an added $\$1/2$ million cost from supervision. All grain dealers, exporters and millers with whom farmers directly or indirectly deal deduct such costs of inspection, freight, and other charges from the price they pay for grain. So, ultimately it is the farmer who pays.

Federal intervention was the obvious way to correct the port problems. However, the inland market and inspection points have, as far as we know, had no problems with grades or weights. No scandal or rumor of scandal has surfaced anywhere that we have heard of. Therefore, we see no justification for adding these additional supervisory costs to the inspection system.

We are also concerned that the additional Federal involvement will slow up the inspection process and interfere with the movement of grain. Timeliness is essential in the marketing of grain. If a shipment is delayed, it costs considerable dollars.

When a large amount of wheat is moving, the slowness in inspection service causes delays in billing cars to the buyer's destination and cars begin to sit on the tracks, losing valuable car utilization and creating huge demurrage costs. When cars sit at the elevator waiting for grades so they can be billed, this stops all receiving and loading out of grain. Such delays obviously may result in late delivery on contracts and, again, additional expense.

We have recently loaded a train of 80 cars in Hutchinson in one day and received the State grade that same day in time to bill the cars to their destination. However, the buyer exercised his right and called for Federal grades that same day. The Federal office is in Wichita—60 miles away—and we received the Federal grade 13 days later. Such delay is costly in operation, car use, and delay in receiving money and demurrage. Demurrage alone, on an 80-car train sitting 13 days would be $20,800, or $260 per car. Again, elevators don't absorb such costs—they are passed back to the farmer.

Export demurrage is calculated on a straight plan; under which the first 24 hours is free of charge, the next 4 days are $10 per day, the next 2 days are $20 each, and every day thereafter is $30 each. On December 20, 1976, FAR-MAR-CO loaded a 15-car train—one car of which was RI130171—at our Hutchinson Elevator B for export to Beaumont, Texas. These cars were not billed until December 23, 1976, due to delay caused by a request for Federal inspection. The demurrage resulting from the delay on those 15 cars amounted to $450.

From our experience, we are convinced that additional Federal involvement will significantly slow up the inspection process. If a much larger number of inspectors are trained and hired to help the service problem, then this will add even more expense.

As far as requiring elevators to keep records for some 5 years—it is out of the question. Most certainly, the Secretary of Agriculture should have the authority to stipulate that records be kept in a normal fashion in order to carry on the business of marketing grain. Initially, we believe surely the intent of this law was to keep track of volume, and not the specific identity of grain. Such record keeping would be futile since most grain is intermingled once it is unloaded at an elevator and binned.

Certainly, some records should be kept by the export elevators to merchandise a certain type of grain to satisfy the needs of its buyers. But, to require such record keeping on the part of the country elevators, and some regionals, would be a costly and time-consuming exercise in futility.

We submit that the integrity of the State and private systems has been proven repeatedly by extensive investigations by all phases of government in the past. The only problems that have surfaced in grain grading and weighing have occurred at the ports—none at the domestic elevators, especially in the Midwest. FAR-MAR-CO's experience with these State and private agencies has been excellent. Our Hutchinson Division moved 84 million bushels of wheat, alone—60 million of which was export bound—through the Kansas State system last year. The Omaha Division of FAR-MAR-CO moved 121.7 million bushels of grain through the Nebraska and Colorado private agencies. Our Kansas City Division moved 74.45 million bushels of grain, and our St. Joseph Division moved 16.3 million bushels through the Missouri system. Reported discrepancies have been minimal throughout. To require what is asked in this Act would be an overkill—an expensive overkill at that—which would be paid for by the American farmer.

In closing, we are certainly not opposed to tightening supervision measures at the ports—where the problems have arisen. What we are saying is that there is no need for such tightening at the interior points where no problems have surfaced that we know of. We would advocate a total relaxation of such requirements as far as the inland market and inspection points are concerned.

Our farmers are already suffering from drouth, inflated costs of production, and low returns on their crops. I would strongly urge you to relieve them of an expense for a service so seemingly undeserved.

I thank you for the opportunity of coming before you today.

I. George Voth is Executive Vice President of FAR-MAR-CO, Inc., a regional grain marketing cooperative based in Hutchinson, Kansas; and is Chairman of the Advisory Commission of the State Grain Inspection Department of Kansas.

A. FAR-MAR-CO directly owned by more than 600 local cooperatives in eight Midwest, Mid-Plains grain producing States. These local cooperatives, in turn, are owned by more than 250,000 producers.

B. FAR-MAR-CO represents these local organizations and these producers in an effort to achieve the most effective and efficient marketing of the grain they produce.

C. With that objective in mind, Mr. Voth comes before you today concerning that portion of the 1976 Grain Standards Act under which Federal supervision would be imposed, on a regular basis, upon interior, private and State inspection and weighing services.

1. Grain producers are already paying for inspection services today.

a. In addition to inspections carried out either by State or private agencies, we have always had intermittent Federal supervision of these agencies.

2. Continuous Federal supervision would most assuredly interfere with normal movement of grain: a. Delay in billing cars; b. Loss of car utilization; c. Huge demurrage costs; and d. Late deliveries: (1) All resulting in the added costs which, inevitably, come out of the farmer's pocket.

3. Five-year record keeping requirement out of the question.

a. Surely intent of this law was to keep track of volume and not to specify identity: (1) Such record keeping by country elevators would be futile since the grain is intermingled once dumped into a bin.

4. Integrity of State and private systems has been proven over the years. a. Extensive investigations by all phases of government; b. Problems have been at the ports; and c. To go interior as is suggested in this Act would be an overkill—an expensive overkill—at the cost of the American farmer.

5. We are not opposed to tightening supervision measures at ports, but would advocate total relaxation of such requirements as far as the inland market and inspection points are concerned; a. Our farmers presently suffering from inflated costs of production, and low economic returns from their crops. Strongly urge to relieve them of an expense for a service so seemingly undeserved.

FAR-MAR-CO., INC.,
Hutchinson, Kans., February 7, 1977.

DEAR BILL: Reference is made to your questionnaire concerning the Federal grain inspection service. Our observation of State and private inspection agencies in those states in which we operate have really not had the problems which Senator Clark referred during the hearing. It must be repeated that Federal supervision should naturally be intensified in those areas where problems exist.

As we discussed, many times, our problems really originated at Port locations where Federal supervision should be increased. However, this increased burden and inefficiency should not be extended to those inspection points where they have not had problems. Port locations in general have had problems; however, I am pleased to report that Farmers Export have been investigated and to my knowledge, have not had weights or grade problems in that elevator.

U.S.D.A. officials reported that Federal inspection service would increase the efficiency of the national marketing program; however, I would repeat that Federal inspection service, in our experience, has caused inefficiencies and delays in movement of grain.

Unless great improvement is made in the Federal system, we cannot at this point see where efficiencies would occur. In requesting Federal appeals, this should require no more than an additional day to receive the report.

In the final analyses, we can see where closer Federal supervision would be more costly to the producer and they certainly don't need more expense at this time.

Bill, I appreciate all your help in working with us through the hearing and if we may be of any further assistance, please feel free to let us know.

Enclosed is a copy, of course, of the letter I sent to Senator Dole.

Kindest regards.

Sincerely,

GEORGE VOTH.

STATEMENT OF JOHN M. CRANOR, EXECUTIVE VICE PRESIDENT, KANSAS GRAIN & FEED DEALERS ASSOCIATION, HUTCHINSON, KANS.

My name is John M. Cranor, Executive Vice President of the Kansas Grain and Feed Dealers Association, which is organized under the Statutes of the State of Kansas on a not for profit basis. The principal office of this association is located at 1722 North Plum Street, Hutchinson, KS 67501.

The Kansas Grain and Feed Dealers Association represents approximately 95 percent of all the grain and feed handlers, processors, manufacturers and shippers doing business in the State of Kansas. This membership is comprised of cooperatives, independents and linehouse firms, representing approximately 1,125 country elevators and 56 terminal elevators which handle approximately 90 percent of all the wheat, soybeans and feed grains produced in the State of Kansas, or something in excess of 500,000,000 bushels per year.

We certainly appreciate the opportunity to appear before this committee and present our views regarding the United States Grain Standards Act as amended by Public Law 94–582.

At the outset, we are in agreement with the proponents that recommend the cost for the supervisory charges should be covered by appropriated funds rather than have the producers bear the burden.

Second, it would seem to us that a staff of 25 people at the regional office level would be considerably in excess of the minimum required and would certainly not be consistent with the advocacy of Government economy.

Third, the Act prohibits designated agencies from performing official inspections on samples drawn from lots of grain which are not physically located within the geographic area assigned to the respective agencies.

It is our understanding this was done to prevent "grade shopping", a practice that we do not condone.

However, there are many country elevators which will be disadvantaged by this provision because they draw their samples and forward them for inspection to laboratories which will not be designated under this law to serve the geographic areas in which the elevators are located.

Such restrictions would prevent producers from receiving higher prices for their grain and would result in less efficient car utilization.

We would recommend this restriction be relaxed.

Fourth, Section 14D of Public Law 94–582 will require warehousemen to keep a set of records as prescribed by the Secretary of Agriculture or the Administrator of the Federal Grain Inspection Service if, at any time, they should avail themselves of the services of the official grain inspection service.

At the present time, all public warehouses in Kansas operate under the provisions of the United States Grain Warehouse Act or the Statutes of the State of Kansas. The insurance, bonding, accountability and record keeping requirements for either of these are quite exacting and demanding. Audits or examinations are performed semiannually by examiners representing their respective agencies. These audits are performed on an unannounced or "no notice" basis.

Therefore, it is our opinion that any further record keeping which would be required by the Federal Grain Inspection Service would be unnecessary, and cumbersome to the licensed and bonded elevators that operate in Kansas.

Finally, we would recommend that any regulations which the Federal Grain Inspection Service may promulgate be accomplished by working with industry advisory groups in order to maintain an efficient and orderly marketing system.

This concludes our Statement; again, we appreciate very much the opportunity to be here today and we will be happy to answer any questions.

STATEMENT OF LEONARD M. WEDDLE, CHAIRMAN, KANSAS WHEAT COMMISSION, MINNEOLA, KANS.

Mr. Chairman, I am Leonard M. Weddle, a wheat farmer from Minneola, Kansas, and Chairman of the Kansas Wheat Commission. The estimated $500,000 increased cost to Kansas grain producers, due to the new Federal Grain Inspection Service, is only the small tip of a rather large iceberg. By U.S.D.A. estimates, the first year's budget for this agency will amount to 54 million dollars, with 80% recovered through fees assessed for weighing, inspection, and supervision. The Federal Grain Inspection Service expects to have a force of some 2600 employees, of which an estimated 2100 will be situated in the field. Hourly fee charges are estimated to run from $14.00 for inspection on regular work days to $27.00 per hour on reinspection on non-regular work days. Weighing charges are estimated to run from $20.00 to $29.00 per hour.

Considering the fact that any bushel or lot of grain will have some two to four inspections before it is used or exported, let's consider the costs. Current fees charged by the Kansas Grain Inspection Department are: for inspection, truck $2.50; box car $4.00; and hopper car $7.00. Weighing charges are $4.00 per lot and protein charges are $2.00 per sample. This compares to the $14.00 to $27.00 charges per hour for inspection, $20.00 to $29.00 per hour for weighing, and $11.50 to $13.50 per sample for protein analysis. It is suggested that the Federal Grain Inspection Service expects that one man-hour might be needed for each inspection. If this is the case, costs will be out of line in about the same proportion as the Kansas fee of $2.00 per protein sample compared to the Federal Grain Inspection Service charge of $11.50 to $13.50 per sample. We believe it is extremely unfair to expect the farmers to pay these wasteful fees and expensive charges for supervision, inspection, and weighing. Farmers in no way contributed to the problem that led to the legislation and should not be saddled with the cost of buying, training and feeding a new federal bureau.

NATIONAL ASSOCIATION OF CHIEF GRAIN INSPECTORS,
Decatur, Ill., January 26, 1977.

Hon. ROBERT DOLE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOLE: Please consider the following observations the National Association of Chief Grain Inspectors has made concerning the implementation of the new United States Grain Standards Act of 1976.

The Federal Grain Inspection Service has created chaotic turmoil in the handling and processing of grain in the United States. This can be seen with the hiring of hundreds of federal trainees fresh out of school—giving them a few weeks training—and turning them loose in the national grain inspection system with almost no accountability. The provisions included in the Act by Congress with no restrictions for implementation has induced the F.G.I.S. to create an overkill situation. By the use of unqualified supervision personnel and assessment of astronomical supervision fees, they are over-staffing and overcharging the users of the grain inspection system.

The user of the grain inspection system has no control over the number of people hired to implement the Act. The grain industry needs an efficient, accurate, independent grading system at the least possible cost. We don't need all the complicated regulations and confusion which the bill has created. The provision requiring record-keeping for interior country elevators and processors alone is creating tremendous concern to all grain people. Grain inspection is not an exact science but needs a practical day-to-day application.

The way the F.G.I.S. has treated agencies and personnel who were taken over in the export areas does not coincide with the intention of Congress as we were led to understand it. Experienced grain inspection personnel are leaving the service because they are not being duly compensated for years of technical expertise they have acquired.

If rumblings from State and private grain inspectors are any indication, the United States Grain Standards Act of 1976—aimed at providing more federal grain inspection supervision—could boomerang much of the industry right out of federal hands.

If a system of inspection and supervision does not take into account each movement of grain each crop year, the overhead costs will be excessively increased. Minor surgery to eliminate corruption and fraud within the system would seem to be indicated rather than over-reacting and taking the knife to healthy, non-cancerous areas.

Sincerely yours,

JOHN N. HUMPHREY,
Secretary-Treasurer.

STATEMENT OF ELBERT HARP, EXECUTIVE DIRECTOR, GRAIN SORGHUM PRODUCERS ASSOCIATION, LUBBOCK, TEX.

Mr. Chairman and members of the committee: I am Elbert Harp, Executive Director of Grain Sorghum Producers Association, which is headquartered in Lubbock, Texas. The membership of our organization is scattered throughout the major grain sorghum production area of the United States.

Our Association appreciates the opportunity of appearing before you today to express our concern about the developments resulting from the passage of the Grain Inspection Act of 1976. The Grain Sorghum Producers Association was opposed to passage of that act. We felt it would only make the inspection system more costly and complicated and not deal with the real problem we have experienced in the exporting and trading of grain through the last several years, and that is dishonesty.

We believe the only real change that needed to be passed into the law was a check-and-balance system to spot-check enough of the grain inspectors and impose severe penalties for those who were caught misrepresenting the grades and weights for their own personal benefit or for their company. But instead, an expensive system of grading was instigated under Federal inspectors. We feel this new law will (1) increase the cost of grading and inspections and (2) will slow the movement of grain through ports, terminals and even local grain elevators. All of this will increase the handling of grain substantially and certainly slow down the movement and flow of grain.

There are some who would say that the ultimate consumers are the people who will pay for the additional cost. This is a fallacy. The international grain trade is very competitive and these additional costs on U.S. grain will be a disadvantage when competing with grain from other countries that do not have such costs. Since the quality of the grain will not be improved, the consumers in the international grain business will not pay for these extra costs. Consequently, the only other alternative is that these fees will be reversed and taken out of the price paid to the producers. In this light, we are quite concerned and opposed to the new grain inspection system. We know that our farmers are going to be the ones paying the bill. With the depressed prices and hard economic conditions that farmers are now facing, they do not need these additional burdens.

We believe that the grading system we had was adequate, and for the most part, our foreign buyers were receiving the grade they had purchased. There is no doubt, however, that considerable dishonesty was taking place under that system, and measures, such as strict penalties, should be taken to see that this does not happen again. We do not believe the new system will stop dishonesty.

Mr. Chairman, the Grain Sorghum Producers Association encourages you to look at all the data that will be presented to you this week and take immediate measures to correct the problems of higher inspection fees and the bottlenecks of shipping grain that will result with the new inspection law.

If your Committee does not see fit to recommend to the Congress that these laws be changed, then we recommend that the additional inspection costs be considered in "public interest" and that the U.S. government pay all inspection costs so that it will not add to the burdens of the American producers.

It is my pleasure to appear before you today, and I will be pleased to answer any questions which you may have regarding this matter.

STATEMENT OF KENNETH LUDLOW, EXECUTIVE DIRECTOR, IOWA GRAIN & FEED ASSOCIATION, DES MOINES, IOWA

My name is Kenneth L. Ludlow and I am executive director of the Iowa Grain and Feed Association, an agricultural dealer trade organization with offices at 320 Shops Building, Des Moines, Iowa 50309, with a membership of approximately 1250 diverse Iowa Agri-businesses including about 850 country elevators. Although we do include major exporters and terminal operators within our membership the majority of our members are country grain, feed, fertilizer and seed businesses on whose behalf we attempt to work.

I realize that I am speaking in a so-called provincial mode here when I basically confine my remarks to Iowa Grain Inspection. In fact, I would like to insert into the record the following statement made by Mr. Harlan Ryan, Chief Supervisory Officer, AMS, New Orleans District, during testimony before Senator Clark at Bondurant, Iowa, on August 14, 1975, in response to an inquiry by the Senator to Mr. Ryan concerning any "parallels" between Iowa and other interior markets and inspection in New Orleans and how they compared. In response, Mr. Ryan stated, "They are all of the same type. We have some very good, honest inspection agencies here in Iowa, and I think probably they are the top in the Nation. . . ."

WEIGHTS

I don't believe any other organization took a more blunt approach to Gulf export weight problems than we did or more aggressively championed investigations in these areas. Mr. Larry Clement, Manager of our Freight Claims Department, initiated the first in-depth weight probe by the American Association of Railroads at various export points on the Gulf in 1971, to wit, Port Allen, New Orleans, and Ama, Louisiana, which finally resulted in AAR investigations and an improvement in weights at these points.

When the conditions became apparent at ports which resulted in this legislation we did, however, take an adamant position against extending the scope of this legislation into the domestic market where, in Iowa, we have enjoyed not only good grades and grading techniques but also, by and large, good weights into our terminals and processors. This is not to say that we opposed closer supervision of Iowa weights—in fact the present basic classification and supervisory system of the American Association of Railroads leaves something to be desired in coordination rather than practice. Most Iowa points are Class II weight points which are supervised by employees of the designated inspection agency. These points are required to file check testing reports on hopper scales to the American Association of Railroads and receive a surprise visit at least twice per year from representatives of Western Weighing and Inspection Bureau and additionally must have their check weights calibrated by the Iowa Department of Agriculture periodically. Platform scales are checked at all Iowa points by the Weighing department of the Iowa Department of Agriculture.

Iowa points will not apply for designation as FGIS "official weight" points. I think you have a great deal of misunderstanding not only in Iowa but also within FGIS about the mechanics of interior "official" weights. We have mention of two categories in the act—"official" and "supervisory." Inquiry to FGIS as to whether an interior point to become "official" under the act would require full time employee supervision at $16 per man hour or if one or more men per agency could spot check on a supervisory basis. If the latter were correct then the additional weighing cost may be minor if applied at $16.00 per hour on an actual time basis at each weighing point. However, if "official" entails full time supervision by an FGIS representative at the $16.00 per hour figure then, for example, Des Moines would require probably no less than 4 men on a full time basis which would mean a minimum cost of $512 per day in the Des Moines market. I feel you and FGIS have some work to do here to let the trade know just what you mean by interior "official" designation and costs. If a market does meet present Class II criterion as established by the AAR, however, we see no need to burden the interior with full time FGIS employees and force "official" weights on the interior.

It would be constructive and much more revealing if each company were required to submit, along with their unload or load weights now, the inbound country weight and list them side by side. A glance down this list would reveal the consistency and integrity of both the unload point and the shipper. I don't think it impractical to investigate this possibility since each company receives the truck or rail lading weight although additional clerical work would result.

COUNTRY ELEVATOR RECORDKEEPING

A prime area of concern to the Iowa Grain and Feed Association is the record-keeping requirements found under section 14(d) of the act which we feel is totally unacceptable if one is familiar with country elevator operations. There are several categories of records mentioned which are readily available in any Iowa licensed elevator whether state or federally licensed but some are simply not kept such as a terminal operation would do nor would it be feasible for them to do so—such as "blending" and "other processing", whatever that term means plus "handling" records and again I ask what that term means.

Probably the second factor which makes us most apprehensive appeared in the Federal Register of Thursday, January 27, 1977 wherein a rulemaking proceeding will be instituted by FGIS to identify the kind of records to be kept and the manner in which they shall be kept which all points to probably duplicate recordkeeping in many areas plus the inclusion of new records to be kept.

In September of 1975 I testified before the Iowa State Duplicatory Inspection Requirements Study Committee of the Iowa legislature in Des Moines. We found that the number of state and federal inspections that were possible at that time were twenty-one. That is, it was theoretically possible for twenty-one state and federal inspectors to arrive in twenty-one automobiles at any one time at any diversified Iowa country elevator. Since that time we can add two more—the National Institute for Occupational Safety & Health under HEW which works closely with OSHA plus Environmental Protection Agency inspections under the Toxic Substances Control Act.

In short, the FGIS rulemaking procedure could not only mean duplication but where are the additional employees coming from to police this at the country elevator level? You've already added or will add 2,000 employees according to USDA's own admission and we ask how many you will add to conduct "audits" on the recordkeeping requirements of the nation's country elevators.

In closing, if you keep the country elevator under this section you will invite "scofflaw" situations which would require a miracle to disprove in court or at a regulatory hearing.

We respectfully ask that an exclusion for the country elevator or first purchaser if you will, from producers be amended into the law.

OFFICIAL INSPECTION SUPERVISION FEES

Quite frankly, there is a great deal of misunderstanding and confusion within the trade concerning supervision fees, especially when trying to relate them with export fees at export locations under FGIS personnel. The best estimates we can provide is that if Iowa inspection points perform the same number of inspections that were performed in the fiscal year July, 1975, through June, 1976, the increased cost to Iowa elevators or farmers will be approximately $550,000, with increases ranging from an estimated $93,000 at Des Moines (which includes Iowa Falls branch office) to a low of about $30,000 at Burlington and Sioux City. I believe it has been emphasized that the overall increase per bushel amounts to only 8/100 cent in supervision fees but what we may be overlooking is the necessity of export FGIS inspection fees if our major exporters decide it is necessary to demand export inspection rather than accepting grain on origin white or yellow certificates or en route domestic white certificates. This could be applied more specifically to a non-unit train shipper who ships export under certain tariffs requiring no stops en route.

We also raise the question of whether or not there were some exporters who signed affirmative action agreements which bind them to use destination export grades thus eliminating any merchandising or interior certificates.

Doing business with this type of firm would mean the shipper would have to stand the much higher federal export fee in addition to the added expense of getting submitted samples on his cars in order to assure himself that the cars would meet grade 1500 miles from home.

Federal export fees are based upon "contract" and "non-contract" basis. Under contract service a flat fee is charged at the rate of $14.00 per man hour whether the cars are probed or belt sampled. A sampler and inspector team would thus be $28.00 per hour. The contracting firm would pay this fee (based upon what volume I don't know) whether the personnel were used or not.

Under the "non-contract" basis the firm is charged on a per truck or car basis for probing ranging from $12.00 per truck; $15.00 per boxcar and $18.00 per

hopper car but if the container is belt or spout sampled while loading or unloading the charge is a flat $16.00 per man hour.

Thus we have a situation that can vary from port to port and from firm to firm within a given port area which would behoove a shipper to be certain to whom he is shipping and how the car is sampled and if it is contract or non-contract.

Since it is left to the exporter to assess the inspection charge what strange formulas can we expect? If a shipper ships to a "contract" firm and he hits a light day or week will be billed at a higher rate than another shipper whose car is inspected during a heavy day when fixed costs can be apportioned over more cars or barges?

If the shipper does business with a non-contract firm at least he is assured of paying the exorbitant fee of $18.00 plus weighing supervision costs if his car is probed but here again he is at "volume mercy" if the car is belt or spout sampled.

I frankly believe a sample "unit" system should have been adopted to assure uniformity in cost which could have been assessed at the end of a 12 month period and raised or lowered as needed.

A similar "add-on" cost as adopted for interior inspection supervision would have alleviated this ridiculous situation. It is this type of fee system that underscores our wisdom in actively opposing a complete federal takeover of 50 million bushels or more interior agencies and which should stand as a warning to our farmers to insist upon retaining our present system. We are also at a loss to understand the different weighing supervision formulas between federal export locations and interior points.

There is another move in the interior which you should be aware of—the possibility of some interior points going strictly to "house" grades and eliminating official inspection and I'm not too sure that contractual grain shipments into export locations cannot be made between consenting parties wherein U.S. grade designations per se are not used thus circumventing the complete system.

As a matter of record, Iowa Grain and Feed Association was one of the few, if not the only state trade association to underwrite federal inspection at export points on an "outbound to ship" basis—this was done for two reasons—(1) To re-establish integrity in our export trade because of the actions of a few firms who destroyed in the eyes of the public a reputation of honesty and integrity which was unparalleled in U.S. industry. I still feel, particularly on behalf of the country elevators who also had to bear the brunt of public and political criticism, that this honesty and integrity still certainly exists but it is depressing to hear statements from the floor of the Iowa legislature that the "whole filthy mess should be corrected from the bottom up."

Our second reason, quite frankly, was simply an international political one—that our products would assume higher stature because what comes from the "state" must be right "philosophy" which coincides with political ideologies of many of our foreign customers and, I'm afraid, from too many Americans.

CONFLICT OF INTEREST

We are wholly in agreement with that part of Section 13 which recognizes that interior inspection agencies who may have a technical conflict of interest may continue in operation if the director finds it does not jeopardize the integrity or effective operation of an inspection point. If you were to give me a choice of who was to operate a grain inspection point it would be one such as Des Moines where buyers and sellers both sit on the Board of Directors—this is in fact the best safeguard that could be devised but one which has been castigated in our own Iowa press with no regard to buyer-seller checks and balances on such a board.

I would like to comment in regard to Section 24 which directs the FGIS Director to improve our grading system. USDA now has proposed changes in corn and soybean standards but gentlemen, as long as Iowa and other corn producing states continue field combining 80 percent of their corn crop, and as long as we use the present factors in our grading system, all any changes proposed to date can be compared to is painting the same old horse a different color, and I hope the Farm Organizations will recognize this. A decided hope of this association is that changes in the hue of this old horse will not be made based on the tension filled exigencies of the moment.

In closing, we recognize the enormous responsibilities of grain inspection and weighing since over 60 percent of Iowa's corn crop is commercially sold which means from the 1975 crop (the last year from which such records are available) over 600 million bushels were commercially marketed or fully 60 percent plus of the crop of which over 20 percent was exported. Soybeans are practically 100 percent commercially marketed with nearly 40 percent of Iowa's 1975 crop in export channels.

Regardless of any factoring, both interior and certainly FGIS export fees, will, in some form, find its way back to the farmer since costs per se become a part of the financial statement of the business and adequate profit and savings must be maintained.

If we, the country elevators have to absorb this additional cost then perhaps our freshman congressman from Iowa, Mr. Leach, is correct when he points to federal meat inspection costs which are borne wholly by government. In this light it is interesting to note Senator Clark's remarks in the congressional record of October 1, 1976, wherein he stated, "Mr. President, who among us would buy meat that had been inspected—not by government—but by an agency owned and operated by meat packing companies." We'll buy the whole package if the U.S. government wants to take over grain inspection and weighing costs in total also.

In conclusion, I suppose we can at least part on a bi-partisan note since the export inspection problems that fathered this costly legislation were a direct result of both Democratic and Republican mis-administration.

Thank you. Following me is Mr. Dewayne Bloem, a member of this association who can, I believe, definitely get down to brass tacks with you.

ADDENDUM 1

ESTIMATED IOWA COST INCREASE DESIGNATED INSPECTION POINTS

Cost Increase—Estimated Original

	Thousands
Cedar Rapids	$66
McGregor	41
Dubuque-Muscatine	48
Clinton	45
Davenport	49
Burlington	30
Keokuk	33
Des Moines	93
Fort Dodge	70
Belmond	50
Sioux City	30
Total estimated increase	$555

Cost estimate based on actual inspections made fiscal year 1975–76

Cedar Rapids Supervisory District	290,655
Sioux City District[1]	47,331
Des Moines District	203,629
	541,615

[1] We do not have the inspection certicate information on the entire southwest quadrant of Iowa which is served by the Omaha, Lincoln, and Fremont, Nebr. areas. The inclusion of these points in number of inspections performed would elevate our figure to well over $600,000.

STATEMENT OF DEWAYNE BLOEM, MANAGER, ALDEN COOPERATIVE ELEVATOR, ALDEN, IOWA

My name is Dewayne Bloem. I am the General Manager of Alden Cooperative Elevator, which is located at Alden, Iowa. Alden is located in north central Iowa where the largest part of the corn and soybeans are grown as cash grain. The corn and soybeans are shipped to either domestic or export markets by truck or by rail.

I am concerned that the burden of supervision over the inspection agencies now rests with the users of the inspection agencies. This means that elevators and farmers must bear the costs of that supervision. The difference between the price that the consumer pays and the price that the producer receives increases even more. Who will receive the blame? My guess is that the "middleman" will receive the blame. This "middleman" who will spend at least an additional $4,000 annually for the federal supervision over the inspection agency. Will the quality of supervision be improved because my elevator is paying for the supervision? I doubt it!

I realize that at some export points there was a problem with weighing and grading. Is that a fault of the system? Could it be that federal supervision was not up to standards in those places? Must farmers and small elevators, who had nothing to do with the irregularities in weighing and grading, pay for the dishonesty of a few people at export points?

Free enterprise has been an important part of our country. We are proud to have that right. According to the Act, free enterprise that was bad will be replaced with federal inspectors rather than be replaced by honest free enterprise. It has already been demonstrated at points where there has been federal takeover of original inspections, that the number of employees has tripled or even quadrupled. Standards have been set up showing how many inspections can be completed on an hourly basis. These standards are far lower than the industry has been accustomed to. Many unit trains, which are loaded in less than a day, will not be inspected in a day because of the new standards. This means demurrage on the entire train for a day. Another cost to be borne by the elevator and farmer. With federal takeover of original inspections, comes more expense to the user, more inefficiency of personnel, and poorer service for the user. Earlier in my testimony, I stated that one of the provisions of the Act would cost the owners of our elevator several thousand dollars annually. If there should be federal takeover of the inland inspection points, it could easily cost our firm an additional $20,000 annually. That extra cost must eventually be taken from the farmers pocket. Before the Act became effective, official inspections cost our elevator in excess of $10,000 annually. Since we must now bear the cost of federal supervision the cost will be in excess of $14,000 annually. Add the additional $20,000, if we have federal takeover at interior inspection points, to the existing $14,000 to arrive at a projected cost of $34,000 annually for a small country elevator. This large an amount cannot be absorbed into our operations. The cost must be passed on to the farmers. This projected cost is nearly 1 cent per bushel. 1 cent per bushel doesn't sound like much but many farmers will sell to another elevator for less than 1 cent per bushel.

Another part of the Act which concerns me is the record keeping requirement. Grain elevators who have an official inspection, even if it is a submitted sample, must complete and maintain accurate records on purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, and other processing. That is a big order which is almost impossible to carry out. The elevators in which I am involved have over 80 bins. Does that mean that I need a scale at the bottom and the top of each bin? I question that I can submit an accurate report without first carefully weighing all functions occurring in the elevator. But yet, to install such sophisticated equipment would surely drive many of us completely out of the grain business. Is the intent of the Act to drive small operators out of the grain business or is it to keep integrity in the majority of the grain elevators and restore integrity to a few? If the Act is not meant to drive many of us out of business, then let us have some standards and regulations which do not cause an undue burden on elevators and farmers.

STATEMENT OF FRANK NELSON, FARMERS GRAIN DEALERS ASSOCIATION OF IOWA, DES MOINES, IOWA

Mr. Chairman, my name is Frank Nelson, and I am a grain merchandiser for Farmers Grain Dealers Association of Iowa. I have worked for the Association for the past twenty years. The Association's principal office is in Des Moines, Iowa.

I am pleased to have this opportunity to appear before your Committee to discuss the problems here and foreseen in the implementation of the United States Grain Standards Act of 1976.

Farmers Grain Dealers Association is a regional cooperative, established in 1904, and is owned by 310 local cooperative elevators; these local elevators are in turn owned by 120,000 farmer members. Hence, our vital interest in grain inspection stems from the needs of the original producer to market his grain in an orderly, profitable fashion.

Farmers Grain Dealers Association markets from 168 million to 176 million bushels of grain annually for these members. It is our ultimate and basic aim to realize as much money as possible for our farmer-producer member. The farmer takes all the risks involved in raising a crop; it is his to market when and how he sees fit and it is our aim in the cooperative marketing system to see that he gets this marketing done at cost so that he derives the greatest possible return for his entire operation. This is why the cooperative farmer has invested in elevators at the local level that can receive and handle his ever increasing production. This expansion has carried on to his regional cooperative's operation, enlarged terminals, improved transportation in the form of leased hoppers, additional trackage for loading, and even lending money to the railroads for track bed improvements. Regionals have also built river terminals and bought barge line operations so that a dependable source of transportation will be available to move the farmer's grain when he wants to market it. These barges and hoppers are in turn moved to export elevators also built and paid for by the farmer-producer and all operated at cost for the marketing of his surplus grain.

The recently (February 1) implemented Federal Grain Inspection Service fee of 80 cents per thousand bushels for FGIS supervision of other grain inspection agencies—be they State, Board of Trade or Grain Exchange type agencies—does not sound as any great huge figure until it is taken in its total perspective.

On a 3,000 bushel hopper car of corn, 80 cents per thousand becomes three times 80 cents, or $2.40 per car. Put that 3,000 bushel hopper car of corn in a 75 or 100 car train and we have a fee of $180 or $240 per train load. Many of our country elevators are now geared up to load trains on a regular basis. Thus, an elevator that loads two 75-car trains per month throughout the year, or 24 trains with 6,300,000 bushels of grain—not an impossible task for many of our larger country elevators now—would have assessed back to them an FGIS fee of $5,040 per year. A recent news article on one of our cooperative members stated that they ship about 7,500,000 bushels of grain annually. This would be a FGIS fee of $6,000 for this one elevator per year.

This cost of doing business, as are all costs, is in turn passed on to those farmer-member-producers who sell grain to their elevator. The irony of the whole thing is that when the elevator sells grain, it is on official, FGIS supervised, grades when it is sold into commercial channels, either for domestic use or into the export market. Thus, the elevator has the expense of all inspection and weighing fees when it sells again. However, when this elevator buys the grain from the producer, the grain is mostly bought on unofficial grades, arrived at by agreement between the elevator and the producer. We, therefore, have a system of fee and assessments charged to the shipper of grain that now totals about 1/3 to 1/2 cent per bushel, and no part of this fee in any way protects the farmer-producer on the grade or weights on which he sells grain. This is not true when the farmer delivers his grain directly to a terminal, processing plant or river terminal which has official grades. If there is official inbound grades at these points, the fee is in turn deducted from the price the producer receives for his grain. With the new FGIS fees in effect, this could be another 1/2 cent per bushel.

The grain business for years has been a high-volume, low-margin type business. Back in the days of $1.00 per hour labor, many elevators in Iowa operated on margins of 3 cents per bushel on corn and 5 cents per bushel on soybeans. For this margin, the elevator received and loaded out the grain, standing all expenses for weighing, inspection, shrink and possible loss of grade quality. After a year of such operation, if the grades held up, cars all properly coopered so we didn't have too much weight loss, and the market didn't get away from us between the time the grain was bought and sold, a successful elevator could hope to make $20,000 or $30,000 per year. Today we have elevators in many Iowa towns with investments in facilities in excess of one million dollars, twenty or thirty more people on the payroll, and usually they are the largest business in town. They have to be ready to receive two-three-four or five million bushels at harvest time.

Again, 80 cents per thousand bushels does not sound extremely large, yet on FGDA's volume of 175 million bushels, this would be at least $140,000 per year, and possibly up to $200,000, since the fee would be collected on inbound as well as outbound grain at all of our terminals, including three barge loading facilities on the Mississippi River.

During 1976, the farmers of Iowa harvested a corn crop of 1.15 billion bushels and a soybean crop of 204 million bushels. While it is true that over half of the corn is fed locally to livestock, all, or nearly all, of the soybeans are marketed as grain. In Iowa, we have 14 soybean processing plants which will buy up to 140 million bushels per year for processing into soybean meal and soybean oil. Most of these soybeans are traded on official grades, as are all of the beans that move out of state to other processors or into the export market. Eighty cents per thousand bushels for grade inspection supervision plus a yet unknown fee for weight supervision for that grain unloaded at Gulf elevators means that the soybean farmers of Iowa are being made to pay, through reduced bids at their local elevators, $163,000 per year. Add to this an estimated cost of $280,000 on some 350 million bushels of corn per year, and all of this for a service which does not do much, if anything, to help, aid, or protect the farmer-producer for the grades or weights on which he gets paid for his grain.

It is hard to swallow charges for grain supervision of nearly ½ million dollars to be paid by the farmers of Iowa when we have not had even a whisper of any wrong doing by any of the various grain inspection agencies in Iowa. The previous system of supervision did a very a good job. We feed the former system of supervision should be continued, with the costs covered by appropriation, not by assessment. All other consumer protection agencies operate by appropriation—meat, safety, health, etc.

In Iowa, we have a good—very good—Department of Agriculture which checks local scales, moisture testers and other devices which meter or measure those products which the farmer, as well as all consumers, have to sell or buy. This is where the farmer-producer gets his protection. This whole grain scandal deal that set off the passage of the Uniform Grade Standards Act of 1976 seems to be aimed at protecting the foreign buyers of our grain and with our United States producers footing the bill. Sure, we depend upon export markets to move our surplus grain in time of over-production. We also know that foreign buyers will go to the lowest priced seller in times of surplus. The Canadian Wheat Board will undercut United States prices to move their surplus.

We need export markets. We need honesty and integrity in the operation of our export elevators. The grain export business grew too rapidly for adequate supervision and a few operators took advantage of the situation to improve their operating margins. Legal action, to date, against these unscrupulous operators has been little more than a slap on the wrist, a fine, and now the awesome prospect of the Federal Grain Inspection Service, created so that nobody ever cheats our fair-weather foreign customers.

We have had federal supervision of our grain inspection service for years. The modes and methods, as well as the results of the inspections done in Iowa, be it Chamber of Commerce, Grain Exchange or private inspection agencies, have been subject to federal standards, spot checks and review. It was a government service, paid for by tax dollars, just as the FBI, Army or United States Senate are paid for by tax dollars. Now someone wants to create a self-supporting watchdog on the grain industry, paid for in the end by the farmer-producers, who market their production as grain. If anyone here can justify that to the farmers of Iowa or the entire United States, I would be more than happy to hear the answer.

I know that others here today will address themselves to the problems imposed upon elevators by the record keeping requirements of the Act. Let the record show that these requirements for elevators are excessive, if not completely impossible, to maintain.

One of the sections of this Act calls for the creation of work standards. Reports of these standards indicate that a grain inspector will have a standard of 8 samples per hour. An elevator involved in loading a 75-car train, which must be loaded within twenty-four hours to receive the train rate, would have to stop after 8 hours at 8 samples per hour and pay demurrage on all 75 cars for a day because the inspector could not exceed his work standard.

Finally, we have the great to-do about conflict of interest—the Bank Commissioner is a banker, the Insurance Commissioner is an insurance man, the

Secretary of Agriculture is a farmer. Those people who have an interest to see that a needed service is provided are the ones involved. A Grain Exchange provides a needed service when it weighs and grades grain. Thus, it follows that grain industry people are the ones involved in seeing that this needed service is available.

Farmer to local elevator is eyeball to eyeball and grade is agreed upon, usually with a sample right there in a bucket or coffee can if there is any question.

Grain shipped by rail or truck, 50–100 or 1300 miles from origin, has to have some agency put a grade on that lot of grain that both buyer and seller agree upon.

We here today are not interested in licensing real estate salesmen, but when we buy or trade real estate, we look to a licensed broker to handle the trade and look out for our interests. The same applies to grain inspectors. They too, have a license, earned by passing tests, as well as working up from samplers or lab technicians. That license is his permit to grade on a given lot of grain. His work ability is, and has been, under the supervision of the federal inspectors, who have jurisdiction. That inspector's license is his permit to work, and if he loses it through any misconduct, he is just as much out of a job as the lawyer who is disbarred.

I noted in a newspaper that coffee imported into the United States, which is almost 100% for human consumption, and is inspected by Food and Drug, is only about 20 to 30% inspected. Yet, we are trying to establish a grain inspection program on 100% of exports of grain which basically is for livestock consumption. Corn is 4 cents a pound to the farmer, and I haven't made it to the supermarket today to catch the latest price on a pound of coffee.

According to a report out in the news of Tuesday of this week, our newly appointed Secretary of Agriculture has stated that farmers should be relieved of the costs of grain inspection imposed by the FGIS Act of 1976. Let me second that motion.

Thank you, I have appreciated this opportunity to be here. If there is any further information that I can provide for you, please feel free to contact me at any time.

STATEMENT OF S. MASON CARBAUGH, COMMISSIONER, VIRGINIA DEPARTMENT OF AGRICULTURE, RICHMOND, VA.

Mr. Chairman, members of the committee: My name is S. Mason Carbaugh, I am pleased to appear before your committee to present a statement for Virginia. My address is 203 North Governor Street, Richmond, Virginia 23219.

I am pleased to appear before your committee to present a statement for your consideration in reviewing the United States Grain Standards Act of 1976. Hopefully, serious consideration will be given to making some amendments to this Act.

I appeared before the House Agriculture Committee on September 24, 1975, when the U.S. Grain Standards Act was being considered. At that time, I made definite recommendations and expressed to the committee the fine working relationship we had enjoyed with the United States Department of Agriculture over the years. This working relationship has continued and, hopefully, exists today.

Mr. Chairman, the Virginia Department of Agriculture and Commerce has had in effect a grain inspection and weighing program in Virginia since 1938. Weighing at export facilities has been on a 100 percent supervision basis, with all grain weighed. Under previous grain standards acts, we have provided initial inspections, with the personnel of the USDA providing the supervision of the act and serving as a referee when differences were experienced. The supervision and administration costs incurred by the USDA were paid from appropriated funds.

Under the new Act of 1976, our state has met the requirements that permit us to continue the inspection in the state. We are now providing both export and inland inspection and weighing services. In order to continue and meet the requirements of the new Act, we must support not only the Federal Grain Inspection Service (FGIS) supervision but also the FGIS administration of the new Act. We are very much concerned over the proposed administrative force that is being added by the FGIS.

On November 24, 1976, at a meeting in Atlanta, Georgia, members of the FGIS outlined the organization to be used for the carrying out of the new Act. At this meeting, four divisions were proposed. At the Atlanta meeting, the supervision cost for grain inspection in Virginia was set at $114,632.00.

On December 10, 1976, at a meeting in Norfolk, Virginia, we were informed that the grain inspection supervision cost by the FGIS after the deletion of one inland point would be $95,308.32. We were further informed that the weighing supervision cost would be $39,369.00, for a total of $134,677.32 annually. We felt these costs were excessive, but acceptable.

A letter of December 29, 1976, notified our Department that a fee of 80 cents per 1,000 bushels of grain inspected would be charged for the FGIS supervision. When applying this to the 1975–76 (fiscal year) volume of grain inspected in Virginia, this will amount to $305,600.00. The December 29 letter also notified our Department that 35 cents per 1,000 bushels would be charged for weighing supervision at some future date. When applying this cost to grain weighed in 1975–76 (fiscal year), this would amount to $133,000.00. The total FGIS supervision costs of Virginia would be $438,600.00 annually. We feel that such costs for supervision of our present ongoing state grain inspection is ridiculous. Our 1975–76 (fiscal year) state inspection and weighing costs for our total program were $1,029,000.00. The proposed FGIS supervision costs for both inspection and weighing would be an addition of $438,000.00, or an increase of 43 percent of our total cost. This added cost will provide no additional services to the grain industry in Virginia.

Some time since the December meeting in Norfolk, the FGIS has added three new divisions to its administrative organization. Prior to this expansion, we could not understand the need for five regional administrative offices, with an estimated twenty-two staff positions at each regional office. The FGIS estimated costs in a January 4, 1977, news release was stated to be about $54 million. On January 18, 1977, we were told the cost had risen to $58–$59 million. When will the FGIS administration and supervision costs stabilize?

Any additional cost to Virginia's grain inspection and weighing services, as well as the nation's, will be passed back to the grain farmer and will come out of his income. The American farmer cannot continue to absorb such an additional bureaucratic cost.

Mr. Chairman, we recommend the following:

1. That administrative costs wherever performed and the supervision costs be paid from appropriated funds.

Rationale

Historically, supervision of official grain inspection programs (state and private) has been paid from appropriated funds. Federal supervision of these programs is for the benefit of the entire citizenry of this country whereby these programs are maintained on a uniform nationwide basis. Such supervision provides for uniform standards in the grade of the product offered in the world trade. This supervision must be maintained to protect our domestic and world markets. Grain has been one of our major agricultural commodities offered in the world trade and, as you know, agricultural products have amounted to approximately $22 billion in the world trade market, thus making a major contribution to the balance of the American dollar. Supervision costs should not be borne by the American grain farmer, but should be shared by the general citizenry of this nation.

2. That an advisory committee be appointed consisting of representatives from organizations of farmers, grain dealers, processors, grain exporters, State Department of Agriculture. Chief Grain Inspectors and others to work with the FGIS in preparing operational organizations, grading and weighing regulations, changes in standards and other changes that affect the U.S. grain industry.

Rationale

Tremendous knowledge and experience can be gained from the people in this nation who have worked through many years of producing, handling, processing, grading, weighing and marketing grain. This vast knowledge should not go untapped. It is my sincere hope that through the use of a working committee our total grain program—intrastate, interstate and international—can be greatly improved.

3. That item 14d of the new standards be changed to relieve applicants of inspections from record surveillance for five years by the FGIS.

Rationale

This item has been discussed with the Federal Grain Inspection Service and it is felt that certain handlers of grain should not be subject to the present provision of the law. In view of the fact that the FGIS and most of our state grain inspection agencies feel that a change should be made, we are recommending that it be considered. It is our sincere opinion that it would not have any major effect on our programs.

4. That inspectors employed by the FGIS, performing original inspections, meet the same licensing and examining criteria as inspectors employed by states and independent organizations.

Rationale

Under present state and private grain inspection services offered, the inspectors are required to be licensed and examined on a periodic basis (every three years). The United States Grain Standards Act of 1976, in our opinion, should require that all Federal, state and private grain inspectors performing original inspections be licensed and meet the same criteria regardless of the employer.

In summary, Mr. Chairman, my main concern is to place the cost of supervision of our Federal Grain Inspection Program where it justifiably belongs—administration and supervision costs from appropriated funds; inspection costs from the grain industry on a fee basis. I have felt from the very early discussions concerning changes in the Grain Inspection Program that the cost of supervision whether it be in Washington or in regional offices should be paid from the General Fund. The first question I had was who determines how much supervision is enough and it seems to me that it would be a better process if both the Congress and the responsible agency share in that decision, and this can be done by funding it with General Funds through the appropriation process—I still hold to this belief. Checks and balances should be established in this program through the method of appropriating supervision funds, and by the establishment of an advisory committee to utilize the vast knowledge now available from farmers and private industry, as well as state government officials.

STATEMENT OF HOLGER DANIELSEN, DIVISION DIRECTOR, GRAIN INSPECTION AND WEIGHING, MISSOURI DEPARTMENT OF AGRICULTURE, JEFFERSON CITY, MO.

I am Holger Danielsen, Director of the Grain Inspection and Weighing Division of the Missouri Department of Agriculture, which employs 122 employees in five inspection offices throughout the State of Missouri, who perform official sampling, inspection, weighing, scale testing, protein analyses, and other related functions. Having been employed with the Department for over sixteen years, I feel I am more than qualified to present on behalf of the Missouri Department of Agriculture, as well as several farm organizations, our concerns regarding amendments to the United States Grain Standards Act, which is now known as the United States Grain Standards Act of 1976.

First, let me share with you a brief history of the enactment of the United States Grain Standards Act, and pertinent information that I feel contributed to the deterioration of many official inspection and weighing services and federal supervision throughout the country. As early as 1889, Missouri and other states had created their own grain inspection standards, and as a result, there was a tremendous lack of uniformity in both intrastate and interstate inspection of grain. This lack of uniformity caused Congress, in 1916, to enact the United States Grain Standards Act for the purpose of establishing Grain Inspection Standards that would assure the grain industry of receiving the same kind and quality of grain they had purchased.

I feel it is necessary to explain my personal opinion on why the official inspection system, as viewed by many, deteriorated to the point of inefficiency, causing indictments of personnel involved, which reflected upon all official inspection personnel and agencies throughout the nation. However, it is important to point out that an extremely small percentage of inspection personnel were indicted or convicted of wrong-doing.

It is common knowledge throughout the official inspection system that approximately three years ago, supervision of official agency activities by the United States Department of Agriculture, Agricultural Marketing Service (AMS) offices, deteriorated to the point where 241 AMS employees were trying to

supervise 111 official inspection agencies, and also perform unrelated duties under the Agricultural Marketing Act of 1946; a ratio of 2.17 AMS employees supervising each official agency.

In the past few years, the Missouri Department of Agriculture has experienced the closing of the AMS office located in St. Joseph, Missouri. This action was taken even though the Missouri Department of Agriculture, the St. Joseph Grain Exchange, and country elevators bitterly opposed this move. During this time, two other AMS offices, (presently FGIS) located in Missouri experienced a continual reduction in staff to such a degree, that the result was a sparse, skeleton staff with little supervision capabilities. Employees were transferred in from outside the Mid-western area in order to maintain the skeleton force, but were usually not qualified to supervise the official inspection of grains grown or shipped from or through Missouri. This procedure was prevalent throughout the nation.

To eliminate further supervision responsibilities (created by an inadequate staff), the AMS shifted their responsibility to the State and private agencies for performing check testing of our own equipment. Contract sampling of federal appeals was initiated by the AMS, whereby, the State and private agencies were, and are still, requested to enter into a contract to actually perform the federal sampling function which, in turn, eliminates the extremely important federal supervision function pertaining to proper supervision of sampling the container while performing the primary appeal service. Another similar function was the creation of the federal appeal basis of the file sample (one-half of the official sample originally inspected by the official licensee, and retained for referral purposes, such as supervision or appeal), which is another method similar to the contract appeal sampling, and whereby the FGIS completely eliminates the supervision of the sampling process unless the requestee specifies the sample is to be obtained on the basis of a new sample.

It is important to note that approximately eight out of ten appeal requests are for the purpose of appealing the original sampling of the container, and not the original inspection. However, few industry personnel are aware that the FGIS does not resample the container unless explicitly requested.

These personnel and policy procedures were not a direct result of the administrative personnel of the AMS as they tried repeatedly to gain needed appropriations for personnel to upgrade their program, but the federal government's policy at that time, was to cut federal spending, and for this reason, needed appropriations were not granted. The Missouri Department of Agriculture, as well as most other agencies, viewed this as a serious threat to our nation's inspection system, and many endeavored to upgrade their agencies and personnel and continued to cooperate with AMS to retain the quality of inspection service needed to serve the grain industry and especially the producer. However, as you are well aware, there were areas where a combination of lack of federal supervision, isolated conflicts of interest and pressures applied to official inspection personnel, resulted in the national inspection system's integrity being questioned.

This brings us to the present time when the Missouri Department of Agriculture, and other State and private agencies are desperately trying to retain our credibility and at the same time, continue to perform a quality inspection and weighing service at an economical cost. We are experiencing a combination of qualified, experienced, and dedicated FGIS employees, and at the same time, a new breed of FGIS employee who will be able to perform the duties and give proper supervision if given the time and training needed to become a qualified employee. However, there is another kind of federal employee presently employed in the FGIS, who is not qualified to perform the physical work or supervision required. This type of employee is a detriment, and is extremely costly to the national inspection system. This situation creates hard feelings between employees of both federal and official agencies who are responsible, dedicated, and well qualified. Strict criteria must be established immediately for all federal employees in each G.S. rating to eliminate this unqualified employee.

The Missouri Department of Agriculture was one of ten agencies to first agree to participate in the AMS monitoring system. However, in my opinion, it soon became apparent that the monitoring system was a very limited form of supervision. The number of supervisions required per agency is determined by the number of licensed inspectors. The samples are chosen on a random basis. I estimate approximately 70 per cent of the samples do not contain grading factors that warrant being monitored. Therefore, 70 per cent of the 90 FGIS employees,

and thousands of man hours involved are of minimum benefit in this type of supervision. This system also eliminates the supervision of the licensed sampler, as does the contract sampling, and appeal basis of file sample. It is apparent to me, as illustrated, that with the lack of personnel, the FGIS has cut back drastically on the necessity of supervised sampling, the most important function of official inspection.

The proposed regional concept is a perfect example of federal overkill in action. The FGIS, when fully operational, is expected to employ 2,741 employees, 2,300 of which will be making policies, and supervising 2,380 State and private licensees as well as performing official inspections themselves.

The five regional offices proposed will have 21 employees in each office, including a regional director, assistant regional director, and an assistant director, plus three more administrative positions to support approximately 600 to 700 field employees; a cost estimated in excess of $25,000 per administrative position. Included in this regional staff will be personnel making policy for the Agricultural Marketing Act of 1946, *not* the United States Grain Standards Act of 1976.

It is inconceivable that FGIS is presently collecting fees for a proposed regional staff of 105 employees, including operational costs, before the program is in operation. This method will soon create a large surplus of funds. If this is accurate, I seriously question the estimated total supervision fee cost of 5.4 million dollars projected by the Federal Grain Inspection Service as being accurate, as the expense of the regional concept alone amounts to $2,906,235 for 105 employees.

Section 8, J, (2), authorizes the FGIS to charge this federal supervision fee to generate revenue to pay for the regional concept, monitoring program, and entire operation of the FGIS supervision outside the Washington, D.C. Office. The Missouri Department of Agriculture views the fee charge effective February 1, 1977, of 80 cents per 1,000 bushels on the total volume of grain officially inspected by an agency, as exorbitant, and totally unwarranted at the present time. We are extremely concerned that no consideration has been given to the producer, as this fee will become another burden to the farmer in the form of receiving less money for his product when he is already experiencing tremendous production costs and disaster problems. This supervision service directly benefits the consumer, as does the federal meat inspection service and other federal programs, and should be appropriated as such.

We are extremely concerned over the possibility of the grain industry, at interior markets, reverting to an unofficial inspection and weighing service, or a reduction of service to avoid the added cost of this federal supervision fee for inspection and weighing services. If this supervision fee is forced upon the official inspection agencies, grain inspection would take a giant step backwards, were the interior markets to revert to an unofficial service. I seriously doubt that the intent of Congress was to indirectly create another form of grain inspection or weighing service, or a reduction of the official service.

I advocate the necessity for the Missouri Department of Agriculture, as well as all state and private agencies presently performing official inspection, unless convicted of wrong doing, to retain their officially designated status. If necessary, official agencies should be allowed to perform the unofficial, as well as the official inspection and weighing service in order to retain the needed uniformity and integrity in the national grain inspection and weighing system.

It is inconceivable that many state and private inspection agencies (who have had no indication of irregularities), are now faced with the legality of signing an agreement to pay a supervision cost in order to retain their service of an official inspection and weighing program. A special appropriation must be requested, but at this time, the states are unable to determine the amount of appropriation required until the FGIS can furnish the number of hours required for weight supervision. Legislation must be introduced and passed into law before the Missouri Department of Agriculture and other states are not in direct violation of Section 8, F, 1, (A), and Section 8, J, (2) of the Act.

These violations must be eliminated before we can legally enter into this agreement. Therefore, the Missouri Department of Agriculture strongly recommends that Section 8, J, (2) of the United States Grain Standards Act of 1976 be amended to provide federal appropriations through Fiscal Year 1978 to pay for all activities of the FGIS, which are not reimbursed by user fees. During this time, the states will be able to seek legislation to comply with Section 8, F, 1, (2) of the Act, and the Federal Grain Inspection Service should be able to establish regulations for official weighing, allowing them to determine the exact cost of both inspection and weighing supervision.

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We further suggest that the Senate Agricultural Committee give serious consideration to appointing a committee composed of the FGIS administrator, state and private inspection officials, private industry, and the general accounting staff to evaluate the need and merit for charging official state and private agencies for FGIS supervision services as provided in Section 8, J, (2), of the Act. We recommend this evaluation include an in-depth study of past, present, and future supervision activities of the FGIS, including the cost, effectiveness and benefit of the monitoring, regional, and other supervision concepts, and the extent of training need to efficiently supervise the inspection and weighing system. In addition, an in-depth study of each state and private agency's performance and credibility should be considered in determing the extent of FGIS inspection and weighing supervision needed for each agency.

The results of this study are to be submitted to the Senate Ag Committee by January 1, 1978 to be used as reference material in determining the effectiveness of the present FGIS concept of supervision. If changes in the FGIS procedures are warranted, the Senate Ag Committee will advise the FGIS administrator of the needed changes in procedures. At that time, the Senate Ag Committee will be able to determine if further amendments are needed, and the source from which funds will be derived to continue federal supervision of the national inspection system.

We also suggest that the Senate Ag Committee consider an amendment to Section 14. D (records), to include a minimum number of total bushels officially inspected and weighed, as this complex record keeping places an unfair burden upon the small grain elevators in the form of an unwarranted extra cost.

I am grateful for the opportunity to appear before you today.

STATEMENT OF JOE NEAL HAMPTON, GENERAL MANAGER, ENID BOARD OF TRADE, ENID, OKLA.

The Enid Board of Trade is a corporation chartered under the laws of the State of Oklahoma, whose main purpose is specifically set forth in the corporate by-laws as follows:

"To promote the highest quality of customs and usages of member merchants; to collect and disseminate valuable commercial and economic information; and to promote the general welfare of the grain and milling industries."

In addition to the above mentioned activities, the Enid Board of Trade is responsible for providing the supervision of weights and the protein analysis service for the Enid market.

The membership of the Enid Board of Trade is comprised of companies representing all facets of grain handling, merchandising, milling, and exporting. The terminal elevator facilities of these members in Enid have a combined storage capacity in excess of 66,000,000 bushels. They also own, operate, or are affiliated with country elevators in Texas, Oklahoma, Kansas, and Nebraska. They receive, process, and distribute many millions of bushels of grain each year into both export and domestic channels.

The members of the Enid Board of Trade appreciate the opportunity to present to this committee our reactions to and opinions on the U.S. Grain Standards Act of 1976. We feel that there are detrimental ramifications of the Act which pertain to areas which we feel we are close enough to comment on. The adverse effects on the interior markets, the local country elevators, and the farmer-producers are serious, and should be given consideration by this committee.

The grain firms located in the Enid market as well as all of Oklahoma, find it hard to understand why the FGIS fees to be charged at export locations are considerably higher than what private agencies charge for providing the same service; and, why interior private inspection agencies are being assessed fees for federal supervision that was previously provided at no cost.

Below is an illustration of this situation. Let us follow the movement of a hopper car of grain shipped from a country point in Oklahoma to a terminal facility in the Enid market for storage, and then ultimately reshipped on to a gulf export point. Let us realistically assume that the car will be inspected, weighed, and a protein analysis performed at both the Enid market and the gulf export market. We can now compare the cost per bushel of these minimum number of essential services provided entirely by private agencies prior to the creation of the FGIS, versus the scheduled FGIS fees and supervision fees that have been published.

TABLE A.—CHARGES PROVIDED BY PRIVATE AGENCIES PRIOR TO CREATION OF FGIS

	Enid, Okla.	Houston, Tex.	Total
Inspection fee (per hopper car)	$6.00	$8.00	$14
Weighing fee (per car)	3.50	1.50	5
Protein fee (per car)	2.50	2.50	5
Total (per car)	12.00	12.00	24
Cost per bushel (cents)	4	4	8

TABLE B.—CHARGES FEB. 1, 1977, INCLUDING FGIS PUBLISHED FEES AT EXPORT POINTS, SUPERVISION CHARGES AND SUBSEQUENT INCREASES BY PRIVATE INLAND INSPECTION AGENCIES

		Gulf export point		Total	
	Enid, Okla.	Regular time	Overtime	Regular	Overtime
Inspection fee (per hopper car) [1]	[1]$10.50	$18	$22	$28.50	$32.50
Weighing fee	[2]3.50	[3]14	[3]14	17.50	17.50
Protein fee (per car)	2.50	11.50	13.50	14.00	16.00
Total (per car)	16.50	43.50	49.50	60.00	66.00
Cost per bushel (cents)	0.55	1.5	1.7	2.0	2.2

[1] This $4.50 increase on a hopper car is based on a $2.40 FGIS supervision fee plus an increase by Enid Grain Inspection, Inc., needed to meet increased costs, competition from government salaries, increased time for inspections, etc., caused directly or indirectly by the act.
[2] Per car.
[3] Per hour.

This illustration shows that these essential services cost per bushel will increase from the previous .8¢ per bushel to at least 2¢ per bushel or more upon implementation of the FGIS fees. Please keep in mind that this example uses a minimum number of essential services. If additional inspections, weights, federal appeals, etc., were needed, the total cost per bushel could easily reach or exceed 3¢ per bushel.

One problem encountered by these charges in determining the *actual* cost per bushel is the fact that the FGIS is basing their weighing charges at the export points on an hourly basis, instead of a per unit basis as is the custom in the industry. This policy of pricing such services on an hourly basis is completely opposite of what the grain industry has traditionally used for many, many years. In order for the industry to pass back any costs incurred in the marketing of grain, such costs must be based on a per unit schedule. The FGIS policy of charging an hourly rate on the weighing of grain will no doubt make it extremely difficult for the industry to determine their actual marketing costs. We strongly recommend that all FGIS fees follow the traditional pricing pattern of the industry, and be assessed on a per unit basis. It is extremely difficult to explain to the producer why the FGIS must charge a considerable amount more than what the private enterprise system charges for doing the same job or providing the same service.

At interior locations, the FGIS supervision fees alone have caused inspection charges to be increased around 30–35%. The interior agencies are, or will be, paying fees for "supervision" which they previously were receiving at no cost.

Because of the competitive nature of the grain industry, the grain firms cannot possibly afford to absorb such large increases in inspection, weighing and protein fees. Therefore, they will be forced to pass back such high fees and supervisory charges to the producer, who will in turn be paying 2 to 3¢ per bushel to have his grain inspected, weighed and protein analysis run under the new Act, compared to less than 1¢ per bushel charged prior to the creation of the new Act and the FGIS. Such large increases, we feel, are most hard to justify, and also create an unhealthy economic situation for the industry and the grain producer.

RECORDKEEPING

Section 14, part (d), of the new Act, which amends Section 12 of the previous U.S. Grain Standards Act, outlines a very impractical recordkeeping require-

ment situation to be implemented by all grain firms that use official inspection services. Country elevators, and many terminal facilities would find it infeasible to maintain the necessary detailed records as outlined in this section of the Act. Such detailed recordkeeping would cause considerable expense on the part of the grain firm as a result of added personnel, paper work, and time. Such additional expense would cause increased marketing costs and would eventually result in the firm paying a lower price to the producer. It is apparent to the industry that such recordkeeping requirements are pointed toward each firm keeping an "identity preserved" inventory system of its grain. Anyone familiar with the grain industry knows that it is most impractical to keep the true identity of a load of grain from the farm to the ship. There are not enough elevators, rail cars, trucks, etc., in the U.S. to accomplish such a recordkeeping system. It is apparent that this section of the Act could be interpreted so that it would be asking the impossible of the grain industry.

The uncertainty of the degree of detail and the subsequent expense of the record keeping requirements outlined in this section that could be forced upon the grain industry is indeed frightening. The potential record keeping requirements system that firms could be forced to keep could be a nightmare, especially during the harvest periods. We suggest that this requirement be amended so that any records required would be those that the industry could realistically keep, and would not create a severe burden and increased expenses upon the grain industry. We would support the creation of an Advisory Committee from the grain industry to work with FGIS in finding a solution to the implementation of this particular section concerning record keeping.

CONFLICT OF INTEREST

There has been considerable misunderstanding and confusion involving the future operations of grain exchanges and boards of trade at interior points that have been providing inspection and/or weighing services at such locations for many, many years. It was our understanding prior to the passage of the Act, that Congress did not intend to force out of business any grain exchange or board of trade at interior points that was providing reputable inspection and/or weighing services under the previous U. S. Grain Standards Act. We interpret Section 13, part 5 of the new Act to specify that in essence, the Administrator may authorize a grain exchange or board of trade to perform supervision of weighing at interior points if he determines that their service would not jeopardize the integrity or objective and effective operation of the function performed by the agency.

Upon our reading the Act immediately after its passage, we obviously assumed that this section of the Act would allow us to continue to provide supervision of weights in the Enid market. However, in consequent conversation with FGIS administrative personnel, we have been advised that a grain exchange or board of trade, at interior markets such as the Enid Board of Trade, could not possibly meet the proper criteria to be designated to supervise the weighing of grain, because of its "conflict of interest" nature. They advised that there was absolutely nothing we could do to keep our identity and still meet their conflict of interest criteria in order to be designated.

We maintain that this attitude of FGIS is not in line with the intent of Congress. We affirm that the Enid Board of Trade and many other such organizations have always provided a reputable weighing supervision service, and that any such defined "conflict of interest" under the Act does not jeopardize the integrity of its operations or services. We feel that since the very beginning of the U. S. Grain Standards legislation in this country, such organizations which have and will continue to provide a reputable and honest service, should be permitted or given the chance to continue their operations.

We suggest that Congress and the FGIS quickly develop a definite set of criteria to define "conflict of interest", which will meet the objectives of Congress as outlined in Section 13, part 5 of the Act.

One other particularly disturbing aspect of the Act of 1976 to the Enid Board of Trade is contained in Section 7 with regard to weighing. It states in essence that with respect to the supervision of weighing at interior points, the Administrator is authorized to designate the agency which is providing the inspection service to be responsible for providing the weighing supervision. Perhaps Con-

gress does not realize that there are several interior markets, including Enid, whereby the inspection service and weighing supervision service is performed by different, reputable private agencies. The Enid Board of Trade has been responsible for providing the supervision of weights in the Enid market since 1920, and have never incurred any weighing irregularities or similarly related problems whatsoever, We affirm that Congress did not intend to force out of business such reputable organizations as the Enid Board of Trade, simply because they were not performing both the inspection service and weighing service at the time the Act was passed. We believe that it is only fair that at interior points, the agency that has been doing the weighing should be given the first opportunity to be designated as the agency to provide the supervision for weights as outlined in the Act—providing that the market desires "official" weights and that the agency can meet the FGIS qualifications—regardless of whether or not that agency is designated to provide the inspection service at that market.

FGIS AND THE INTERIOR MARKETS

There has been much discussion concerning the intent of Congress as to the degree that was intended for the FGIS to get involved with the weighing of grain at interior market points. To our best knowledge, we know of no weighing wrongdoings of an unlawful nature that have been discovered at inland terminal markets, particularly the Enid market. The Association of American Railroads (A.A.R.) have, for many years, sponsored the weighing supervision program for interior markets because of the large volumes of grain that are transported from the interior to export points by rail. This program is being administered in the Enid market by the Enid Board of Trade. The very basic nature of the grain trade provides an automatic "check" on the weights and grades provided at inland market points. Let me explain. Let's assume that a car lot of grain is sold between a consignor at a terminal market such as Enid, and a consignee at a gulf export point, such as Houston, Texas. The grain is weighed at Enid before being loaded into the rail car and shipped to the consignee at the gulf. Upon its arrival, the grain is weighed again as it is unloaded from the same rail car. This is done primarily to protect the consignor's right to file for a loss claim with the participating railroad should something have happened enroute that would have caused the car to lose grain and weigh out short at its destination. If for some reason a continual shortage arises in the weight of grain cars between an interior consignor and the gulf consignee, immediate action would be taken by the firm and/or by representatives of the Western Weighing and Inspection Bureau of the Association of American Railroads to find and correct the problem. Thus, this weighing supervision program gives the interior grain industry a "built in" check system. A similar such situation exists in the movement of grain from the country elevator to the terminal market or export point. With such a built in system, the interior markets, such as Enid, do not need and do not desire that the Federal Government get involved with the weighing or the supervision of weighing of grain at interior locations. We feel the present A.A.R. weighing supervision program is just as effective and can definitely be administered much cheaper than could the FGIS weighing supervision system.

SUMMARY

Prior to the passage of the U.S. Grain Standards Act of 1976, we strongly felt that the U.S. had a very good inspection and weighing system, particularly at interior market locations. It was largely through the fault of the Federal Government of continually reducing the number of federal supervisors to administer the previous Act, that resulted in the violations of the Act discovered at eastern gulf export points. Perhaps the simple solution of prosecuting and severely penalizing the violators of the Act combined with proper increased supervision at export points would have solved the problems. However, it is apparent that over-reaction has now created several new problems for the industry, which have been previously covered in this testimony.

We would support the creation of an Advisory Committee of grain industry spokesmen comparable to that used by the Commodity Futures Trading Commission, to be used by the FGIS in implementing the program of the new Act.

We would like to thank this committee for the opportunity to present our views on problem areas of the FGIS.

STATEMENT OF DON DUDLEY, EXECUTIVE DIRECTOR, OKLAHOMA WHEAT COMMISSION, OKLAHOMA CITY, OKLA.

Mr. Chairman, my name is Don Dudley. I am employed as the Executive Director of the Oklahoma Wheat Commission. Offices of the Commission are located at 3108 N.W. Expressway, No. 102, Oklahoma City, Okla. 73112.

The Commission was organized under Oklahoma State Statutes for the purpose of promoting the utilization, market development, research and consumption of Oklahoma grown wheat. Our greatest involvement is in foreign market development for Oklahoma grown wheat.

The Commission represents some 42,000 plus wheat farmers in Oklahoma, all of which have a vital interest in grain inspection and grading services.

Wheat is Oklahoma's No. 1 farm crop. In 1976 Oklahoma farmers harvested 151.2 million bushels. Most of this grain will move from country elevators in Oklahoma to Texas ports where it is available to the export trade.

The United States Grain Standards Act of 1976, which created the Federal Grain Inspection Service, commonly known as FGIS, will cause unjust charges to be passed back to our nation's grain farmers, who are currently being offered prices below production costs for their grain. Additional costs will only bring an even greater hardship on our farmers. The act which came about as a result of recent grain weighing and inspection scandals at Eastern Gulf export points such as New Orleans is being interpreted in such a way that Federal guidelines and inspection costs will be instated at interior inspection points.

The Oklahoma Wheat Commission supported closer Federal supervision of grains at export facilities and even federal takeover at those ports which have proven themselves unreliable. However, we are opposed to the exorbitant costs FGIS has levied on supervision of inland grain inspection services. Inland inspection and weighing services in Oklahoma as well as across the nation have rendered a fair, unblemished service for years at a reasonable cost. The grain trade has stated that the additional supervisory cost is too high for the trade to absorb and such costs will be passed onto the farmer. Many farmers and grain industry persons do not believe that the legislative intent was to extend supervision to interior points with the added high costs.

An example of how new FGIS supervisory charges will affect inland grading in Oklahoma are as follows:

The old rates charged by the Enid Grain Inspection Company, Inc., Enid, Okla. were $2.50 per truck inspection; $3.00 per box car and $6.00 per hopper car.

Weighing fees were $3.50 per car and protein analysis were $2.50 per sample.

New rates effective February 1, 1977 are $4.25 per truck; $6.00 per box car; $10.50 per covered hopper car and $9.50 per open hopper car.

Based on information I have received from the Enid Grain Inspection Company and the Enid Board of Trade, increased costs attributed to supervision by the Federal Grain Inspection Service are as follows: $2.40 per box car; $1.60 per hopper car and $.60 per truck. In addition, FGIS has increased the manpower requirement and recordkeeping expense at the interior inspection point.

A comparison of inspection and weighing charges at the port of Houston where most of Oklahoma wheat goes for export shows the old charges to be $8.00 per hopper and box cars; $5.00 per truck; $1.50 for weighing and $2.50 per protein analysis.

New charges under FGIS at Houston are $18.00 per hopper car plus a $22.00 per hour overtime charge; $15.00 per box car with $18.00 per hour overtime; $12.00 per truck and $14.50 for overtime; protein analysis is $11.50 per hour and $13.50 per hour for overtime; weighing is $14.00 per hour.

The tremendous increase in fees levied by the Federal Grain Inspection Service are certain to be passed back to the elevator operators and subsequently to the producer. When you consider that grain is inspected, weighed, and graded sometimes as much as three or four times by the time it reaches the port, the costs become increasingly high.

The Oklahoma Wheat Commission and the 42,000 plus wheat farmers of our state do not feel these fees are justified and that the efficiency of the inspection system will be reduced by a slowdown in the inspection process.

It is our recommendation that FGIS not be involved in supervision, grading or weighing at interior points and that FGIS activity be geared only to inspection at export points. We further suggest that a federal appropriation be established to cover FGIS expense. Everyone benefits from grain inspection and grad-

ing, in that quality designation helps to improve nutrition standards for all consumers. In addition, good inspection and grading has a positive effect on commerce in the export trade, creating a better balance of payments which in effect help all U.S. consumers with a greater purchasing power for foreign fuel and other imported goods as well as more jobs for U.S. consumers.

On behalf of the wheat farmers of Oklahoma who are very interested in improved grain inspection and grading, I would like to thank you for the opportunity of appearing at this public hearing.

THE ANDERSONS,
Maumee, Ohio, February 14, 1977.

Hon. ROBERT DOLE,
Dirksen Senate Office Building, Room 4213
Washington, D.C.

DEAR SENATOR: I want to personally thank you for honoring us by your presence and your comments at the recent Ohio Grain, Feed and Fertilizer Association heavy and demanding schedule. Hopefully you, too, gained something from the Convention in Cincinnati. We appreciate the effort it took to work this into your comments, concerns and questions that we shared with you on the U.S. Grain Standards Act of 1976.

For the record and your follow-up, I would like to repeat the questions I raised from the floor plus a couple additional thoughts:

1. You introduced an amendment to the Act that would create a seven-man advisory committee to provide consultation and advice to the Administrator of F.G.I.S. for a two-year period. This committee is supposed to represent all segments of the grain industry from the producer to the consumer. Isn't this an awfully broad spectrum to be represented by such a small number?

I would like to suggest that you consider the recommendation of the National Grain & Feed Association of forming three such committees: One on weighing, one on inspection and one on standardization. These committees should be large so as to represent the widely-varied interests.

2. F.G.I.S. has already imposed supervisory fees on all private and state grain inspection agencies even though they are providing no more supervision than they had previously. As a result, these agencies have raised their inspection rates anywhere from 20–40% to cover their assessed fees. Grain companies are already paying these increases. Your amendment to cover the supervisory fees through Congressional appropriation triggers this question. Should we be paying these increases, and will we be reimbursed for those already paid?

3. Your amendment also included a change in the record-keeping requirements. It divides the record keeping into two parts:

(A) "complete an accurate records of purchases, sales, transportation, storage, weighing, and official inspection and official weighing of grain"; and

(B) "such other records of handling, treating, cleaning, drying, blending, or other processing of grain as the Administrator may prescribe as necessary to facilitate the administration of this Act."

Is this really a change or is it merely shifting the responsibility to someone else?

I didn't have the opportunity to comment on my concern about conflict of interest. However, from my earlier correspondence and testimony you know I am troubled greatly by what appears to be coming in this area. I hope and pray you and the other committee members will not take industry's concern lightly. There are many beautiful Boards of Trade that could be killed with a broad-brush approach. The Toledo Board of Trade is a perfect example. The competitive make-up of the Board eliminates or at least minimizes any potential conflict of interest.

There are still a couple other areas of conern. The Great Lakes Ports are only open about eight months of the year. The balance of the year they function just like any other inland terminals and must compete directly with the non-export elevators in the area. Do you envision these elevators being treated as such during the non-navigation season?

When a number of short-weighing schemes and practices on outbound cargoes at the Gulf was uncovered, it triggered charges of similar abuses on inbound barge shipments. Barge shippers were at the mercy of receivers because they lost control of the barges once they left their docks. We can only presume that

the House and Senate Ag Commitees sought to eliminate these abuses by seeking inbound weighing supervision at all export elevators. What about export elevators where the grain comes in 100% via truck where the shipper maintain control right up to the point of dumping the truck and nearly all of which have their own comparative weights? Will mandatory inbound weighing supervision be necessary here, too? We know the Act says that the Administrator can waive this provision in case of an emergency or other circumstances.

Again, Senator, thank you for your continued interest and sacrifice.

Sincerely,

T. L. SAM IRMEN,
General Partner.

VIRGINIA FARM BUREAU FEDERATION,
Richmond, Va., February 2, 1977.

Hon. WALTER HUDDLESTON,
U.S. Senate Office Building,
Washington, D.C.

DEAR SENATOR HUDDLESTON: We are pleased to learn that you are calling a meeting of the Subcommittee on Agricultural Production, Marketing and Stabilization of Prices on February 3 for the purpose of reviewing the developments which have taken place since enactment of the Grain Inspection Act of 1976.

While agreeing that action was needed to correct certain intolerable conditions which became public knowledge during the past two years, we feel that the Congress may have overreacted in its attempt to correct those conditions at the expense of the American grain farmer.

This becomes more evident as the organizational structure of the new Federal Grain Inspection Service is put together for the purpose of administering the Act. For example, it is reported that five regional offices will be established, each with about twenty-two staff personnel. The regional offices will serve as a medium between the administrative staff in Washington and the actual supervision of or conduct of the weighing and inspection function.

Contrary to past practices, implementation of the Grain Inspection Act of 1976 will transfer all costs of supervision and conduct to the users of the service except for the administrative personnel in Washington. We both know, Senator, that while the handler will be the party to transmit the fees charged, in the final analysis it is the U.S. grain farmer who will pay the bill.

Grain inspection in Virginia is performed by the Grain and Hay Section of the Virginia Department of Agriculture and Commerce. To the best of my knowledge, the service has been performed with a high level of integrity and no flagrant violations have been discovered in this state. VDAC currently operates under Federal supervision in its grain weighing and inspection program. This procedure has been quite satisfactory. Federal supervision has been provided by way of public fund appropriations.

Currently, VDAC charges back to the farmer the following for the weighing and inspection function of truckload lots at export facilities.

	Mechanical sampler	Probe sampler
Weighing	$0.75	$0.75
Inspection	1.25	2.25
Total	2.00	3.00

These charges are for the actual performance of the service.

On outgoing grain, VDAC charges the user (exporter) a total of $.65 per thousand bushels for weighing and inspection service. Now we discover that the new Federal Grain Inspection Service has informed the Virginia Department of Agriculture and Commerce that their cost for supervision will be based on $.80 per thousand bushels for inspection and $.35 per thousand bushels for weighing, a total of $1.15 per thousand. That same fee will be imposed for supervision of weighing and inspection of incoming grain which will add about $.86 per truckload to fees now being charged by VDAC. This means that Vir-

ginia must charge at least $2.86 per truckload (mechanical sampler) on incoming grain, an increase of 43 percent and $1.80 per thousand bushels for outgoing grain, an increase of 277 percent.

Since November 24, 1976, I am advised that the VDAC has received three different notifications of what it could expect to be charged for the supervision service. The first was $114,000 (November 24), the second was $145,000 (December 10), and the latest being $438,000 (December 29) based on the volume weighed and inspected in Virginia last year. These are dramatic changes in such a short period of time. What assurance is there that similar changes will not come forth in the near future?

These severe increases are imposed simply for supervision and for the protection of our foreign customers whom we value very highly but offers no added services or benefits for U.S. grain farmers.

It is my hope that some major revisions can be made to correct a situation that appears to be getting out of hand even before the service begins to fully function. I would suggest that the establishment of the five regional offices be carefully examined to determine whether they are unquestionably needed to fulfill the intent of the Act. If the five are in fact needed, is it feasible to transfer that segment of the Federal Grain Inspection Service to public funding? At least that would cause periodic review. Under present conditions, fees apparently can be increased with little to no justification given to those who must pay the bill.

I congratulate you and other members of the Congress for observing the development of this agency and encourage you to keep a watchful eye on it in the future.

Very truly yours,

ROBERT B. DELANO,
President.

NORTHWEST AGRI-DEALERS ASSOCIATION, INC.,
Mankato, Minn., February 8, 1977.

Hon. ROBERT DOLE,
Room 4213 Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR DOLE: I would like to comment on the hearings on the grain inspection bill that were held on February 3 and 4 in Washington. I was in attendance, but did not testify, as our president Dick Potter from Morgan, Minnesota, did the testifying.

I attend a good number of hearings and would be remiss if I didn't congratulate you on the very professional way in which the hearing was conducted. I was particularly impressed with the alertness that you and Senator Huddleston showed, as you were able to sort out some important items from the repetitious testimony that occurred.

For the records, we would like to enter the following comments on the Dole and Huddleston amendments. No. 1—the creation of an advisory committee. The success of any committee is directly related to the quality if its members, and in philosophy we would support such advisory committees to consult with the FGIS.

No. 2—federal supervisory fees. The use of appropriated funds to pay for the supervisory fees as in item 2 of the Dole amendment we wholeheartedly support.

No. 3—record keeping provisions. The primary concern that we as an association had and the primary reason we were in Washington to testify was because of the record keeping requirements and the costs. Item No. 3 of the Dole amendment in our considered opinion does not solve the problem of record keeping, as it relates to the country elevator segment. The last sentence in the third paragraph says, "Also, the Administrator of the FGIS could prescribe the keeping of other records concerning the processing of grain, as required to facilitate the administration of the Act." To us that means that the administrator could at some future date require that all record keeping be maintained that we are so vigorously objecting to. The wording in section 1 of the Huddleston amendment is much more direct and says, "Country elevators and grain merchandisers would be excluded from these requirements." We would favor that language.

There are two other points that we would like to make that we did not comment on in our written testimony at the hearing. They are not a part of the copy

of the amendments that I have in front of me. They are as follows: We would support changing the language relative to the provision on conflict of interest to allow Boards of Trade, Grain Exchanges, and Chambers of Commerce, or other similar agencies to be approved for inspection and weighing if at least half of their membership were composed of persons or firms not engaged in the grain business.

Secondly, the matter of grade shopping was brought out at the hearing, and we can see very little inherently wrong in the practice. It has, however, been made illegal by the act. We would favor some language change that would allow submitted samples to be sent to the market in which the grain was to be sold even though they were not the local designated approved inspection agency.

For example, our neighbors in the Dakotas market a good share of their grain in the Minneapolis market, but as we understand the act that grain would have to be inspected by an agency in the Dakotas when in fact it would be marketed in the Minneapolis market. An elevator should be allowed to submit samples to the market in which he intends to sell the grain.

Thank you for your consideration.

Yours truly,

THOMAS E. CASHMAN,
Executive Secretary.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., February 9, 1977.

Hon. WALTER D. HUDDLESTON,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Senate Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN HUDDLESTON: The National Association of Wheat Growers wishes to endorse testimony presented by the Oregon Wheat Growers League, the Kansas Wheat Commission and Kansas Wheat Growers Association, North Dakota Wheat Commission, Oklahoma Wheat Commission and the Texas Wheat Producers Association at recent oversight hearings conducted by your Subcommittee into the administration of the new Federal Grain Inspection Service.

As you know, the NAWG supported the concept of the new FGIS during its development in the 94th Congress, and we are pleased with the responsiveness of your Subcommittee to what we believe is an established need for modifications in the system. In particular, we are concerned over the level and funding procedure for Federal supervision. While 8/100 cents per bushel might initially seem to be a modest fee for FGIS supervision of inspections, it is a fact that grain will customarily be inspected three to four times between the elevator site and final export clearance. Thus, these fees combine to a level which we feel cannot justifiably be passed back to the producer through the user fee mechanism. In this connection, it should also be remembered that new and higher charges for Federal export inspection are also ultimately transferred back to the producer.

In our view, the user fee mechanism for funding Federal supervision also fails to firmly establish budgetary responsibility on supervisory functions. Thus, it could be assumed that bureaucratic expansion, program inefficiencies, and other resource and administrative costs could conceivably escalate without restraint to be simply offset by higher user fees.

The NAWG recommends that legislation be enacted to pay all Federal supervisory costs from appropriated Federal funds. Congress can thus see that necessary supervision is conducted in an efficient manner. S. 592, introduced by Senator Dole for himself and Senators Clark, Talmadge, Young, McGovern, Curtis, Humphrey; Pearson, Eagleton, Huddleston, Danforth and Tower, would implement this recommendation. We are in agreement with other provisions of the bill which would limit record-keeping requirements to export elevators and establish an advisory committee to consult and advise the Administrator of the FGIS.

We commend your Subcommittee on its understanding and responsiveness to the problems that have been outlined, and we ask that this letter be made a part of the official record of the Subcommittee's hearings on implementation of the Grain Standards Act.

Sincerely,

CARL F. SCHWENSEN,
Executive Assistant.

STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

The American Federation of Government Employees, representing 725,000 Federal employees and thousands of Agriculture Department employees, welcomes this opportunity to discuss implementation of the United States Grain Standards Act of 1976 (P.L. 94–582).

It has been not quite three months since the Federal Grain Inspection Service was established as a new government agency, whose mission it is to restore confidence in the national grain inspection system.

As your Committee knows, P.L. 94–582 was enacted in 1976 to remedy those deficiencies which developed in the grain inspection operations of the Department of Agriculture under the United States Grain Standards Act of 1916 as amended in 1968. Hearings by your Senate Committee on Agriculture clearly showed the need to establish a separate Agency within the Department of Agriculture to overcome the major problems in a system which operated without effective controls, procedures, or lines of authority; which tolerated conflicts of interest between the grain inspection and merchandising operations; and which was not responsive to the limited supervision provided by the Department of Agriculture's Agricultural Marketing Service.

We understand that the Hearings today are not intended to review the principles, philosophy and policies incorporated in P.L. 94–582 but are limited only to fees and record keeping.

Under the provisions of the Act, field supervisory activities of the FGIS are to be funded from fees charged users of inspection and weighting services. Witnesses before this Subcommittee have charged that the fee schedule published by the FGIS in the January 5, 1977 Federal Register are four to five times higher than the charges for the same services previously provided by private inspectors. It is asserted that, as a consequence, the wheat producer is being taxed at an exorbitant rate for this new system, and that some will be driven out of business.

These are certainly serious allegations, and we must carefully evaluate their substance before we can accurately guage the impact of the U.S. Grain Standards Act on the grain industry as a whole.

The Enid Board of Trade, in testimony before this Subcommittee on February 3, 1977, provided us with a set of figures designed to compare the cost increase per bushel of grain for a minimum number of weighing and inspection services brought about by P.L. 94–582. We would like to take this opportunity to reconstruct their tables in order to arrive at the facts of the matter.

FGIS COST INCREASES-EXPORT POINTS

	Before (per car)	After (per hour)
Inspection fee	$8.00	$18
Weighing fee	1.50	14
Protein fee	2.50	[1] 11.50
Total	12.00	43.50

[1] Per sample.

According to them, the cost of providing inspection and weighing services and a protein analysis has jumped from $12.00 per car to $43.50 per car at export points, and these increases are directly or indirectly attributable to costs brought about by passage of the U.S. Grain Standards Act.

We have carefully examined these numbers, Mr. Chairman, and it is our belief that the ambiguities arising out of the way the data are tabulated only lead to distortions or confusion. Let us illustrate.

According to the tables, we find that the alleged cost of the inspection fee has gone from $8.00 to $18.00; allegedly, the protein analysis fee from $2.50 to $11.50; and finally, the weighing fee allegedly from $1.50 to $14.00.

DISTORTIONS

The comparisons in the table distort the cost increase in all three categories. We will list them in order of magnitude.

Weighing fee

Whereas the charges by private agencies for weighing prior to the creation of the FGIS are broken out on a per car basis, the fee used to show the alleged cost increase under FGIS is stated on a "per hour" basis. This assumes that typical experience is that one car per hour is now weighed at an export point. In fact, the normal situation at some elevators is for an average of 20 cars to be weighed per hour, resulting in an average weighing fee in those cases of only $.70 per car, or 46% of the charges cited by ENID prior to FGIS.

Inspection fees

It is unclear from the table if the $10.00 increase per car in inspection fees reflects solely the costs attributable to the FGIS more expert and accurate service, or whether there are other variables involved. We note, however, that—whether intentionally or by inattention—the Enid Board of Trade picked the highest possible figure published in the Federal Register. Again, the rate in the FGIS fee schedule is based on a "man-hour" unit of measurement, which the table compares to a "per hopper car" figure.

Protein analysis fees

The calculations concerning protein analysis fees, which show a dramatic jump from $1.50 per car to $11.50 per sample, are also misleading. It is our understanding that the higher rate is not based on rail car inspection, but rather is set to reflect the cost of occasional grain sampling by ship lot, as distinguished from car-lot, for export. The likely actual cost of fees thus is at great variance from that calculated by other witnesses, and would certainly be greatly reduced if the FGIS were to go to an assembly-line operation of gathering and analyzing samples drawn from covered hopper cars in a rail yard.

Until these misconceptions, miscalculations and misunderstandings are clarified, we doubt that true cost increases, as compared to previous levels, can be properly determined.

At this point, we wish to endorse the sage observation which Senator Clark made, pointing out that today no one knows precisely the impact of these fees and their associated record keeping costs and how they relate to other costs. Certainly, it would appear that the expertise of the witnesses you have heard is not based on experience but on hypotheses, inferences, and conclusions which have little relation to fact.

We are alarmed that the tables and statistics presented to your Committee by many organizations appear to be hastily and subjectively constructed and therefore make questionable comparisons. Therefore, our most earnest and sincere recommendation to your Committee is that your Committee ask the General Accounting Office, which is a highly respected organ of the Congress, to prepare an analysis of the costs involved, elaborating the separate charges for distinct services and interrelating the costs of inspections in the interior and at export points.

To facilitate such an undertaking by the General Accounting Office, may I suggest that your Committee now write to the Secretary of Agriculture and the Administrator of the FGIS, asking them to supply to your Committee their own analysis even prior to a study by the Comptroller General.

I urge you to solicit these views because I know, as you know, that it was not the intent of this Act to drive either wheat farmers or country elevator operators out of business. In fact, I am sure the Secretary of Agriculture would oppose any such design as violating the mission of that Federal Department.

In conclusion, let me state that the authors of P.L. 94–582 have drafted a statute which will cure many of the abuses of the past. If there are any hardships imposed, we hope these will be overcome in the next several months through cooperation and mutual respect: cooperation between the grain industry, the Federal government, the field personnel of inspection agencies, be they State, private, or Federal, and mutual respect of each other's dedication to assure a workable inspection system serving the needs of the American government and the grain consumers.

NORTH AMERICAN EXPORT GRAIN ASSOCIATION,
Washington, D.C., February 14, 1977.

Hon. WALTER HUDDLESTON,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Senate Agriculture Committee, Washington, D.C.

DEAR SENATOR HUDDLESTON: Following is the response of the North American Export Grain Association to the request for comments on S. 592.

A. Comments directed to provisions of S. 592.

1. The Advisory Committee's life be changed from two years to a permanent basis, with rotation of membership.

2. The specification of types of members on the Advisory Committee be expanded to include members representing every segment of the industry, from producer to exporter and consumer. To permit such a cross section, the committee should contain from 20 to 25 members.

3. Equitable funding from Federal appropriations of all Federal inspection and weighing services and supervision, to equalize cost of handling domestically and at export.

B. Additional amendments to the Act.

1. The requirement that all grain received at an export elevator be officially weighed be relaxed to make official weighing applicable to export elevator weights which are the basis of contractual settlement.

2. Require the Administrator to establish standards, after consultation with the Advisory Committee, with respect to staffing of Federal supervisors at export elevators. Establish the principle that grain flow monitoring devices can supplant Federal supervisory employees.

3. Provide as a major task of the service the coordination of grain inspection criteria application as between interior and port inspectors and inspections.

4. Resolution of conflict of interest provision by permitting participation of grain companies in local boards of trade which provide inspection and weighing services, this to be done, perhaps, on consultation with the Advisory Committee.

5. Reduce seven-day waiting period for affording hearing after refusal to provide inspection services.

6. Restriction on release of information under Freedom of Information Act of commercially sensitive information.

Sincerely,

NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.
JOSEPH HALOW, *Executive Director.*

[Mailgram]

LITTLE ROCK GRAIN EXCHANGE,
North Little Rock, Ark., January 28, 1977.

Hon. WALTER D. HUDDLESTON,
U.S. Senate,
Washington, D.C.

We as members of the Little Rock Grain Exchange would like for you to acknowledge our opposition to certain provisions of Public Law 94–582, October 21, 1976, "the United States Grain Standard Act of 1976."

The Little Rock Grain Exchange is a non profit corporation existing under and by virtue of the laws of the State of Arkansas, the grain exchange was organized in 1916 by interested parties of the grain industry in the State, and has, for over 60 years provided a quality grading and inspection service for producers and users of grain and related products.

Under the provision of the Grain Standards Act, we the members of the Little Rock Grain Exchange are being burdened with the expense of supporting a governmental supervision program brought about by scandalous activities in the inspection services provided at export points in the past.

Under section 8–J(1) of this law an additional fee of .80 cents per thousand bushels of grain for inspection has been imposed on us as producers or users and the cost of this increase ultimately has to end up as increased cost of goods

to the consumer, these funds are to support an increased staff of supervisory inspectors whom the agricultural industry in the State should not be asked to support especially when we are presently equipped with qualified personnel and equipment to issue an "official grade certificate" for grain.

The added cost of imposing this law at inland inspection points has been estimated at 5.5 million dollars, which does not include the Washington area or points of export.

In section 12(D) of this act it states that a record of disposition of grain must be maintained for a period of 5 years, for processors, handlers, or feed manufacturers—this is a physical impossibility and even if it were not the clerical cost of maintaining records for such a period of time would be astronomical.

Section 11 paragraph B(5), the members of the Little Rock Grain Exchange are principally engaged in processing, blending, warehousing or merchandising of grain or similar products. In our opinion this does not represent a conflict of interest to the agency and we should not be asked to remove our association as members of the Little Rock Grain Exchange. The employees of the Little Rock Grain Exchange are currently licensed by the U.S.D.A. and operates under the laws of a privately licensed inspection agency as administered by the U.S.D.A. In no way do the members of this grain exchange direct the employees of this exchange as to how they go about performing their duties.

We respectfully solicit your support in opposition of these provisions and would like for you to make our feelings known before the Senate Agri-committee hearing on February 3, 1977.

MERLE POWER,
President.

STATEMENT OF JOHN HEALY, SECRETARY, NORTHWEST COUNTRY ELEVATOR ASSOCIATION

The Northwest Country Elevator Association represents 318 independently and cooperatively owned country elevators in Minnesota, Montana, North and South Dakota. We are the initial handlers of grain in the marketing system as it leaves the producer.

We are concerned about some of the provisions of the U.S. Grain Standards Act of 1976. We believe that Congress in drafting and FGIS in interpreting the Act, have overreacted to the weighing and grading irregularities uncovered at some export locations.

We commend this committee for their hearings on this matter and Senators Dole and Huddleston for the amendments which they have offered to deal with some of the problems which have already surfaced.

Problems in the Act that we would like to comment on include: recordkeeping; supervisory fees; "grade shopping"; and conflict of interest provisions.

Neither the Dole (S. 592) or Huddleston (S. 593) amendments, individually, adequately deal with these basic problems. We will address ourselves to the Dole and Huddleston Amendments as they apply to these problems, offering what we believe to be better answers.

RECORDKEEPING

We do not believe either amendment adequately settles the matter of recordkeeping as required in Sec. 12(d) of the Act. The requirement is punitive in nature, will be costly, and accomplishes no positive good. We believe Sec. 12(d) should be deleted in its entirety from the Act for the following reasons:

1. Country elevators, in the normal course of business, do not have such extensive records and would have to add additional personnel to develop them. Preliminary estimates of the increased costs for these records would be 0.3¢ to 0.5¢ per bushel. Such records, if and when developed, would be relatively meaningless and could not contribute to the efficient operation of the elevator.

2. Inland terminals have more records than country elevators and most grain is, or has been, received and shipped on the basis of official weights and official grades. However, we can see no justification for additional recordkeeping beyond their present system. Such terminals are licensed by the U.S. Warehouse Act or under state laws which provide for proper operation and recordkeeping. Such licensing authority also provides for bonding and periodic warehouse examination and audits to protect the warehouse receipt holders and general public. State and federal tax laws also provide for the maintenance of basic business records for an adequate period of time. Additional records would cost additional time and

money and would not facilitate business operations. Grain is a fungible commodity and commingling different lots is normal. Grain does not necessarily keep the grade it had when received. It can go out of condition and lose grade without being touched or moved. It can lose or gain weight when exposed to high or low humidity. Net bushels can be gained by blending away dockage or lost by increased dockage.

Test weight in some grains can be increased by handling and the reverse with others. Dockage and broken kernals increase when grain is handled. Sampling methods and sampling errors can result in gains or losses in grade, individual factors and dockage. The most detailed records could not accurately reflect the changes that can occur in grain as it is handled or stored.

3. Port terminals currently keep the most detailed records but still do not have all those required by Sec. 12(d). To develop and maintain such records would be fantastically expensive. The sheer volume of such records at a busy export elevator is enormous and the requirement that they be maintained for five years is patently unreasonable.

The export terminals in the lower Mississippi are, according to all information we have received, the only ones guilty of any wrongdoing. Under the old law, which did not have any recordkeeping requirements, there was sufficient information available to indict and convict those guilty of the crimes of misgrading and misweighing. Under the "Affirmative Action Programs", signed by those companies guilty of wrongdoing, they have agreed to take positive action to assure that this will not occur again.

Saddling all the other port terminals with expensive and unnecessary recordkeeping requirements is illogical, punitive, and will, in the long run, be an added expense to the producer, and will tend to make the U.S. less competitive in world trade.

Another reason the recordkeeping requirements are unnecessary at port terminals is that under the provisions of FGIS all grain received and shipped from port terminals must be officially weighed under 100% supervision of FGIS or state agencies delegated by FGIS and all grain shipped from port terminals must be officially inspected under similar supervision. Therefore, there should be no misweighing or misgrading occurring, thus eliminating the need for such extensive records.

COST

We agree wth Senator Dole's amendment which would eliminate the supervisory fees called for under the Act and replace them with appropriated funds. It seems to us that the law, as written, gives FGIS a blank check to build a bureaucratic empire and assess the costs to the grain industry. A regulatory agency financed by funds collected from the regulated industry, rather than appropriated funds, promises nothing but inefficiencies, growth, and soaring costs.

Our preliminary figures show that inspection costs alone will now run 2¼¢ per bushel as compared to ½¢ per bushel for inspection prior to USGSA–1976. This is a 450% increase.

The 2¼¢ per bushel cost is based on:

Description	*Cost (millions)*
Employees:	
2,800 Federal inspection employees at $25,000 (salary, overtime, and fringes)	$70
2,600 private and State inspection agency employees at $20,000 (salary, overtime, and fringes)	52
Physical support—equipment, space, furniture at $5,000 per employee:	
Federal agencies	14
Private and State agencies	13
Industry costs: Additional equipment, surveillance to comply with law. This figure is for the export houses only at $300,000 per elevator. We can't estimate the additional equipment costs for interior terminal and country elevators	24
Loss in productivity: Estimate of costs due to losses in efficiency of operations based on experiences to date, at locations where FGIS has taken over	120
Total cost	293

FGIS sources: 10 billion-13 billion bushels officially inspected per year. $293 million/13 billion bushels=2.25¢/bushel.

These figures do not include: the cost of maintaining the extensive records required by the Act; the costs affiliated with weighing supervision; the 10% minimum annual increase in fees projected by FGIS.

Therefore we believe that 2¼¢/bushel is a conservative estimate. This exorbitant, additional cost will be passed through the marketing system until it can be passed no further—either the consumer, but most likely the grain producer, will bear this cost. We believe the interests of all concerned will be better served by paying supervisory costs from appropriated funds.

"GRADE SHOPPING"

Another section of the Act which needs amending is Section 7(f)(2), dealing with the geographic location of inspection agencies and so called "grade shopping". This section runs contrary to normal marketing practices in this area. In North Dakota we have a different inspection agency at each of the following locations—Grand Forks, Minot, Jamestown and Fargo. However, North Dakota has no organized grain markets and shipments are made either to the West Coast, Duluth-Superior or Minneapolis-St. Paul. Often samples are submitted for inspection to the market where the grain is shipped rather than the inspection agency in the area from which it is shipped. There are good and sufficient reasons for this marketing practice and we do not think a federal law should arbitrarily forbid it.

CONFLICTS OF INTEREST

Section 11(b) of the Act dealing with conflicts of interest flies in the face of reason, destroying many weighing and inspection agencies that have shown their competency and honesty for many years. The Minneapolis Grain Exchange Weighing Department is a good example. It was organized about 10 years ago to supervise weighing in the Minneapolis Market on an AAR Class 2 basis (partial supervision). Previously, weighing supervision had been done by the State of Minnesota on an AAR Class 1 (100%) supervision basis. The net result of this change was better weights, less complaints, and greatly reduced costs.

Since the members of the weighing committee represent both buyers and sellers, there was a built-in check to make sure neither side was favored. The weighing committee has made sure that proper weighing supervision was performed at the lowest possible cost.

As we understand Section 11(b), it would eliminate such services declaring them to be riddled with conflicts of interest because the firms using the service were involved in its management. We would recommend that the advisory committee, established by the Dole or Huddleston amendments, work with the FGIS administrator in developing guidelines for issuing waivers on conflicts of interest.

LOSS IN PRODUCTIVITY

Another concern is the loss in productivity or slowdown where FGIS takes over. Sam Irmen testifying for the Toledo Board of Trade on February 4th reported that FGIS took over official original grain inspection in the Toledo area on January 16th. He reported, "The fears we had about the costs and inefficiencies are quickly becoming reality. In this short period of time we have watched our inspection costs triple and productivity decline."

We have heard reports that others have had the same experience—and the takeover by FGIS has only started. Where will it end?

ADVISORY COMMITTEE

We agree with the idea expressed in both the Dole and Huddleston amendments that an advisory committee be named to provide consultation and advice to the FGIS administrator during the two year period in which the 1976 amendments to the Grain Standards Act are being implemented. However, we believe the committee should have at least 25 members. A smaller number would not adequately represent all phases of the grain industry from all geographic and marketing areas in this country.

Surprising as it may be, the needs for inspection services vary widely from region to region and from one type of market to another. The needs in North Dakota where wheat and other small grains are produced and shipped both east and west vary greatly from the needs of the Pacific Northwest, or the corn-

soybean area, or areas of heavy feed use where broilers are produced or cattle fed.

Grain inspection rules and regulations must be broad enough and flexible enough to serve the needs of the grain producer and handler in various areas to insure that the Declaration of Policy of the Act be carried out. This Declaration reads in part with the objectives that grain may be marketed in an orderly and timely manner and that the trading in grain may be facilitated". A committee of 7 to 10 is simply too small to adequately represent the myriad of conditions and marketing needs which exist in this country.

We have no pity or sympathy for the individuals and companies in the lower Mississippi area who, through their dishonest acts, brought discredit to a great industry. Whatever penalty they have paid or will pay is much too little, for it appears the rest of the grain industry must pay for their sins. Congress used a meat axe instead of a scalpel to remove the small cancer which existed and in the process, cut off perfectly good arms and legs. The net result will be more costly operations which will tend to make us less competitive in world trade. The only winner will be the inflated Federal Bureaucracy.

STATEMENT OF OAKLEY M. RAY, PRESIDENT, AMERICAN FEED MANUFACTURERS ASSOCIATION, ARLINGTON, VA.

The American Feed Manufacturers Association (AFMA) is the national trade association representing manufacturers of formula feed for livestock and poultry. Members of AFMA are large scale purchasers of feed grains which are processed and combined with dozens of other ingredients in the manufacturing of animal feeds. AFMA members manufacture more than 70 percent of the primary formula feed sold in this country.

The United States Grain Standards Act of 1976, Public Law 94–582, provided a Congressional mandate to maintain and improve grain inspection services in the United States. A new agency, the Federal Grain Inspection Service, was created to inspect grain destined for export and to oversee grain inspection at interior points. This legislation, which was enacted in response to disclosures of abuses in inspection of grain for export, is now having a burdensome and costly impact on the purchase and sale of grain at interior points.

The record-keeping provisions of the new legislation need to be made narrower and more specific. Section 12(d) of the Grain Standards Amendments, 7 U.S.C. 87a(d) specifies that

"Every State, political subdivision thereof, or person who is the owner or operator of a commercial grain elevator, warehouse, or other storage or handling facility or is engaged in the merchandising of grain other than as a producer, and who, at any time, has obtained or obtains official inspection or weighing services shall, within the five year period thereafter, maintain complete and accurate records of purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, and other processing . . ."

The five year record-keeping requirement apparently applies even to a feed manufacturer who occasionally requests Federal inspection or weighing services. Apparently such a feed manufacturer would be required to keep extensive, expensive and otherwise unnecessary records of all his processing activities for five years.

These requirements would also be burdensome for the feed manufacturing division of diversified companies which are directly involved in grain merchandising. Under the language of the statute, the feed manufacturing division of such a company may be required to keep complete, comprehensive processing records simply because the grain merchandising division uses Federal inspection and weighing services. These results can scarcely have been intended by the Congress in enacting this legislation. They serve no apparent purpose and would increase costs, which would increase feed prices and eventually consumer prices of meat, milk and eggs.

DESCRIPTION OF FEED MANUFACTURING

There are several thousand feed manufacturers in the U.S. One of the feed grains is used as an ingredient in many livestock and poultry feeds. Most feed

manufacturers do not routinely use Federal inspection or weighing services as a part of their use of feed grains, but these services are used from time to time by many feed mills.

In manufacturing feed, dozens of additional ingredients are combined with feed grains to produce feeds which provide the nutrients needed for a given stage of the life cycle of a given animal. These ingredients in most formula feeds must include each of several vitamins, minerals, amino acids, carbohydrates, etc. Most feed mills manufacture dozens of finished feeds, each with different nutrient requirements and, hence, a different combination of ingredients.

Feed manufacturing is a large volume business. In even small mills, tons of ingredients flow into the plant each day, and tons of finished feeds are manufactured each day. Many plants receive hundreds of tons of ingredients each day with comparable volumes of finished feeds being produced.

There is no practical way that the identity of each shipment of each feed ingredient can be maintained as the ingredients are processed and combined with other ingredients as they move through the plant.

CONCLUSIONS AND COMMENTS

1. From a practical standpoint, it would be impossible for feed manufacturers to maintain "complete and accurate records" of many of the activities specified in the Act.

2. Even if it were possible to initiate such a record-keeping process, it is difficult to imagine how such records would be useful to anyone.

3. If every feed manufacturer initiated to the best of his ability the record-keeping system which this legislation would require of those making even an occasional use of Federal grain inspection or weighing, the cost of manufacturing animal feed would increase by at least millions of dollars per year. This would increase feed prices to livestock and poultry producers, and eventually would increase the prices of meat, milk and eggs to consumers.

4. Feed manufacturers of course maintain many records for management purposes, plus extensive additional records required by Federal, State and local government agencies. The record-keeping already required by Government for strictly regulatory purposes adds substantially to the price of livestock and poultry feed.

5. If these record-keeping requirements for feed manufacturers who make use of Federal grain inspection or weighing are activated, the additional record-keeping costs will be substantial, and most feed manufacturers are likely to avoid the use of Federal grain inspection and weighing. The Federal grain weighing and inspection system is of no use if it is not used.

The American Feed Manufacturers Association commends the Senate Committee on Agriculture and Forestry for holding these oversight hearings on Federal grain inspection. We recommend that the Committee approve legislation to alleviate the record-keeping burdens for feed manufacturers as described above. Such record-keeping would serve no purpose, and would be so expensive that most feed manufacturers could not afford to use Federal grain inspection or weighing services.

OAKLEY M. RAY,
President.

STATEMENT OF JOHN SULLIVAN, PRESIDENT, OMAHA GRAIN EXCHANGE, OMAHA, NEBR., FEBRUARY 1, 1977

FEES

The Federal Grain Inspection Fees for supervision proposed would create added costs for both the consumer and the producer, and we seriously question it.

Omaha Grain Exchange grades have not been questioned in the past and the change would cause additional money problems. The current supervision cost of 80¢ per thousand bushels would include an addition of 60% to almost double some of the inspection charges.

HISTORY

The Omaha Grain Exchange has been in business since 1902 to supervise the trading of grain and to furnish a market place for producers of Nebraska, Western Iowa, and Southern South Dakota. The inspection service was established at the same time.

The Omaha Grain Exchange is owned by both private and public memberships, from throughout the market area. Those memberships are held by bankers, feed and seed firms, railroads, brokers, grain merchandisers, country elevators and terminal operators. These memberships trade throughout the area and between themselves using Omaha Grain Exchange grades and regulations.

The Omaha Grain Exchange has never paid a dividend. The Exchange is a service organization and operates on a break-even basis.

The Omaha Grain Exchange appoints standing committees which daily supervise any membership misconduct or irregularities including any influence they would try to exert on the inspection department. Penalties for misconduct include monetary fines and expulsions of rights and privileges of Exchange membership. With the Omaha Grain Exchange rules and regulations we govern ourselves and eliminate conflicts of interest from within.

REPORTING REQUIREMENTS

Some of the reporting requirements that would be required in the new law appear to be impossible to comply with. Some of the most difficult are grain blendings, treating, cleaning, and the length of the record keeping.

Because of these three problems outlined: conflict of interest, supervision cost, and record keeping, the Omaha Grain Exchange is questioning whether to keep its inspection service certified by the government.

STATEMENT OF CLAYTON W. JOHNSON, PRESIDENT, MID-STATES TERMINALS, INC., TOLEDO, OHIO

Mid-States Terminals, Inc. is a terminal elevator located at Toledo, Ohio with annual sales of 200 million dollars.

Mid-States is a Cooperative which enjoys an excellent reputation throughout the domestic and worldwide grain marketing system and functions for the benefit of thousands of farmers who produce grain in the three States of Ohio, Indiana, and Michigan.

Dedicated to provide maximum service and maximum efficiency to all its patrons, Mid-States has invested millions of dollars to effectively handle severe pressures of heavy seasonal volumes. All grain arrives by truck. 70% of the annual volume is handled in just two months of the peak harvest period of October and November.

Our ability to unload quickly is all important to allow every patron to return to his fields to complete his harvest. Meanwhile we must carefully control costs to maximize returns to all producers.

Mid-States and its great number of patrons are gravely concerned that the new regulations governing Federal inspection and weighing procedures will sharply reduce productivity and notoriously escalate costs. Information we have collected to date indicate these new regulations are totally unreasonable and unwarranted.

It is a case of too many Federal inspectors and weighmen being programmed to do a less than minimum job at exorbitant rates.

We are familiar with the work of Federal inspectors. If the new regulations require that they inspect the grain in inbound trucks, we can expect them to do perhaps six to ten trucks per hour. Our own people do 40 per hour because that is the need to process the volume. Unit costs are projected to increase ten fold and farmers will stand most of this penalty.

Federal weighing procedures appear even more unreasonable. Where we now have three weighmen at $6.00 per hour, we may be forced to add five Federal weighmen at $16.00 each per hour.

President Carter stated in his Fireside Chat, February 2, 1977, "Where free competition can better serve the public, then government should stay out." And, "When new regulations are written, they will be in plain English and approved by the Cabinet Officer."

Our philosophy as well as President Carter's makes the Grain Standards Act of 1976 totally unacceptable. The Congress has violently over-reacted to a grain situation in the Gulf of Mexico and produced legislation that is unworkable and counter-productive.

We urge whole heartedly that measures be taken to set aside this legislation before it grinds the entire marketing system to a halt.

SOUTH LOUISIANA GRAIN SERVICES, INC.,
Destrehan, La., January 28, 1977.

Hon. J. BENNETT JOHNSTON,
U.S. Senate, Russell Office Building,
Washington, D.C.

DEAR SENATOR JOHNSTON: It now appears that several Congressmen, State Officials, Trade Members, and other Organizations have become greatly concerned over the new Grain Inspection Bill which was hastily passed through Congress at the very close of last year's session.

At the time virtually all other states went along with this ill conceived, discriminatory Bill because it was generally felt that it would only affect Louisiana and Texas.

Now that the U.S. Department of Agriculture is beginning to implement this new Bill other States are complaining about increased cost, record keeping, and other fallacies of the new Federal Grain Inspection Service. In fact, we understand that Senator Huddleston is scheduling hearings, tentatively for February 3, to discuss possible changes or amendments. Attached is a report from the National Grain Trade Council on an informal meeting conducted by Senator Dole on January 18, 1977 and a recent Trade Journal article, which I thought would be of interest.

The complaints being raised now are insignificant compared to the problems we will have in Louisiana once this Bill is fully implemented. Initial Federal inspection and weight supervision will cause complete chaos in our entire marketing system, with a drastic effect on our economy, particularly at export locations in the Gulf. The Federal Grain Inspection Service does not have the qualified and experienced personnel, particularly in the area of weighing to adequately provide the efficient service necessary for orderly handling of our nation's vast grain supplies. A slow down in export shipments through the Gulf ports would create a serious problem, not only in Louisiana but also in other grain producing States by causing a back log of grain at inland terminals.

It is inconceivable that such a discriminatory Bill against a few states can remain the law of the land. Now that other states are beginning to raise questions, we feel that Louisiana should do likewise. For example, why shouldn't Inspection Agencies in Louisiana who are providing adequate service and who are willing to cooperate with the U.S. Department of Agriculture be allowed to remain in business the same as those at interior points and other export locations? We have been advised by U.S.D.A. that we operate one of the best Agencies in the country. However, we are being painted with a broad brush and unfortunately must suffer because of the acts of others. This certainly doesn't sound like a very democratic process. Furthermore, we have been complimented by the Department for the exceptionally fine job we did in expanding our services on extremely short notice to other locations, at their request where they were having problems. Why shouldn't this type of operation be permitted to remain in business?

There are several other questions relevant to the facts that we feel should be carefully considered. Such as, why were Grand Jury investigations conducted only in Louisiana and Texas? Why was the testimony of Mr. Gallinghouse so important to Congressional hearings when his investigation related to only one area of the country? Why did Senators Clark and Humphrey recommend that Mr. Gallinghouse be retained as U.S. Attorney? Why were indictments against five inspectors in Houston, which were pending for almost two years, suddenly dropped immediately after President Ford signed the new Bill into law?

We believe that this entire legislation was an over reaction by a few Congressmen based on misinformation which was prejudiced by the acts of a few individuals. The export grain business is very vital to Louisiana and would suffer severely through increased cost and gross inefficiency of Federal inspection. We believe the forthcoming hearings will provide our State the opportunity to correct these discrepancies and sincerely request your immediate attention to this most important matter.

Very truly yours,

JOHN A. WILLIAMSON, Jr., *President.*

Attachments.

NATIONAL GRAIN TRADE COUNCIL,
Washington, D.C., January 21, 1977.

To: Directors and Secretaries, TEGMA Directors, Sustaining Members.

GENTLEMEN: On Tuesday morning, January 18, Senator Dole presided at an informal meeting to consider and discuss the questions raised by the programs already announced and the programs contemplated by the Federal Grain Inspection Service and to explore the question whether further or remedial legislation is now required.

Attending the meeting were Senator Young of North Dakota, Senator Huddleston of Kentucky and Congresman Sebelius of Kansas. Senators Dole, Huddleston and Young are members of the Senate Committee on Agriculture; Congressman Sebelius is a member of the House Committee on Agriculture.

Senator Huddleston is chairman of a Senate Agriculture Subcommittee on Production, Marketing and Stabilization of Prices. This subcommittee is one of two Senate subcommittees that, on the record, considered Senate bills to amend the Grain Standards Act last year.

Senator Young is the ranking Republican member of the Senate Committee on Appropriations.

The meeting was originally prompted when the Federal Grain Inspection Service assessed projected charges for supervising grain inspection activities.

Senator Young read a letter written to him from the North Dakota Wheat Commission where the writer complained of the trend towards complete Federalization which the new program seemed to be taking. The letter pointed out the additional costs to North Dakota producers of the contemplated program.

Senator Young stated it was his intention that additional expenses and charges would be limited to export points and add to major interior terminals.

Mr. Kampschroeder, Director of the Kansas Grain Inspection Department, reviewed the Service's increase in the assessment or royalty allocated to the State of Kansas which now approaches nearly one half a million dollars a year. He noted that even with the payment of this fee, neither the Kansas Inspection Department nor Kansas producers would be receiving any more services.

He questioned the statute's reporting requirement as it applies to country elevators.

He described the addition of 2,800 additional Federal employees as being at an abnormal cost.

George Voth of Far-Mar-Co. noted that closer supervision of grading had been needed at ports, probably at a limited number of ports. The direction of the proposed programs, however, would mean added expense to farmers; will slow down the movement of grain to market; will result in demurrage charges; may mean late deliveries on contracts and may bring about embargoes of domestic grain movements by rail.

Joseph Gregg of Kansas City questioned whether the new law actually reflects the intent of the conferees. He stated that he and others in Kansas City who operated country elevators were satisfied with both Missouri State and Kansas State grades. He wondered whether the added fees imposed on Kansas and Missouri would actually result in more supervision when more supervision in those states was not necessary.

Willis Theis pointed out that because of these added charges, some agencies were suggesting that they would unofficially sample and classify grain that the additional supervisory charges might not be assessed. Such a procedure would have a drastic effect on the Kansas City Board of Trade, on government loan programs, on government purchase programs, on the settlement of claims and on banking practices.

Mr. Theis suggested that in developing its programs the new inspection service might well make use of advisory committees comparable to those used by the Commodity Futures Trading Commission.

John Craner of the Kansas Grain and Feed Association pointed out the problems which would result in Kansas, where because of geographic problems out-of-state grades on samples drawn in Kansas would be prohibited.

Under the old law, on shipments to Colorado or Oklahoma destinations, samples could be submitted to Denver or Enid for grading.

He complained of the record-keeping to be required at country elevators.

Frank Hemmen, speaking for the Texas Grain and Feed Association, said that in implementing the law, interior markets and assembly points in Texas were deeply involved.

He raised a question about the alleged conflict-of-interest at these interior boards of trade and grain exchanges, many of which had been in existence for over fifty years and at which there had been no grading or weight problems.

He described the production and distribution of United States-produced grain as the most efficient in the world. He noted that under the projected or contemplated plans, a number of interior merchants might go to local non-official grades, a procedure that would be less expensive and would retain the efficiency of the present system.

Mr. James of the Virginia Inspection Department questioned the imposition on the State of Virginia of nearly a half million dollars in supervisory charges when no more supervision or need for supervision is required. He questioned the need for additional regional offices and stated that the record-keeping requirements, as it applied to country elevators, would discourage the use of official grades.

The spokesmen for the Missouri Inspection Department described the contemplated supervisory fees as unwarranted and prejudicial to producers. As a result there could develop an unofficial service in the interior.

Mr. Tommy Irwin, the elected Secretary of Agriculture from the State of Georgia, described the developing grain production in that state and noted that under the contemplated proposals grain handlers in that state would be discouraged from obtaining official inspections.

Mr. Humphrey of Decatur, Illinois, speaking for the Association of Chief Grain Inspectors, observed that the legislative result was somewhat in the nature of an overkill situation. He noted that complications and confusions continue to arise as the bill is studied and new programs are announced or suggested.

Mr. Wilkinson, the Acting Director of the new Federal Grain Inspection Service, noted that in his judgment the Department had an immediate obligation to improve the weighing and grading procedures at export but did not need to have all export points Federalized for 18 months. However, developments at three export points required earlier action and this has been taken.

As to interior points, the new agency had been advised by the Office of Management and Budget that the agency's funds would be exhausted by April first if supervisory fees were not imposed at interior points.

He stated that the new statute's requirement that all expenses except at the Washington level be assumed by users of the service was unique and that no longer could these expenses be paid from appropriated funds.

He stated that the main purpose of the new agency was to establish a national inspection and weighing program. This means that a determination had to be made as to the level of supervision which should be developed nationally.

He then reviewed the early meetings and successive meetings which had resulted in a change in the assessment methods, and, in a case of grading supervision, a fee of eighty cents per thousand bushels.

He observed that although the Federal Government now has authority to do initial inspection, Federal initial inspection will not come except as to fill voids.

On the broad item of record-keeping, a representative from the General Counsel's Office pointed out that the mandatory nature of this requirement was due perhaps to an oversight when the conferees failed to adopt a Departmental recommendation on language to be added to that particular section of the new Act.

Mr. Wilkinson added that on the conflict-of-interest question, the statute itself may need clarification. He added that Grain Exchange or Board of Trade inspections may well be retained but each on an individual basis.

Waivers will be available under criteria not yet developed. When these criteria are developed they will be published and subject to hearings. It is improper to assume that every existing agency will receive a waiver and it is equally improper to assume that no waivers will be granted.

Senator Young observed that perhaps the best procedure would be to return to the use of appropriated funds in paying for Federal supervision.

Senator Huddleston and Dole suggested that they would confer with other members of the Senate Committee to determine the date and scope of additional hearings.

[Milling & Baking News, Kansas City, Mo., Jan. 11, 1977]

Costs of Grain Supervision Protested

KANSAS GOVERNOR ISSUES VIGOROUS OBJECTIONS TO CHARGES, PROPOSES STUDY OF 'ABANDONING FEDERAL PROGRAM;' SENATOR DOLE SETS WASHINGTON MEETING

Protests mounted last week over the cost of grain inspection and weighing supervision of non-federal agencies to be assessed by the Federal Grain Inspection Service in administering the U.S. Grain Standards Act of 1976.

Most vigorous of the objections emanated from Kansas, where a delegation of growers and grain trade representatives met with Governor Robert Bennett and unanimously recommended that the state "seriously explore the possibility of abandoning use of the federal program and instead continue our own inspection program of issuing Kansas official certificates."

A telegram expressing the Kansas objections was sent by Governor Bennett to the state's Congressional delegation, chairman of the House and Senate Agricultural Committees, officials of the Department of Agriculture and Secretary of Agriculture-designee, Robert S. Bergland.

Senator Robert Dole scheduled a Jan. 18 meeting in Washington to provide Kansas and other state and private inspection agencies an opportunity to discuss the problems with Federal Grain Inspection Service administrators and high officials of the Department of Agriculture. Congressman Keith G. Sebelius held a meeting last Friday of the Kansas delegation to assure a "uniform, bipartisan support to protect the Kansas wheat producer."

BROAD INTEREST IN DOLE MEETING

Senator Dole's Jan. 18 meeting has aroused widespread interest among state and private agencies, as well as grower groups and the private trade, and shows signs of developing into a forum for a broad discussion of the many problems involved in the transition to federal supervision as required by the Grain Standards Act. "I do not want the Federal Grain Inspection Service to over-react and unjustifiably increase supervisory costs which may result in lower grain prices to farmers," Senator Dole said in announcing the meeting, which will be held in the Senate Agriculture Committee Room, 322 Russell Senate Office Building, beginning at 9:00 a.m.

In addition to charges for federal supervision, Senator Dole cited as problems for Kansas the need to obtain required approval of the state legislature for increases in inspection fees in time to comply with F.G.I.S. requirements; determination of the necessary number of federal supervisory inspectors required to assure compliance with the new Act; and the threat of increased costs being passed on to farmers. The problem of grading differences between the point of origin and export points will also be discussed, the Senator said.

Governor Bennett's telegram scored the program of F.G.I.S. as filled with "ridiculous red tape" and likely to "snarl elevators and grain terminals throughout the state without increasing the quality of grain inspection." The Governor cited as "outrageous" the costs to the state of Kansas, estimated by the Grain Inspection Department at $500,000 a year in increased inspection fees for supervision of the program alone.

The delegation meeting with Governor Bennett last Tuesday included Harry Kampschroeder, director of the State Grain Inspection Department; H. Bernard Fink, C-G-F Grain Co., Topeka; Joseph B. Gregg, Morrison-Gregg-Mitchell Grain Co., Kansas City; Leonard Weddle, a Minneola, Kans., farmer and chairman of Kansas Wheat Commission, Hutchinson.

Among problems discussed at the meeting with the Kansas governor was whether rejection by the state of designation as an official inspection agency under the federal program would prevent C.C.C. from issuing loans at terminal elevators on the basis of state certificates, and the impact of grain contracted for deferred shipment. "This is an option to be explored, but we have to study it very carefully to see that it does not damage farmers or others in the grain industry," the Governor said.

Mr. Kampschroeder pointed out that Kansas' inspection agency is looked to by other states as a model for the industry, and that Kansas producers would be paying "out of reason" charges for what he called inferior supervision.

DELAYS IN SIGNING AGREEMENTS

The state weighing and inspection agencies of Kansas and Missouri are deferring at least until after the Jan. 18 meeting the signing of an "interim letter-type agreement" issued by F.G.I.S. to ascertain which of the state and private agencies would continue to provide the services, but with federal supervision at an assessed cost. F.G.I.S. informed the agencies that the first bill for inspection supervision will be issued shortly after Feb. 28 to cover the month of February, with subsequent bills to be on a calendar month basis. "Bills will not be issued for weighing supervision until such supervision is actually performed," the F.G.I.S. letter stated.

Thomas H. Porter, acting director of the Compliance Division of F.G.I.S., told *Milling & Baking News* that "about a dozen" of the interim agreements have been returned, all from private agencies and boards of trade, none yet from state inspection divisions. A few agencies expressed a desire to submit a letter of intent to participate but preferred not to sign the interim agreement and this was considered acceptable, Mr. Porter said.

NEW LAW REQUIRES REIMBURSEMENT

Supervision fees will be charged directly to non-federal agencies participating in grain inspections. The Grain Standards Act of 1976 specifies that every agency must reimburse F.G.I.S. for all costs of supervision in the field. Previously, supervision costs were paid from U.S. Treasury funds.

STATEMENT OF CHARLES D. RHOADES, EXECUTIVE VICE PRESIDENT, MINNESOTA ASSOCIATION OF WHEAT GROWERS, RED LAKE FALLS, MINN.

The Minnesota Association of wheat growers is a commodity organization representing commercial wheat producers in the State of Minnesota.

Wheat producers, under the 1976 Grain Standards Act, would be charged with the responsibility of paying for inspection service of wheat passing through various points as it proceeds toward the eventual consumer.

It is grossly unfair for the wheat producers to pay for the inspection of their product at this point. The domestic consumer and overseas purchasers are largely responsible for the necessity of this service.

Wheat farmers know the quality of the grain they produce and market at country elevators. United States Department of Agriculture figures, as accumulated on the 1976 wheat crop, show that about 97 percent of all samples of hard red spring wheat tested passed all requirements for grade No. 1 hard red spring wheat.

As far as the wheat producers are concerned the USDA figures are adequate when it comes to grading the 130-million bushels of wheat produced in Minnesota during 1976.

All of this is said to pinpoint who wants the grain inspection system. It is rather easy to place the requirements at the feet of someone other than the farmers, who produced the grain. With this in mind, it is unrealistic for the wheat farmer to have to pay for the grain inspection service when all of the benefits are to be derived by someone else.

Minnesota wheat farmers are aware that the grain produced in this great agricultural state is equal to the best in the world.

Standard grain qualities are important for buyers and sellers, especially for food processors who must meet strict product specifications as the wheat goes into manufacturing or to delivery overseas.

By the time inspections are being made on wheat covered by the act, it is long past the control of the farmers who produced it. Therefore, the cost of the service should be borne by someone other than the wheat farmer.

With hard red spring wheat produced in Minnesota, farmers pay for tests at the country elevator and it appears to the farmers that this is enough for them to pay for a service of this kind.

THE WHEAT SITUATION

Availability of markets and the drastic reduction in the price of wheat over the past year make it necessary for wheat farmers to evaluate every program and each expenditure that is required.

In an effort to bring the supply-demand situation into the proper perspective, Minnesota wheat farmers are planning to reduce their acres planned to wheat about 14 percent. Many are currently planning to plant wheat only on summer fallow ground and possibly leave the remaining acres idle or for planning a cover crop.

Record world wheat production and reduced demands from overseas customers give wheat farmers little latitude in the financial picture. As a result, wheat farmers are already feeling the pinch and are looking for other sources of income.

Minnesota has climbed steadily upward in wheat production and in 1976 reached the No. 6 position in U.S. wheat production. The state also produced more than 30 percent of all hard red spring wheat in the U.S.

AN ALTERNATIVE

Under the former law, federal supervision of grain inspectors was paid from funds appropriated by Congress. This type financial structure would be more appropriate from the farmer's standpoint.

The buyer of wheat should have some responsibility in the quality factor involving wheat. With this in mind, it would seem more appropriate for inspection fees to be paid by the purchaser or handler than by the wheat farmer.

INSPECTION NEEDED BY PURCHASER

An overview of grain inspection of wheat produced in Minnesota is important for the purchaser and eventual user.

Wheat buyers should insist of highly qualified inspectors and reliable results. More and more, overseas buyers are learning that wheat farmers produce high quality wheat. Most of the wheat marketed in Minnesota is cleaned before it is sold at a country elevator. Yet, some overseas customers complain about foreign material when delivered.

Good inspection will assure eventual users of Minnesota wheat that the high quality, relatively free of foreign material and desirable wheat reaches the consumer in nearly the same condition as it leaves the possession of the farmer.

CONCLUSION

While the price currently being offered wheat farmers in Minnesota is far below the cost of production, which is generally accepted by officials of this organization to mean parity, the wheat farmer cannot afford to assume this added financial burden.

Chauncey Nelson, a veteran inspector for the Minnesota Agriculture Department's grain inspection division, figures the fee has jumped about one-half cent a bushel. If all the wheat produced in Minnesota in 1976 were inspected at this cost, it would represent about $650,000 annually for state wheat farmers alone. This amount could well be used for other activities. Some $5.3 million in supervisor costs would be an undue burden on Minnesota wheat farmers and other farmers throughout the United States.

In an effort to move more Minnesota wheat into export and at the same time enhance the United States' balance of payments, it appears that a standard be established to keep scandals out of the grain inspection business and a major action would be to have inspection fees detached from the farmer, seller and buyer.

Therefore, it is our recommendation that payment for inspection services be returned to follow the same procedures as before the Grain Standards Act of 1976. In other words, federal supervision of grain inspectors should remain federal and paid from funds appropriated by Congress.

STATEMENT OF ILLINOIS DEPARTMENT OF AGRICULTURE

The Illinois Department of Agriculture expresses its thanks to the Committee in accepting our written remarks on this very important issue. It is our purpose here to offer comments on behalf of the State of Illinois wtih regard to the recently amended U.S. Grain Standards Act and the activities of the Federal Grain Inspection Service in its present attempts to implement its new mandate.

As you know, the State of Illinois is only one of several designated agencies authorized to provide grain inspection services in Illinois. Our concern over the new program is not confined only to our program's compliance with new and almost overwhelming rules and regulations however, but also must be directed to the impact this new program will have on *our* most important constituency: the Illinois farmer. Of course, the impact to the farmers will be largely economic, and will relate directly to the impact borne by inspection agencies and their clients, the grain handling facilities, which will then be passed on to the farmer in the form of higher service charges, greater discounts, or a combination of both.

It occurs to us in Illinois that the Congressional intent in developing new grain inspection legislation was to, in essence, disinfect the old system; I think a popular phrase was "to clean up grain inspection." And, it is likely that many of the new directions will assist in accomplishing this goal. However, where there was the tarnish in the polish of the old system discovered? Was the farmer the culprit; was the farmer misweighing and misgrading grain; was the farmer scheming with inspection personnel to defraud the purchasers of United States grain? We think not! Credibility in the system was not lost at the production level, but rather occurred apparently at levels much farther down the marketing chain. That is where the "clean-up" must take place, and that is where the cost of the program most logically should be borne.

In Illinois, the cost of supervision alone will be almost one million dollars, with no certain guarantees as to the quality (let alone the need) of supervision. The FGIS has estimated that the number of employees involved in the program will increase from somewhere around 500 to over 2600. At the port of Toledo we are told that it will take approximately sixty (60) FGIS employees to provide the same inspection service that heretofore required fewer than twenty (20) Toledo Board of Trade employees. At our East St. Louis, Illinois office we were informed that the FGIS will install three (3) of its employees to *supervise* the four to five State employees assigned to that location. It would appear that the FGIS has determined that an overpowering supervisory field staff will be a strong tool in accomplishing the "new image" of grain inspection.

Of course, the new legislation makes provision for other controls as well. The Act requires extensive record-keeping programs by all handlers of grain for which an official grade has been requested. Now, the Illinois Department of Agriculture is mindful of the need for an adequate record-keeping system at all grain handling facilities. But, we strongly question the merit of record-keeping requirements so severe that the end result will not be useful controls on the movement of grain, but rather an employment program for bookkeepers and clerks who will record information for which, especially at the smaller facilities, the FGIS will have very little use. Again we point out that an added cost will be imposed within the grain handling process, which will ultimately be borne by the producer, to subsidize an activity that we believe to be of questionable value. Furthermore, it is not likely that the disproportionate economic burden placed on the farmer will be the only detrimental effect produced by all the added regulation, but that, just as importantly, the orderly flow of grain especially at harvest, may well be severely disrupted.

Illinois then believes that the approach taken by Congress and the FGIS to "clean up" the grain inspection program may well do little toward actually accomplishing the goal, while, at the same time, it grossly misplaces the burden of funding on the instrument furthest removed from the source of the problem; the farmer.

We would therefore think it advisable of Congress to redefine its purpose in mandating a grain inspection program, to rethink the methodology needed to achieve that purpose, and to empower the FGIS not only by simple statutory mandate but also by adequate appropriation authority, to implement the methodology and to achieve the purpose.

[Telegram]

OREGON STATE DEPARTMENT OF AGRICULTURE,
Salem, Oreg., January 28, 1977.

Senator MARK HATFIELD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HATFIELD: Representative Tom Harkin of Iowa with Secretary Bob Bergland and I, at a recent meeting in Omaha, discussed the problems of

fees assessed some states for supervision of grain inspection under the Federal Grain Standards Act of 1976. Representative Harkin suggested I advise you of that conversation and Oregon's position.

Grain producers, handlers, dealers in this dept. are very concerned with the implementation of the act and fees imposed by the Federal grain inspection service.

Oregon has had in effect, a statewide grain inspection service since the early 1900's administered by the State. We have served the Oregon producers, handlers, dealers and exporters without controversy. This program has been well accepted by the producer, the consumer and the receiver in export markets.

Oregon is one of the ten States that qualifies to continue a State grain inspection program under the new act, supervised by the Federal Grain Inspection Service. We are very much concerned over the proposed administrative and supervision costs applied to this State by the Federal Grain Inspection Service. At a meeting in Denver, Colorado, the grain inspector supervision cost was set at 115,942 dollars for Oregon. From their information we calculated that the weighing supervision cost would be 65,000 dollars. We felt that this supervision cost was excessive but acceptable.

A letter dated December 29, 1976, notified this department that a fee of 80 cents per 1,000 bushels of grain inspected would be charged Oregon for Federal inspection supervision. When applying this figure to the 1975–76 (fiscal year) volume of grain inspected in Oregon, this will amount to 175,755 dollars just for Federal supervision. The December 29 letter also notified the department that 35 cents per thousand bushels would be charged for weighing supervision, when applying this charge to grain weighing in 1975–76 (fiscal year), the cost would amount to 77,195 dollars. Also the cost for submitted samples will be 11,189 dollars to the State of Oregon. The total Federal supervision cost for Oregon would be 263,939 dollars.

If we apply fees to our projected volume of grain for fiscal years 1976–77, the Federal supervision cost for inspection would be 210,649 dollars weighing cost, for supervision 92,548 dollars and submitted samples 12,453 dollars for a total of 315,650 dollars plus indirect State Department of Agriculture cost.

In addition to these costs, we are told that the Federal supervision of grain weighing at inland point will be at hourly rate of 16 dollars and 20 dollars. We do not know the number of hours nor can costs be projected on this basis.

We feel that such costs for the supervision of the proven ongoing State grain inspection and weighing program (Oregon's program) by the Federal Grain Inspection Service is totally unreasonable amounting to supervision imposed on supervision imposed on supervision.

We here in Oregon realize the need for uniform grain inspection and weighing program for the United States, maintaining and improving our position in the world grain trade market is necessary. The need for reasonable Federal supervision in such a program is understood.

We cannot understand the need for establishing five regional administrative offices in excessive supervision fees for present proven ongoing state programs when the need for such administrative costs and supervision for a successful Federal program has not been demonstrated. The additional cost to Oregon's as well as the Nation's grain inspection and weighing program will be passed onto the grain farmer and come out of his income. The American farmer cannot continue to absorb such an additional bureaucratic cost.

We understand a meeting of an agricultural subcommittee chaired by Senator Huddleston will meet to discuss this problem on February 3 1977, and some of Oregon's wheat representatives will be in attendance to testify.

If you have the opportunity to intercede in our behalf, it would be greatly appreciated.

Sincerely,

LEONARD KUNZMAN, *Director.*

THE STATE OF ALABAMA,
DEPARTMENT OF AGRICULTURE AND INDUSTRIES,
Montgomery, Ala., January 27, 1977.

HON. WALTER HUDDLESTON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUDDLESTON: I have been advised that there will be a hearing before the Senate Agricultural Committee on February 3, at 9:00 a.m., in Room

322, Russell Senate Office Building, Washington, D.C., concerning the Federal Grain Inspection program.

The State of Alabama has had in effect a grain inspection and weighing program throughout the State of Alabama for the past twenty-five years. This program is carried out by the State of Alabama, Department of Agriculture, Shipping Point Inspection Division. We have an export facility located in Mobile, plus permanent and seasonal offices throughout the State of Alabama to provide inspection service to grain producers, dealers, handlers, and exporters. Our operation in Alabama has operated without controversy and there have been no charges, indictments, or other type of conflicts and I might add that our operation has been investigated routinely by various federal agencies.

Senator, Alabama is one of the ten states that are eligible to continue operations through designation from the Administrator of the Federal Grain Inspection Service. We are proud that we are eligible for the designation as it evidently denotes we have been doing a good job, but in order to accept this designation and continue our operation it will cost us approximately $220,000.00 per year (based on last year's volume) for supervision fees to be charged by the Federal Grain Inspection Service. We have federal supervision now, and have had this supervision since we started our inspection program twenty-five years ago, but to absorb $220,000.00 per year is completely out of reason, and would greatly curtail the inspection operations especially at interior points where farmers market their grain during harvest time. We do not receive any state or federal appropriations and operate solely from fees collected from patrons of our service.

Senator, we realize that it is necessary that there is a need for uniformity in the grain inspection and weighing program throughout the United States, and we here in Alabama welcome same, but we question the need for establishing five regional offices in various ports of the United States, and also the excessive fees for supervision for present programs that have proven themselves in their operation procedures.

The additional cost brought about by these supervision fees for inspection and weighing of grain will be absorbed by the farmers in Alabama and other states, and as you realize, the American farmer cannot keep on accepting bureaucratic costs as their cost from various other segments are steadily increasing.

We appreciate the opportunity to express our opinion and hope some procedure can be developed to curtail these excessive costs.

Sincerely yours,

McMILLAN LANE, *Commissioner.*

NATIONAL GRANGE,
Washington, D.C., February 4, 1977.

Hon. WALTER HUDDLESTON,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Committee on Agriculture and Forestry, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange has received many complaints pertaining to the costs associated with the enforcement of P.L. 94–582, the U.S. Grain Standards Act of 1976.

The costs I am referring to are not the charges for inspection and weighing but the service charge of 85¢ per 1000 bu. of grain inspected to cover out-of-Washington supervisory costs. The bill as passed stated that all administrative expense outside of Washington, D.C. would be covered by a fee charge. The administrative cost outside of Washington amounts to approximately five million dollars, dollars which ultimately will come out of the producers' pockets.

The Grange, as we have stated, does not object to the fee charge per hour for grain inspection, but we do feel very strongly that if the improved Grain Inspection Service is in the public interest, and we believe it is, then a greater proportionate share of the administrative cost should be shared by the public. The elimination of the supervisory fee of 85¢ per 1000 bu. of grain inspected would more equally distribute the cost of the services among the beneficiaries.

We also would support the appointment of an advisory committee to work with the Grain Inspection Agency in an effort to smooth out the transition from the old system to the new. There seems to be mass confusion in the grain trade regarding the news system and it comes at a time when we desperately need foreign shipments. The advisory committee could be of immediate help to the agency.

We would appreciate this letter being made a part of the hearing record.

Thank you.

Sincerely,

JOHN W. SCOTT, *Master.*

STATEMENT OF H. W. GRIMES, PRESIDENT, STOCKTON ELEVATORS, STOCKTON, CALIF.

GENTLEMEN: Stockton Elevators operates public grain terminals in Stockton, California and San Francisco, California. Both elevators are on the water and handle domestic as well as export grain. However, the San Francisco Grain Terminal is operated primarily for exporters and, for the purposes of this Testimony, should not be considered.

On the other hand, the Stockton elevator, because of its unusual geographic location serves as both an export facility and a country elevator. It is regarding this rather unique role that we offer our criticism of the current F.G.I.S. Legislation known as P.L. 94–582.

The Stockton terminal is physically located at the headwaters of the San Joaquin River, 75 miles up-river from San Francisco Bay. Total capacity at Stockton is 6,500,000 bushels.

The city of Stockton, in addition to being an inland port city, is also the urban center of an agricultural complex possibly unique in the world. Many varieties of grain, from both the Sacramento and San Joaquin valleys, funnel naturally into Stockton for storage. Stockton Elevators are the only public storage facility available to growers. All other grain storage facilities are essentially privately owned and managed by firms also involved in the grain business as dealer/merchanisers (viz. Cargill, Continental Grain, Adams Grains, etc.).

As the operators of Stockton Elevators, we are never principals, do not take title to any grain, and act only in a service capacity to the trade—both domestic and export. Last year (1975–76) approximately 21 million bushels of grain passed through our elevator, of which, almost 13 million bushels represented export grain shipments.

Yet as much as 40% of the 21 million bushels is locally grown, farmer generated, and intended to be consumed or processed by feed mills or feedlots within a radius of 100 miles of the elevator. This figure includes 100% of our barley and milo, 90% to 95% of our corn, and this year, even includes a goodly portion of our wheat. These percentages increase, of course, in those years when export business is not extensive.

Our problem as we see it, with the current F.G.I.S. regulations stems from the fact that apparently those drafting the regulations were unaware that an elevator such as ours could, at the same time, serve both as an export facility and a country elevator. To our knowledge this condition exists few other places in the United States.

It means that, as written, our grower accounts, through no fault of their own, must bear the added expense and burden of paying for Federal weight and grade supervision simply because the Stockton elevator also happens at various times of the year to serve export customers. This situation, in time, places Stockton Elevators, as a business entity, at an economic disadvantage with competing elevators who happen not to be physically located on the water, but who are still well within the same geographic market place (5–30 miles), as we; unless of course, we are willing to swallow these charges simply as a "cost of doing business".

Stated another way, it appears that because Stockton Elevators is designated as an export house (per the Act), all of our grain, regardless of whether destined for export or not, must be officially weighed and inspected. If so, these facts force our elevator to either pass along both the increased expense of federally supervised weights and grades to a domestic grower or user who has no intention of exporting or, alternatively, to absorb the expenses ourselves in order to remain competitive with other elevators in our area serving the same market place.

The irony in such a situation is that because these competing elevators are owned by merchandisers, the grower—(if we are competitively unavailable to him)—must sell his grain to the merchandiser at the time of delivery to the elevator or else store the grain himself—for all too many an impossibility because of a lack of farmer owned facilities.

We are sure such obvious discrimination was not the intent of the new F.G.I.S. act. Indeed, more than one reference is made in the act to situations which may be discriminatory or unreasonable. However, at this juncture it appears that there is little lee-way in the wording of the act to specifically deal with problems such as we face.

We specifically wish to be exempted from the burden of F.G.I.S. supervisory costs on all grain which can be shown to be farmer stored and delivered to domestic users. We feel we have the accounting capabilities to differentiate our

domestic grain from our export grain stipulating, of course, that all physical grain of like type and variety is co-mingled of necessity.

While we are not in agreement with the need or cost of an F.G.I.S. as legislated, we are not seeking exemption from this regulation on any export grain which passes through the Stockton facility. What we do seek is a "competitive fair shake" for our grower and domestic customers as well as ourselves on the 40–50% of the balance.

Unfortunately, PL94–582 is so restrictively written few references are made to the fact that legitimate exceptions may exist and, from our conversations with F.G.I.S. official personnel, absolutely no guidelines exist for dealing with unusual situations such as we represent.

As things now stand, we feel our only recourse, as we interpret the act, is to petition this sub-committee for redress or, barring such, an indication that some guidelines for exemptions are being promulgated to assist us in what we feel is a unique situation. We will be pleased to provide additional detailed information should you wish it.

STATEMENT OF JIM SUCHODOLSKI, MICHIGAN GRAIN & AGRI-DEALERS AND DON KUNZ, PRESIDENT, SAGINAW BOARD OF TRADE, CARROLLTON, MICH.

This statement of position is submitted on behalf of the Saginaw Board of Trade and the Michigan Grain and Agri-Dealers Association, who together represent over 400 businesses in the agri-industry within Michigan.

We sympathize with the decision of the Saginaw Board of Trade to discontinue issuing Official Inspection Certificates on January 16, 1977.

The decision was a very difficult one, but faced with unrealistic supervisory costs of $26,683.50 under the US Grain Standards Act of 1976, the only resistive route was to relinquish issuing official certificates. Heretofore, this charge was always borne by the USDA AMS division price.

There has never been a breath of scandal or wrongdoing since the inception of the Saginaw Board of Trade. It's success and reputation were undoubtedly enhanced, not only by the staff, but by the fact that its stockholders and board members were nearly all experts in this grain trade, buyers and sellers alike.

Yet, under the interpretation of the Grain Standards Act nearly everyone who was a member would be excluded from serving because of the interpretation of the conflict of interest provision.

To make matters worse, all employees of the Saginaw Board of Trade, to a man, signed on with the Federal Grain Inspection Service. If we had elected to continue we would have been without any licensed inspectors.

The total employment was five people. Under the FGIS the manpower schedule shows that when fully staffed, the Saginaw office will have 15 people.

In the year ending May 31, 1976, the Saginaw Board of Trade's payroll expense was $65,586.71, including overtime. Under the FGIS the manpower schedule payroll totals up to $135,978. There is no question but that Saginaw is a small part of the FGIS, but the conclusion seems to be that our direct costs of inspections and weighing will double. Can we expect this to occur across the whole inspection system?

These are only the apparent costs. Preliminary discussions with the FGIS prove to us that more FGIS personnel will be required than customarily have been in order to conform to the new inspection procedures.

Each firm will also need additional employees to meet record keeping requirements for which we see no useful purpose.

These simple illustrations lead to but one result. Because the grain business is a high volume, low margin business, trade businessmen will seek an alternate less expensive system.

If the intent of the Grain Standards Act is to be served, amendments to the legislation must be found which will appropriate supervisory fees from the Federal budget and relieve the minutely detailed record keeping requirement.

In addition, a joint-study by the trade inspection experts and FGIS staff should be submitted for legislation consideration.

The membership of both the Saginaw Board of Trade and Michigan Grain & Agri-Dealers urge a review of the legislation and urge adopting of appropriate amendments.

STATEMENT OF L. C. "CLELL" CARPENTER, MIDCONTINENT FARMERS ASSOCIATION, COLUMBIA, MO.

Mr. Chairman and Members of the Committee, I am L. C. "Clell" Carpenter, Vice President of Midcontinent Farmers Association, headquartered in Columbia, Missouri. MFA is a farm organization representing over 163,000 farmers in the mid-central United States.

Farmers in the midcontinent area are greatly disturbed over the new supervision changes proposed by the Federal Grain Inspection Service. We feel that these changes are unnecessary, unjustified and an intolerable burden on the grain farmers of the United States.

In our support of the new grain inspection law, we did not foresee the imposition of this additional financial burden. Producers of other commodities have not been saddled with such costs, and we do not think it is fair that grain farmers should be.

Traditionally, in administering government-supervised commodity inspection programs, a distinction has been made between private interest and public interest benefits in determining who should pay the costs. Costs incurred in serving the private interest generally have been recovered from user fees. Those serving a public interest have been paid from appropriated funds.

Mandatory inspection programs to assure the wholesomeness of food supplies—such as the meat and poultry inspection programs of the U.S. Department of Agriculture and food surveillance activities of the Food and Drug Administration—are financed almost entirely by appropriated funds. Voluntary inspection programs to facilitate the marketing of agricultural commodities are financed by user fees. However, these generally are supplemented by appropriated funds to cover some portion of the costs of supervision, in recognition of the public benefits accruing from improved marketing efficiency and the maintenance of a nationally uniform inspection system.

How do these criteria apply in the case of the grain inspection system? Clearly, the attention given to this matter by the Congress during the past two years, and the extensive public debate which culminated in establishment of the new Federal Grain Inspection Service, attest to the substantial public interest in this matter.

A brief quote from the comments of Senator Humphrey and Congressman Foley in releasing a GAO Report on Irregularities in the Marketing of Grain a year ago place this matter in reasonable perspective:

"How important is our grain inspection system?

"Last year, the United States exported $21.9 billion worth of agricultural products, most of it grain which is subject to inspection under the U.S. Grain Standards Act.

"Earnings from commercial grain exports made an important contribution, not only to farm income, but also to jobs in the transportation and storage industries and to the overall economic recovery in this country in the latter part of 1975.

"In addition, concessional sales under our Public Law 480 (Food for Peace) program made important contributions to farm income in this country and to the development of poorer countries and the war against hunger throughout the world.

"The quality of American grain in world markets has been an important factor in the success of our commercial and humanitarian export programs.

"We believe it essential to continued economic recovery, and for the economic position of the United States in the world for years to come, that the quality of American grain exports and the integrity of our grain inspection system be maintained at as high a level as possible."

The Congress further reinforced its conviction with funds. Monies previously appropriated to cover Federal supervisory costs were increased through a $5 million supplemental appropriation, to provide training and supervisory personnel to meet performance levels deemed necessary to further the public interest.

These were necessary and appropriate steps. The Congress traditionally had provided funds to cover Federal supervisory costs, and when it determined, in the light of substantial public evidence, that such funds were inadequate, it

provided additional funds to enable the Department to discharge its public interest responsibilities.

What has now happen is that under the new grain inspection law, a major portion of these supervisory costs are being transferred from the public to the private sector. State and private grain inspection agencies will be billed by USDA to cover all non-Washington supervisory costs. Inspections agencies will pass these charges on in the form of higher inspection fees, which ultimately will come out of the farmer's pocket. Thus the new procedure results in an assessment of more than $6 million a year against U.S. grain farmers to pay for what is essentially a public interest cost. Missouri's share of this will be $¼ million per year.

With current low prices of grain, farmers already are having difficulty recovering their costs of production. This additional charge will add another layer of costs and worsen what is already a grim situation for the hard-pressed grain farmer.

This cost transfer makes no sense in terms of the Congressionally-acknowledged public interest in an improved grain inspection system, or in terms of the generally accepted criteria for public and private funding under this and other commodity inspection programs of the Federal Government. We urge that the Act be amended to provide for Federal funding of all supervisory costs beyond the level of the individual State or private inspection agency.

Failure to supply this relief will impose an unjustified financial burden on the Nation's grain farmers. Alternatively, it may cause some states to dissociate themselves from the Federal program and set up independent state inspection systems. This would be a step backward in terms of orderly marketing of our Nation's grain supplies.

Mr. Chairman and Members of the Committee, we appreciate the opportunity to present to you our views on this important matter. It is of utmost concern to us, and I hope that you will act promptly to relieve the Nation's grain farmers of this additional burden by recommending amendment of the Act to provide public funds to pay for these public benefit supervision costs.

STATEMENT OF EDWARD R. POWELL, VICE PRESIDENT, MICHIGAN ELEVATOR EXCHANGE, LANSING, MICH.

My name is E. R. Powell. I am Vice President and Assistant Secretary of Farm Bureau Services, Inc. and have the responsibility for the operations of the Michigan Elevator Exchange Division.

We operate a 2 million bushel grain terminal in the port of Saginaw and a 6 million bushel grain terminal at Ottawa Lake, Michigan in the Toledo, Ohio switching limit. We also own 22 country elevators and provide management under a contractual arrangement with 24 additional country elevators.

The Michigan Elevator Exchange Division is the regional cooperative marketing agency for the State of Michigan. Because of the location of our terminals, we operate in both the Toledo, Ohio and Saginaw, Michigan markets and, therefore, have become part of the transition of the nation's first Federal Grain Inspection Standards takeover from established authorized inspection agencies.

Frankly, we are alarmed at our experience.

Caught by surprise at the wording of the Grain Standards Act that the costs of the inspection and weighing supervision be borne by the user, we were quickly brought up to date when both the Saginaw Board of Trade and the Toledo Board of Trade were assessed exhorbitant supervisory fees. The Directors of both Boards of Trade decided that they could not generate enough income to pay the fees that were assessed, particularly during the winter months when very little grain normally moves due to the weather and the closing of the seaway. The fees were to begin January 16, so both Boards discontinued inspection on January 14 and turned the markets over to F.G.I.S. to prevent the supervision fee from being assessed. The fees were penalty enough, but they are only the tip of the iceberg.

We have nothing new under the F.G.I.S. The same inspectors are inspecting the grain as before because they were hired by the F.G.I.S. in place, at the same location, and the same phone number. The same supervisors are in place except they are directly in charge instead of a supervisory capacity. What is new, however, is that our rates for inspections have skyrocketed. Charges for inspections and of weights at our terminal in Saginaw, under the Saginaw Board of Trade, were charged at $5.50 per man-hour plus $1.25 per thousand bushel, and any overtime at time-and-a-half, if applicable. When we loaded rail cars, the Saginaw

Board of Trade charged us the hourly rate of one man plus the inspection rate based on bushels. Under F.G.I.S., our fees will be $16.00 per man-hour straight time and $20.00 per hour overtime on a contracted basis. Discussion with F.G.I.S. officials have convinced us that our operation will require at least five people to conform to official inspections and weights requirements. The mathematics speak for themselves. Saginaw Board of Trade operated with 5 inspectors and samplers which provided service for Saginaw and Bay City and also a radius of about 70 miles for all country elevators who ship grain by rail including 3 train loading elevators. The latest report is that F.G.I.S. has 15 inspectors and samplers.

Complicating those problems is the efficiency of private versus Government operations. In the 15 days since the authority passed to F.G.I.S., we have already experienced delays of completing inspections because: 1) the call for inspection was at 4:00 p.m. and the inspection could not be completed by normal quiting time. 2) because a unit train was being loaded in the area, all the F.G.I.S. staff was too busy so the request was delayed until the next day. As a result, costs for demurrage on railroad cars will be assessed, not to mention the aggravation of an already critical car shortage. We are firmly convinced that these are only minor symptoms of a deterioration of the highly efficient system of weights and grades that was an accomplished fact under the Saginaw Board of Trade.

As inefficiency and high costs become apparent, the grain trade will be forced to find an alternate method for determining quality of grain that is being marketed. There is already a movement underway to devise a system of grading completely divorced from the official U.S. standards.

The irony of this new act is that farmers will bear the costs of this system. In a period when farm prices are already alarmingly low compared to production costs, this additional burden will create considerable animosity in the minds of farmers.

Therefore, it is our recommendation that the U.S. Grain Standards Act of 1976 be amended to allow appropriation of the supervisory costs from the Federal budget. We also recommend the relaxation of the requirement that all elevators be required to keep as yet unspecified records for a period of five years.

We also recommend a panel of experienced private inspection personnel and grain handlers, mixed with F.G.I.S. staff, be appointed to devise additional recommendations for changes in the present legislation to meet the requirement of the legislature and the present marketing system.

At a time when agricultural exports are so important to our balance of trade, we should not allow a bureaucracy to be established that slows down our ability to move grain from the farm to the foreign buyer. Weights and grades must be accurate and honest. Proper supervision is desirable and penalties must be enforced. The present action under the U.S. Grain Standards Act of 1976 is destroying the very efficient grain marketing system that has developed in the United States.

B & W Co-Op, Inc.,
Breckenridge, Mich., February 1, 1977.

Hon. Walter Huddleston,
Chairman, Senate Subcommittee on Agricultural Production, Marketing and Price Stabilization, Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Time does not permit us to appear in person at the oversight hearings to be held on February 3, 1977 regarding the operation of the grain inspection system under the New Federal Grain Inspection Service. We would however like to submit the following comments regarding inspection costs under the new system.

As you are probably aware the Inspection Service of the Saginaw Board of Trade was discontinued as of January 16, 1977 after it was informed that an annual Supervisory Fee of $26,000.00 would be assessed, and after inspection personnel had been contacted by F.G.I.S. and offered substantial wage increases to go to work for them. The Directors of the Saginaw Board of Trade were also informed that because of possible conflict of interests that its inspection service would probably not be allowed to continue.

The Saginaw Board of Trade was established as a Non-Profit Organization in 1950 by a group of Grain Industry people to provide for Grain Inspection and self imposed rules and regulations regarding the grain merchandising industry in Saginaw, Michigan and the outlying area. Never once in its entire existence

had the Saginaw Board of Trade or its Inspection Personnel been accused of anything the least bit suspect in regards to its operations. We think it is a tragedy that because of the dishonesty of a very, very few people in the market far removed from here that the Saginaw Board of Trade was forced to discontinue its Inspection Service.

When the Inspection Service was discontinued by the Saginaw Board of Trade it had 3 licensed Inspectors and 1 licensed Sampler employed in its service. We are informed that its replacement in Saginaw, the F.G.I.S., will have *15* employees to provide the same service. In fact they probably will provide less service in this area of the state because their representative has informed us that Inspection Service in the outlying areas, including Breckenridge, will be provided by private inspection agencys at Detroit and Battle Creek, Mich.

We think that the fees being assessed by F.G.I.S. are extremely extravagant when compared to fees previously assessed by the Saginaw Board of Trade for the same or better service. Even though the fees of the Saginaw Board of Trade were substantially less than F.G.I.S. it has in the last several years continued to add substantial increases to its financial reserves with no increase in inspection fees.

Please find attached copies of current fee schedules of the Saginaw Board of Trade and its balance sheet with comparisons for fiscal 1974, 1975 and 1976 to substantiate the above.

We are not opposed to a Federal Inspection Service as such, but are violently opposed to the over staffing of the agency and the resulting outrageous fees assessed.

Whereas B&W CO-OP had been paying $3.00 per hopper car (Mechanical Sample-lot Inspection Delivered) and now the fee is $18.00 or 6 times as much. It will cost each of our producers an average of $60.00 more for inspection each year. We wonder what our producers can expect in return for this increased cost. We also wonder what our producers can expect in the future. In most cases where the Federal Government gets involved it seems that costs continue to escalate.

Sincerely,

EUGENE CARSON, *Marketing Specialist.*

SAGINAW BOARD OF TRADE, CARROLLTON, MICH., BALANCE SHEET AT MAY 31, 1976 (UNAUDITED)

	1976	1975	1974
ASSETS			
Current assets:			
Cash on hand—petty cash	$50.00	$50.00	$50.00
Cash in bank—checking account	5,993.87	5,395.59	5,660.15
Cash in bank—savings accounts	51,278.99	51,642.64	44,385.65
Accounts receivable—trade	12,508.25	5,657.32	5,821.42
Total current assets	69,831.11	62,745.55	55,917.22
Fixed assets:			
Trucks and covers	15,876.96	10,579.56	6,173.78
Office equipment	1,475.70	1,371.70	1,318.15
Inspection equipment	4,772.43	4,114.33	3,547.38
Total	22,125.09	16,065.59	11,039.31
Less: Allowance for depreciation	8,653.30	6,816.84	4,738.95
Net fixed assets	13,471.79	9,248.75	6,300.36
Total assets	83,302.90	71,994.30	62,217.58
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payabletrade	1,191.45	547.35	585.58
Accrued compensation payable	3,537.03	3,941.93	6,089.76
Employees' taxes withheld	1,611.28	1,152.97	1,015.97
Total current liabilities	6,339.76	5,642.25	7,691.31
Equity:			
Retained earnings at beginning of period	66,352.05	54,526.27	36,256.93
Net income for the 12-month period	10,611.09	11,825.87	18,269.29
Total equity	76,963.14	66,352.05	54,526.27
Total liabilities and equity	83,302.90	71,994.30	62,217.58

SAGINAW BOARD OF TRADE, CARROLLTON, MICH., INCOME STATEMENT FOR THE 12-MONTH PERIOD ENDED MAY 31, 1976 (UNAUDITED)

	1976	1975	1974
Income:			
Inspections—inbound	$594.00	$1,486.00	$2,058.00
Inspections—outbound	43,429.00	30,268.00	24,331.00
Inspections—cargo	11,940.19	7,844.76	8,810.62
Submitted samples	922.00	1,540.00	1,574.00
Weight certificates	31.00	160.00	227.00
Overtime	9,759.50	15,151.25	15,195.80
Miscellaneous services	20,292.00	4,385.96	6,190.89
Grain sales	1,939.08	1,831.74	1,501.89
Mileage charges	11,792.85	9,321.15	8,327.68
Total income	100,699.62	71,988.86	68,216.88
Operating expenses:			
Salaries and wages	60,400.81	40,844.67	35,112.33
Contracted labor	5,185.90	2,570.00	2,581.20
Depreciation	3,490.24	2,362.74	1,423.83
Inspection supplies	705.11	66.99	255.08
Insurance	5,883.98	3,000.93	2,694.67
Professional services	609.00	687.00	564.00
Mileage expense			496.83
Office supplies and expenses	1,674.87	1,505.94	727.07
Postage	325.24	195.13	143.90
Rent	600.00	600.00	600.00
Repairs—maintenance		47.27	23.60
Taxes and licenses	54.66	40.28	41.13
Payroll taxes	3,235.30	2,524.16	2,027.82
Telephone	885.18	634.67	612.92
Travel expense	696.92	310.75	100.61
Truck expense	6,500.99	4,534.41	3,332.79
Total operating expenses	90,248.20	59,924.94	50,737.78
Net operating income	10,451.42	12,063.92	17,479.10
Other income and charges:			
Membership	50.00		
Interest received	2,684.45	2,043.87	1,500.16
Pension plan cost	(2,574.78)	(2,282.01)	(709.97)
Total other, net	159.67	(238.14)	790.19
Net income for the period	10,611.09	11,825.78	18,269.29

Schedule of inspection fees (effective Aug. 1, 1974)

	Members
Inbound (per car)	$4.00
Outbound (per car)	3.00
Covered hoppers (per car)	6.00
Bagged grain (per bag; minimum charge $6)	.03
Reinspections (original rate):	
Truckloads (per truck)	2.00
Submitted samples	2.00
Weighing inbound freight cars	1.00
Weighing outbound freight cars	None
Boat loads—per 1,000 bushels	1.25
Hold inspection $5.00 per hold. Minimum charge $15.	
Warehouse sample (lot inspection, delivered)	3.00
Mechanical sample (lot inspection, delivered)	3.00
Checktesting sampling equipment, $5.50 per hour, 2-hour minimum charge.	

The normal hours of business for car and cargo loading shall be from 8:00 A.M. to 4:30 P.M. on all days other than Saturdays, Sundays and Holidays. Inspection during these normal hours of business shall be charged at the regular rates shown above. Car and cargo inspection during hours other than the normal hours of business stated above shall be charged at the regular rates shown above plus an additional charge at the rate of $5.50 per hour, in multiples of half-hours, for each man engaged.

For inspections outside the following points (Saginaw, Carrollton, Milwaukee) cost will be the regular inspection fee plus a charge of $5.00 per hour and mileage at 15 cents per mile. Subject to availability of inspectors or samplers.

A service charge at $1.50 per inspection will be made on all inspections for non-members to cover filing and handling.

A service charge of 50 cents will be made for the mailing of grain samples, postage extra.

All cars shall be together for sampling.

STATEMENT OF ROMAN A. UTRUP, ASSOCIATION VICE PRESIDENT, OHIO GRAIN, FEED AND FERTILIZER ASSOCIATION, WORTHINGTON, OHIO

I am Roman Utrup, General Manager of Elgin Grain Company of Elgin, Ohio—Van Wert County—located in the northwestern part of the state in the trading area of Fort Wayne, Indiana. However, today I am speaking to you as the Vice President of our state's grain organization—the Ohio Grain, Feed and Fertilizer Association, Inc.—with offices at 6877 North High St., Worthington, Ohio 43085. OGFFA is an active organization representing over 800 grain, feed and fertilizer businesses with nearly 1,000 retail farm supply and/or grain shipping points in Ohio. Through these facilities flow the seed and fertilizer to plant three million acres of soybeans, four million acres of corn, one and a half million acres of wheat and another half million acres of oats. Further, while these facilities also manufacture and distribute almost two million tons of feed, for many of them their main role in their communities is to serve as the first handler of the approximately 500 million bushels of grain that our farmers produce in Ohio. Our association represents the grain industry—both the farmer owned facilities, the co-operatives, as well as the privately owned operations, corporate and private.

First, we want to voice a sincere "Thank You" for holding this important session so that this highly important industry may present information on some of the concerns that we have on the recently passed legislation known as the United States Grain Standards Act of 1976. I am here at the request of our leadership to present the views of the Ohio grain trade for your study and of course, hopefully, secure your leadership in obtaining changes in the legislation. These views that we're to present have been shared with all the Ohio members of the 95th Congress in the past few days.

This grain legislation contained dramatic differences between the Senate and the House passed versions, which you will recall, led to a five-month deadlock of the conference committee. Then, in the final two weeks of the 94th Congress, the overwhelming desire of a majority of the principal sponsors of the 'reform' legislation led to a compromise which did not satisfy many of the sponsors; but did prove to be acceptable to the majority and the bill passed both bodies of Congress. Much of this late action was so speedly that most of the grain leaders could not act intelligently in their own behalf.

We were and are for many of the reforms contained in this bill; but the craftmanship of the legal counsels of the two agriculture committees leave something to be desired it appears! Also, while we have a clean slate in grain inspection in Ohio, because of the indictments and convictions at the Gulf Ports, the legislation was rushed through with out much imput from the country elevator portion of the grain trade.

There are several portions of this legislation which just should never have been passed in the form that they were and if the agricultural producers of this country are to be properly served at the country level—as well as at the grain terminal plane—by the new Federal Grain Inspection Service, this new law will have to be changed!

We would especially call your attention to one of the sections of the Act that is most disturbing to the country grain operator, who acts as the first handler of the farmer's grain:

Section 12 (d) reads:

"(d) Every State, political subdivision thereof, or person who is the owner or operator of a commercial grain elevator, warehouse, or other storage or handling facility or is engaged in the merchandising of grain other than as a producer, and who, at any time, has obtained or obtains official inspection or weighing service shall, within the five year period thereafter, maintain complete and accurate records of purchases, sales, transportation, storage, weighing,

handling, treating, cleaning, drying, blending, and other processing, and official inspection and official weighing of grain, and permit any authorized representative of the Secretary of the Administrator, at all reasonable times, to have access to, and to copy, such records and to have access to any grain elevator, warehouse, or other storage or handling facility used by such person for handling of grain."

This section is being interpreted by the legal counsel of U.S.D.A. to mean that if a grain elevator operator sends even one sample of his grain into an official inspection agency for an official grade, then that firm must keep records required by the above Section for a full five years. We could not quite believe this in Ohio, so one of our association committees asked two of the top FGIS Officials for a confirmation. They spent several hours with us and did appear to confirm that this was true to the best of their knowledge.

Some of the records required by the law are next to impossible for a grain terminal to obtain and impossible for today's country elevators to develop with their present grain handling systems. We are referring primarily to records for treating-cleaning drying-blending and other processing! Part of our concern may be in definitions; but if so, we need the clarifications now—not in the next 18 months. For instance, what is blending? If, as a country elevator operator, we receive three trucks in a row with soybeans—one truck has 12% moisture beans, the second reads 13% and the third is 14% and when all three loads are placed together in our soybean bin, have we truly blended these soybeans and if so, must we keep these detailed records of all such operations for later inspection by FGIS personnel? If we are, then we undoubtedly must keep a record according to Section 12(d) of just how many out of the bin into railcars and or trucks, etc!!! This is impossible for our country grain elevators in Ohio—we do not have the scales in the right locations to get FGIS the records that they appear to need if they continue to read the legislation as they do today.

The choice? We think that our choice will be to avoid any use of the provisions and the fine services of the U.S. Grain Standards Act of 1976. As some proof of this please note Exhibit 'A' which we have attached to this paper. This action would set the grain industry back 60 years to the situation before the original Grain Standards Act of 1916!! Further, it will hurt the grain producer, as the elevator operator will no longer send disputed grain in for an official inspection as we do today when we have complaints.

We do not truly believe that this is what you intended when this law was passed last year by the 94th Congress! Our leadership did note a small item on page 5114 of the Federal Register of Thursday, January 27, 1977, signed in by Donald E. Wilkinson, Interim Administrator of the Federal Grain Inspection Service, which is an indication that there is a definite wrong in this requirement. A portion of it reads as follows:

"RECORDKEEPING

"Section 12(d) of the * * *

"In implementing the recordkeeping provisions, a rulemaking proceeding will be instituted by the Federal Grain Inspection Service to identify the kind of records to be kept and the manner in which they shall be kept. Until a final determination is made in this matter, the Service will consider merchandisers and elevator owners or operators as being in compliance with the recordkeeping provisions if the merchandisers, owners, or operators permit representatives of the Secretary or the Administrator to have access to, and to copy, at all reasonable times, the records which the merchandisers, owners, or operators normally maintain with reference to the named activities."

This brash leadership move by an interim administrator does not make much of an impression on our country grain trade! This could mean a new administrator next month and a new set of recordkeeping regulations. It could still make our action choice of "avoid any services of the U.S. Grain Standards Act of 1976" the most logical one for the Ohio country grain trade until the law has been changed. We want you to understand that this addition to the law in the Federal Register of January 27th has not impressed us as a very meaningful move, although it is probably all that the Interin Administrator Donald E. Wilkinson can do at this time. There is only one valid action that can make the F.G.I.S. operative at the country grain trade level and that would be to change the law so that only "complete and accurate records of purchases and sales, and

permit any authorized representative" would be contained in the final bill that Congress would pass, changing the 1976 version of the law.

There are other concerns such as high costs; but this is the one item that we wanted to place before you today. Our association leaders are hopeful that you and your staff will study carefully the legislation, check on intent, then ask for suggestions from our grain industry. Our national association will be only too pleased to be of service—Alvin Oliver, Executive Vice President, National Grain & Feed Association, 725 15th Street NW, Washington, D.C. Phone: (202) 783-2024. Thank you again for this opportunity.

MILLING COMPANY EXHIBIT "A"

Congress recently established the Federal Grain Inspection Service by a very complex, often perplexing law. Most regulations are not yet written.

After much study, we believe the most efficient and economic way to serve you is to treat rail shipments the same as truck shipments.

The same employees, licensed and bonded under the U.S. Warehouse Act, who have graded and weighed your trucks will grade and weigh your rail cars.

Our rail scale is supervised by the Eastern Weighing and Inspection Bureau, so if a car is leaking visibly, claim settlement should be reasonable. Our rail scale is verified semi-annually by a rail weight test car.

We will report rail grades before unloading. We are sure we can settle any disagreements on cars as amicably as we have been able to on trucks.

In order to prevent assessing you any railroad charges, all cars shipped us must be routed according to our instructions and each bill of lading must bear the phrase—"Waive Inspection".

There will be no charge for providing grading and weighing service.

If you have any questions, please call us.

STATEMENT OF ROBERT F. ADAMEK, EXECUTIVE SECRETARY, FARMERS ELEVATOR ASSOCIATION OF MINNESOTA

GENTLEMEN: Due to the fact that your hearings on the U.S. Grain Standards Act of 1976 conflicted with our annual convention and trade show, we were unable to send a representative to offer personal testimony.

However, in contacting various people from within the trade, it was obvious that there was no dearth of individuals willing to testify against this particular piece of legislation. We are, therefore, adding our voice to the many witnesses that appeared before Senator Huddleston's Subcommittee on February 3 and 4 objecting to this legislation.

The Farmers Elevator Association of Minnesota is a trade association of cooperative and independent elevators located in Minnesota. We have 221 cooperative elevators as members which represents approximately 95% of the cooperative elevators in the state plus over 100 independent elevators. The majority of grain marketed in Minnesota goes through our membership.

To avoid being redundant, we will state that our Association is strongly opposed to the recordkeeping requirements of the Act which would impose an unconscionable burden on their operations. We can see nothing that has happened in the past that would even remotely suggest a need for such a procedure.

Neither do we see a need for the excessive supervisory and basic fees called for in the Act. While there may have been instances of corruption at export points, we can see no need for such drastic regulations to govern interior points which for all practical purposes have never been touched by scandal. If such a requirement does exist, we would suggest that it be funded from general revenue funds. How many agencies at the present time charge user fees to cover their expenses.

We also object to the regulation that would have an appeal grade being made by the same body that made the original inspection.

We could go into more detail regarding this Act but we realize that anything we can say was heard many times at the hearing.

We are sincerely hopeful that your committee will come up with amendments to this bill that will remove the present inequities.

Thank you.

COTTON AND GRAIN PRODUCERS OF THE LOWER RIO GRANDE VALLEY,
Harlingen, Tex., January 28, 1977.

SENATE COMMITTEE ON AGRICULTURE AND FORESTRY,
Russell Senate Office Building,
Washington, D.C.

DEAR SIRS: This letter is being written to convey the thinking of the Cotton and Grain Producers of the Lower Rio Grande Valley concerning the proposed fees, and the funding of the Federal Grain Inspection Service which is to become effective on February 1 of this year.

This service, though supervisory in nature, will cost Two Hundred, Forty One Thousand Dollars ($241,000.) at the Ports of Corpus Christi and Brownsville, Texas, based on volume of inspections performed by Corpus Christi Grain Exchange, in the year ending March 31, 1976. This is approximately 37% of the cost of inspection work done by the Corpus Christi Grain Exchange for this period, based on current tariff charges. We feel this is excessive, as it does not represent the actual inspection, but merely supervision.

At the time the Federal Grain Inspection Service takes over the complete inspection service, which is set for October 1, 1977, fees for in-bound inspections *only*, (again based on year ending March 31, 1976), will be $1,347,785.00, compared with $379,271.00 collected by the Corpus Christi Grain Exchange for the original inspections. This is an increase of 255%. The above is based on the fee schedule published by the Federal Grain Inspection Service and compares to Corpus Christi Grain Exchange fees as follows:

	Corpus Christi grain exchange	Federal grain inspection service
Boxcar	$3.50	$15
Hopper car	6.00	18
Truck	3.00	12

We feel that without doubt these additional fees will be passed back and in the end, the producer will have to absorb these additional expenses which some have calculated to run $1.20 per acre, as an average.

As a producer oriented organization, we wish to go on record as opposed to any additional expense that will ultimately be paid by the grain producer.

In the event Congress feels that the integrity of the Country is at stake, regarding the grading and weighing of export grain, then the full cost of this service should be funded in the same manner that other Government Agencies are funded, and *all* the tax-payers should share in the cost, as well as the benefits of the service. In this matter the individual farmer would not once again be called upon to bear the complete burden.

We hereby suggest that the following amendments be made to the Act, either by legislation or administrative action:

1. The Original Inspection on In-bound grades be returned to Corpus Christi Grain Exchange—or a similar service.
2. That the Supervision costs be funded from the Federal Budget.
3. That weighing be delegated to the Agency performing the Grain Inspections on In-bound shipments and could be supervised by the Federal Grain Inspection Agency.
4. In the event the Congress feels that the Original Inspection on In-bound grain should remain in the Federal Grain Inspection Agency, that this, too, be funded from the Budget.

Furthermore, in the event, the Original Inspection at the Ports is left in the hands of the Federal Grain Inspection Agency, at the fees published for their services, a great deal of grain will be sold without official grades; and, that in the long run this will prove detrimental to the farmers.

We feel that there is an inequity in the cost incurred by country elevators adjacent to the Ports of Corpus Christi and Brownsville. They will be forced to pay for an Original Inspection supervised by the Federal Inspection Agency,

whereas, country elevators farther away have the opportunity of using Board of Trade or private inspection agencies for their Original Inspection at a lower cost. This will cause additional discrimination for grain producers in this area.

We thank you for any consideration afforded our Grain Producers, and stand ready to be of any assistance that will benefit our Valley Farmers.

Yours very truly,

CHARLES W. WOFFORD, *Executive Director.*

STATEMENT OF RANDOLPH P. MOORE, PRESIDENT, CORPUS CHRISTI GRAIN EXCHANGE, CORPUS CHRISTI, TEX.

The Corpus Christi Grain Exchange is a state chartered corporation with about 100 stockholders and is the Official Inspection Agency for grain grading at the ports of Corpus Christi and Brownsville, Texas. It is licensed by the United States Department of Agriculture. The Exchange was organized about thirty-two years ago to provide official grades on grain sorghum then being shipped from the Coastal Bend of Texas to markets in Forth Worth, Texas, California, Houston and Galveston, Texas. When the Public Elevator was built in Corpus Christi about twenty five years ago the Exchange began providing Official Grain Inspection for grain being handled by the Public Elevator for export. At the time of the building of the Public Elevator in Brownsville the Exchange was asked to establish grain grading facilities in Brownsville, Texas. It is now providing Official Grain Inspection for two export elevators in Corpus Christi, one export elevator in Brownsville, and Official Inspection for corn and grain sorghum going into Mexico at Eagle Pass, Texas which is located about 140 miles west of San Antonio, Texas. The Exchange also provides Official Inspections on rail shipments to California and Arizona as needed by the grain trade in the territory that it serves.

The management of the Exchange is under the direction of a Chief Inspector who is a licensed grain inspector. The present Chief Inspector has been employed by the Exchange for nineteen years and has been Chief Inspector for thirteen years. The Exchange currently employs eight licensed inspectors, a licensed weighmaster, two or three clerks, and from ten to forty samplers, depending on the volume of business. A large part of the grain handled at the export elevators it serves is seasonal. Very heavy during the harvest season and falling off the rest of the year. All of the grain inspectors are licensed by the U.S. Department of Agriculture.

The Exchange has agreed to cease operations on September 30th, 1977, when Official Inspection at the locations it serves is to be taken over by the Federal Grain Inspection Service.

COMMENTS OF U.S. GRAIN STANDARDS ACT OF 1976

We are taking the opportunity to present these objections to the above captioned Act, as we feel that some provisions of the Act will be detrimental to the best interest of the farmers of South Texas, whom we have served for over thirty years.

1. We have been advised by competent legal counsel that there is a serious question as to the constitutionality of the Act in as much as it requires payment of fees for inspection of products going in the export stream.

2. We object to the Federalization of the Grain Inspection service by the requirement that all grain shipped for export have Original In Bound Inspection performed by employees of Federal Grain Inspection Service. We feel that by forcing Federal Inspection on Original Inspection at the Ports of Corpus Christi and Brownsville, Texas, the farmers in the adjacent area are being discriminated against in that they are forced to have Original In-Bound inspections performed at the export elevators by the FGIS at a cost that is approximately 255% HIGHER than private agencies are charging for inspections in other areas of the country. Farmers in areas a distance from the export ports will have their grain inspected near point of origin and pay lower fees and will not have it inspected on delivery to the export elevators. We will give you a comparison of fees of the Corpus Christi Grain Exchange and Federal Grain Inspection Agency—as published in the Federal Register—

	Corpus Christi grain exchange	Federal grain inspection service
Boxcar	$3.50	$15
Hopper car	6.00	18
Truck	3.00	12

In comparing the fees charged by the Exchange for year ended March 31st, 1976, fees adjusted to tariff of October 1st, 1976; for In-Bound Inspection Only, we found that where the Exchange received $379,271, the FGIS will receive $1,347,785, an increase of $968,514, approximately 255%. We are reasonably sure this will be passed back to the farmer in one way or another.

We have not been able to learn the exact FGIS fees for grain loaded onto ships, but have been quoted from $2.25 to $2.50 per 1,000 bushels. This compares with Corpus Christi Grain Exchange fees of $1.50 per 1,000 bushels. This will be an increase in costs of between $120,000 and $160,000 annually, which will be passed to either buyer or the farmer.

3. We feel that the FGIS fees for supervision, which became effective February 1st, are excessive. Based on inspections performed on In-Bound grain year ending March 31st, 1976, supervision fees at Corpus Christi and Brownsville will be $241,000. This is approximately 37% of the costs of the Inspections by the Exchange and is not actual Original Inspection but mere supervision.

In conclusion, we hereby suggest the following—

1. The Act be studied carefully regarding its constitutionality and it be rewritten to correct these errors.

2. In the event there is no reasonable question regarding constitutionality that the following amendments be made to the Act either thru legislation or by administrative action—

(*a*) The Original Inspection on In-Bound grain at export locations be returned to private or Board of Trade Inspection Service where they have been performing satisfactorily. Leaving the export inspection in the FGIS. We feel that this is reasonable as the purpose of the Act was to assure that foreign buyers were receiving proper grades.

(*b*) That Supervision costs be funded from the Federal Budget. We feel that this is proper as it was done under the prior Grain Inspection Act and is done in the case of other commodities.

(*c*) We feel that Weighing should be delegated to the Agency performing the Grain Inspection on In-Bound shipments and could be supervised by FGIS.

(*d*) In the event the Congress feels that the Original Inspection on In-Bound grain should remain in the Federal Grain Inspection Agency we feel that this should be funded from the budget.

3. Regarding Conflict of Interest in Boards of Trade, Chambers of Commerce, and other such organizations having grain inspection departments, it appears to us that it was the intent of the Congress that they be allowed to continue to operate if they were providing satisfactory service and were not engaging in unlawful acts. We feel that the Administrator should be made aware of this and should grant waivers where necessary, as provided in the Act.

In conclusion, we feel that if the Act is left to stand as it is now written and being interpreted, and Original Inspection at the Ports is left in the hands of Federal Grain Inspection Agency at the fees published for its services, a great deal of grain will be sold by country elevators WITHOUT Official Grades. This would be due to the expense involved in the FGIS grades. We feel that in the long run this will probably prove detrimental to the farmer, country elevator, and the entire grain trade. However, you have in your hands the opportunity to let the Original Inspection remain in the hands of the agency now handling it, provide adequate supervision financed by appropriation from the budget, and letting the American farmer, country elevator and all segments of the grain trade continue to handle the grain crop in the same efficient manner which they done in the past.

TEXAS CORN GROWERS ASSOCIATION,
Dimmitt, Tex., February 1, 1977.

Hon. WALTER D. HUDDLESTON,
Chairman, Senate Agriculture and Forestry Subcommittee,
Washington, D. C.

Hon. Senator HUDDLESTON AND DISTINGUISHED MEMBERS OF THIS COMMITTEE:
On behalf of Texas Corn Growers Association, we wish to make the following statements to this Committee:

The Texas Corn Growers Association is a state wide organization with most of its membership comprising a 32 county area in the Panhandle and South Plains region of Texas. Although our new membership drive is still under way, I can assure you that we do represent the rank and file of corn growers in the State of Texas.

The feeling of this association concerning the new Federal Grain Inspection Law has been established some months back, because we could see the cost of the Federal system becoming excessive and the cost being passed on to the farmer. We could also see this contributing to inefficiency in the marketing system, which also would mean increased marketing cost that would be passed on to the farmer.

Now that the newly established department has announced their rates for providing inspection service, I think you can see what we were talking about. The rates at Corpus Christi are as follows:

	Old rate	New rate	Percent increase
Trucks	$3.00	$12	300
Boxcars	3.50	15	328
Hopper cars	6.00	18	200

The inland rates at the local Grain Inspection Service:

	Old rate	New rate	Users fee	Percent increase (with users fee)
Trucks	$3	$4.50	$0.60	70
Boxcars	4	6.00	1.60	90
Hopper cars	6	8.00	2.40	73

It is my understanding that the users' fee will be used to pay for the maintaining of the Federal supervision. I also understand that five regional Federal offices are to be established across the United States and that this fee will likely be increased at that time.

Based upon Texas' 1976 production of wheat, corn, milo and soybeans of 591,500,000 bushels, the basic additional cost of this inspection service will be $473,200.00. Then you have to consider that a large portion of this will go into export and will be subjected to the high export fees in addition to the interior fees. If we export 30% of our grain, this would mean an additional fee of $600,000.00.

This added cost will have to be passed back to the farmer, and he can ill afford it. The cost price squeeze on the farmers is so bad that marketing increases such as this help push him out of business.

In addition to the higher cost of inspections, there is a provision in the law that requires elevator operators to keep extensive records on grain handling, drying, blending treating, etc. This will create an undue burden on the country elevators, as it is not customary for them to weight various lots of grain prior to conditioning in their house. Also, it is not necessary to maintain that type of record keeping in order to keep grain in condition, maintain quality, and meet their obligation on quantity. This provision will create inefficiency in handling of grain and will again increase the cost of marketing.

There is also a provision in the law that will not allow a local Chamber of Commerce or Independent Inspection Service to perform services for a grain firm if any of their officers or employees are members of the organization performing the inspection. This is bad in that it will exclude people from membership in local rural organizations when the organizations need all the member-

ship they can get. In many cases, the only way a rural community could get the inspection services was for the grain companies to organize and be active supporters of these grain exchanges. Now it appears that many of these local chambers or Inspection services will be disbanded due to lack of support.

In Texas there is a large area, such as the Corpus Christi area, that delivers a bulk of its grain directly from the country elevator to the export facilities. This will subject those people to the extreme high cost of inspection and will put them at a competitive disadvantage with the interior elevators for pricing purposes.

Now, another item which is of grave concern to the interior elevators is the weighting supervision. According to the Act, it could be required of the elevators to have Federal supervisors weighing every car if they want to maintain official weight status. The rates charged under the Act will make it impossible to have this service. Also, it will be impossible to get Federal employees to stay on the job during the hours that are required in operating a country elevator during harvest.

Another area of concern at the present time is the inconsistency of grades between the Interior inspection points and the export inspection. There have been many cases already where cars are loaded and inspected at the interior and found to be acceptable, but when they arrive at port are found to be unacceptable. This has been grain that is low enough in moisture that there should not be any changes in quality while in transit. This inconsistency could very well be due to the lack of experience of the Federal inspectors who have been hired under a crash program and who lack the experience of our seasoned inspectors. Regardless of the cause, it is an expensive operation for the country elevator if the load has to be returned to origin.

This law appears to be a bad deal for the farmers and elevator operators and should be repealed or amended in a fashion that will not create such a hardship. We still feel that a more efficient system would be to add a few more supervisory Federal employees to the old system and increase the penalties for violations to a point that it would stop violations. It is not right to punish the entire grain trade and the farmers just because a few unscrupulous operators in Louisiana chose to violate the law.

Enclosed are two costs of production indexes from Texas Corn Growers Association—one a landowners cost and the other is the renters cost of production. After studying these costs, you can see that it is impossible for the farmer to bear any more expense than he already has.

It is the sincere hope of Texas Corn Growers Association that this testimony will weigh upon your decision in this very important matter. We feel definitely, with no question in our mind, that it will ultimately cost the farmer more money to have his grain put in the elevator, processed, and shipped out—a cost that he certainly can ill afford.

Sincerely yours,

CARL L. KING,
President, Texas Corn Growers Association.

EXHIBIT "A"

Landowner cost—Cost of production index

[Per acre of corn on the High Plains of Texas]

Ground preparation	$36.50
Fertilizer	57.50
Seed	15.00
Herbicide	8.00
Insecticide and application	20.00
Irrigation	49.00
Harvest	34.00
Drying	15.30
Interest	15.00
Management (cost of living)	20.00
Total cost per acre (December 1974)	270.30
Plus land costs and taxes	9.00
Plus twenty percent increase due to inflation since December 1974	55.80
Total	326.10

EXHIBIT "B"

Tenant cost—Cost of production index

[Per acre of corn on the High Plains of Texas]

Ground preparation	$36.50
Fertilizer	57.50
Seed	15.00
Herbicide	8.00
Insecticide and application	20.00
Irrigation	49.00
Harvest	34.00
Drying	15.30
Interest	15.00
Management (cost of living)	20.00
Total cost per acre (December 1974)	270.30
Plus land costs and taxes and irrigation machinery	112.00
Plus 20 percent increase due to inflation since 1974	65.22
Total cost	447.52

STATE OF WISCONSIN DEPARTMENT OF AGRICULTURE,
Madison, Wis., January 27, 1977.

Hon. WALTER HUDDLESTON,
U.S. Senator, Dirksen Senate Building,
Washington, D.C.

DEAR SENATOR HUDDLESTON: Information has been received that you have called a hearing in Washington, February 3, 1977, relating to the Federal Grain Standards Inspection Act. I am unable to attend this hearing in person, but I would like to submit the following information for the record.

Wisconsin is one of the ten states which qualified to continue a state Grain Inspection Program as provided under the new Act. We have a 70-year history of excellent performance and are confident we can continue to perform in a reputable and credible way.

We are, however, greatly disturbed by and opposed to the excessive supervision charges which the Federal Government plans to assess against our grain inspection and weighing operations. As you know, these charges are 80 cents per thousand bushels for grain inspected and 35 cents per thousand bushels for all weighing supervision. On the basis of last year's work volume at Superior, Wisconsin, this would add a $283,000 cost to that operation. In one of our largest shipping years, the cost would exceed $575,000. If supervision fees remain that high, we project we would have no recourse but to increase fee charges a minimum of 35–40% at Superior, and at Milwaukee, they would no doubt, be doubled.

It is our opinion that such cost for supervision, especially for a proven and reputable operation, is overly excessive. We are confident the current federal staff now assigned to this duty at their respective locations are indeed adequate. The rumored doubling of supervision staff would be a total waste of money and manpower.

Finally, we urge Congress to continue an appropriation for this program in order to reduce supervisional cost. We do not feel our American farmers should be expected to absorb these charges.

Your consideration will be greatly appreciated.

Sincerely,

GARY E. ROHDE,
Secretary.

STATE OF MINNESOTA,
DEPARTMENT OF AGRICULTURE,
St. Paul, Minn., January 26, 1977.

Hon. WALTER HUDDLESTON,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR HUDDLESTON: The Minnesota Department of Agriculture appreciates the action of Congress in passing Public Law 94–582, "The United States Grain Standards Act of 1976."

The Department especially supports the provision in the law which provides for delegation of administrative responsibilities to qualifying states by the Federal Grain Inspection Service (FGIS). Further, we in Minnesota realize the need for a uniform grain inspection and weighing program for the United States. We recognize that such programs are necessary if we are to maintain and improve our position in the world grain trade market.

However, the Minnesota Department of Agriculture, the grain industry and the farmers of Minnesota are deeply concerned with the provision of the law which requires a state to pay the FGIS for supervisory services. We cannot understand the proposal of the FGIS to increase dramatically the number of federal supervisors for the purpose of supervising state inspectors, especially in a state such as Minnesota where there has been a successful federal-state program for many, many years. Such supervisory services for Minnesota alone will cost the Minnesota grain industry an additional estimated $500,000 per year and necessitate a 23 percent to 26 percent increase in fees.

The enclosed table provides a dramatic comparison of the actual charges made to the industry for services provided during June of 1976, with the charges which would have been required to recover the cost of federal supervision under the new 1976 legislation on grain inspection. A difference of $64,141 represents a 24.5 percent increase.

Even more dramatic is the $122,318 difference between the Minnesota estimated cost under the State-FGIS Cooperative Program and the estimated cost to the grain industry and the farmer if the FGIS were to take complete control of the grain inspection program in Minnesota.

During 1976, Minnesota employed 234 seasonal and full-time employees to provide services to the industry—services which in fact exceed those which would be provided to the industry under a program completely operated by the FGIS. When the $500,000 estimated annual cost figure is divided by 234, the cost for federal supervision on an employee-year basis is approximately $2,100. Such a supervisory charge by a federal agency which has delegated responsibility to a historically responsible state agency is both expensive and unnecessary. We believe that the federal agency should provide better justification for such a cost figure than has been done to date.

The Minnesota Department of Agriculture has historically provided high quality grain inspection services with federal cooperation at a realistic cost to the industry. We hope that this could continue.

We appreciate your interest and concern for this problem and stand ready to assist in any way possible.

Sincerely,

JON WEFALD,
Commissioner,
Minnesota Department of Agriculture.

COMPARATIVE COSTS FOR 1 MONTH BASED ON THE VOLUME FOR JUNE 1976, MINNESOTA

	Present rate [1]	Proposed rate [2]	FGIS rate [3]
Box cars (3,259)	$33,894	$39,108	$48,885
Hopper cars and origin sample (2,669)	29,359	36,032	48,042
Trucks (19,961)	112,779	124,756	239,532
Cargo lots [4] (32,236,860)	[5] 48,356	85,428	[6] 50,000
Reinspections (349)	1,885	2,094	3,316
Submitted samples (3,326)	17,960	19,956	31,597
Extra (nongrade) factors (1,748)	2,622	2,622	6,992
Hours overtime charges (532)	7,980	7,980	10,640
Hours regular time charges (215)	2,150	2,150	3,440
Total	[7] 256,985	[7] 320,126	[7] 442,444

[1] Actual fees collected by Minnesota for the month of June 1976 under the cooperative State-Federal program which Minnesota has been a part of for many years.

[2] Estimated charges which industry would have paid under the rates proposed by the State. These increased rates would recover the costs of supervision required by the FGIS.

[3] Estimated charges which industry would have paid under the rates presenty proposed by the FGIS if under full Federal control.

[4] Equal to approximately 650 barges.

[5] The charge is $2.25 per 1,000 bushels.

[6] FGIS has an hourly rate charge for this service. This figure is the estimated minimum charge.

[7] Difference between present and proposed rate, $63,141; difference between proposed and FGIS rate, $122,318.

STATE OF MONTANA,
DEPARTMENT OF AGRICULTURE,
Helena, Mont., February 3, 1977.

Mr. CHAIRMAN: As Commissioner of Agriculture for the State of Montana, it is essential that I submit testimony regarding the "United States Grain Standards Act of 1976" (Public Law 94–582, 94th Congress—October 21, 1976) and protest the enactment of a $0.80 per thousand bushel fee for supervision of official grain inspection activities.

The Montana Grain Laboratory has always provided official grain inspection services for Montana and, pursuant to Section 27 of Public Law 94–582, will continue to provide Montana grain producers with service.

The first of January, we received notification that the U.S.D.A. Federal Grain Inspection Service had established the fee for supervision of grain inspection services at $0.80 per thousand bushel. Based on services required and received, $0.80 is totally inequitable and will place an irrational burden on Montana grain producers.

Through Montana State Legislative directive, Montana's Grain Laboratory is self-supporting, operating on a fee service basis. By imposing a supervision fee of this magnitude, the U.S.D.A. is forcing us to pass improper charges on to grain producers already facing an extremely depressed market. Under the past administration, the United States Department of Agriculture requested, our grain producers to plant from fence row to fence row. Production was increased only to find a depressed market. Now an arm of that same agency (U.S.D.A.) that encouraged exorbitant production, is imposing the burden of an exorbitant inspection fee on producers already facing a market so low their returns won't even cover production costs.

Based on Montana's 1976 fiscal year inspection activities, the fee of $0.80 as established, will amount to an additional cost of approximately $35,000 annually. This is equivalent to 22 percent of Montana's annual laboratory personal services expenditures; the funding necessary to employ nearly three (2.8) full-time state laboratory employees, whose sole daily duty would be supervising two inspectors that have already been tested, licensed, and are under the direct supervision of an administrative superior. This inefficiency I cannot justify or condone.

It is unrealistic to assume the cost and value of a federal supervisor, seen less than one dozen times a year, is equivalent to 22 percent of Montana's Grain Laboratory's annual personal service expenditures.

The impact of increasing Montana's laboratory fee structure to accommodate the exorbitant inspection fee, can only be forecast on a cost service economic curve. As costs increase, less expensive substitutes replace previous services; in this case unofficial inspections will replace official inspections. We will see a reduction in dependability of inspections performed and service rendered to the grain producer, only compounding the problems of discrepancies which Public Law 94–582 is desiged to adddress.

Thank you for the opportunity to submit this testimony regarding "Oversight on the Implementation on Grain Standards."

Respectfully submitted,

GEORGE LACKMAN,
Commissioner,
Montana Department of Agriculture.

STATEMENT OF DONALD M. MENNEL, PRESIDENT, MENNEL MILLING CO., FOSTORIA, OHIO

GENTLEMEN: My name is Don Mennel and I am president and treasurer of the Mennel Milling Company of Fostoria, Ohio. I'm also Chairman of the Board of the Millers' National Federation. The Millers' National Federation is the national trade association of the wheat and rye flour milling industry of the United States. The Federation's 70 member companies represent approximately 87 percent of the commercial flour milling capacity in the country and operate more than 150 mills in 39 states, the District of Columbia and Puerto Rico.

I'm pleased to have this opportunity to express my personal concerns about the implementation of the Grain Standards Act of 1976. Most specifically, I would

like to talk about the record-keeping and reporting system that is to be required by this new Act. If followed to the letter and the extreme of the legislation it will be unworkable and expensive to consumers, elevator operators, millers and wheat producers alike.

The Act, as I read it, says that any flour miller who requests the official inspection or weighing of grain will fall under the jurisdiction of the extensive record-keeping and reporting requirements of the Act.

He will also have to permit any authorized representative of the Secretary or the Administrator to have access to and to copy the internal records of his milling business—one of the most competitive enterprises in the United States today, a business that operates on high volume and low profit margins. It is an enterprise in which the successful miller is one who is alert enough and efficient enough to extract a few extra 100ths of a cent from each bushel of grain he mills.

Federal regulation and reporting within our industry is already adding greatly to the expense of producing food for the American public. Yet each year more Federal agencies requires more reporting from the milling industry.

We must each day take major management time away from the task of efficiently-producing food, and devote it to the purpose of filing Federal reports or hand-leading unknowledgeable inspectors and auditors through our mills.

OSHA requires us to keep extensive records on injuries, records on elimination of safety hazards, and records on providing better working conditions.

At the same time, EPA has tightened down to the point that we cannot even improve our mills' efficiency or safety without first getting their permission.

The Food and Drug Administration constantly monitors plant sanitation. We want to, and do, produce clean, wholesome food products safely. But we are burdened with regulation and record-keeping and reporting beyond reason. We don't need more.

We don't see any reason why a Federal grain inspector needs to have access to our internal records. We don't see what this has to do with putting better loaves of bread on America's tables.

I realize that there have been some problems at the export ports with improper grain handling and shipping. And I realize that some people feel that a closer check on those activities would help alleviate the problems.

Be this true or not, I do not think it was the intent of this legislation to make country elevator operators and flour millers fall under the strict reporting requirements as they are now written into the legislation.

Let me take you step by step through our own grain buying, storing and handling process—through our blending process and our flour-marketing process. By doing this. I think you can soon see where some real problems will crop up in meeting the sort of record-keeping system implied by this legislation.

In the first place our company has mills in several locations. Each does business a little bit differently. Other millers may operate in yet another manner. But I think our operation is not too atypical for what I am saying to have validity for much of the milling industry.

In Fostoria, Ohio, most of our grain comes in by truck. During the course of the year in Fostoria we will probably buy grain from some 200 different sources. At our mill in Roanoke, Virginia, we buy roughly 60 percent of our grain from about 10 sources and 40 percent from about 50 sources. In Michigan, we also buy from some 150–200 sources throughout the year. Some of this grain is federally inspected and some is not. Normally we buy grain by considering grading factors, not by numerical grades.

Let me explain what I mean. When we buy Soft Red Winter Wheat, delivered at Fostoria, the man who brings it to us knows that if his grain is relatively clean, he has a market for it. He knows whatever the test weight factor is, he will get an honest premium or an honest discount for the test weight. He will get a premium or discount for the moisture content. He will get a discount for kernel damage. Dockage will be taken off the weight.

We make it a practice to treat our suppliers fairly and carefully. We need grain from them year after year. Accurately determining the quality of their grain is as important to them as it is to us.

When the grain arrives at Fostoria we keep a record of what particular bin the wheat went into.

If the grain has been federally graded, we record the pertinent information included in the federal grade. If it is not federally graded—and much of our

grain is not—we make a record of our own quality determinations of the grain.

Once the grain is taken from the initial storage bins, it begins its first step into a system of blending and reblending to reach the quality characteristics we want in our various flour products. Initially, perhaps two or three bins are blended together (not by weight, but by volume as measured on a moving conveyor) to get the first blends. Next the grain goes into a more sophisticated storage system in our cleaning house where we blend it even further. At our Fostoria mill, for example, we have 11 bins that the millers can blend into three different cleaning units by taking any percentage from any of the 11 bins into any of the three units. (And again, this is done by volumetric measure of the stream flow—not by weight.)

At this point we do in fact weigh the grain coming into the first cleaning house. We do this through a small automatic scale highly subject to error. The grain is dropped into the cleaning system for the three different units by weight.

Then we mill the flour, and in doing so, we make four different cuts of flour on each mill—and those then are blended to make the final product. And, of course, we also separate out millfeed, bran, shorts, wheat germ for human consumption, wheat germ for animal consumption, fine ground bran, course ground bran, etc.

At one point we dry our cake flour in order to prolong its shelf life.

In the case of millfeed, we add moisture to bring it back to a uniform level so the buyer gets a uniform protein, fat and fiber content. Let me stress that all of this goes on without any identity preservation of the various initial lots of wheat as we initially received them at our mill.

We weigh out our final products either in 100 pound lots—if its going out in bags—or in truck-loads or by the carload in bulk.

Historically, we have compared our gross receipts with our gross shipments at the end of every fiscal year.

At the end of each year, we come up with a factor that we call "shrink." We ship out less pounds of final product than the weight of the wheat we take in, because we lose moisture during the milling process—we have lower moisture in the products going out.

So we have the gross receipts, we know what we ship out every year, and we know what we take in. But we certainly don't have identity preservation on any of the wheats we receive.

Let me go back now and again stress the competitiveness of the milling industry, and the diversity of the products we make. We keep the financial wolf away from our door by buying wisely, by keeping up-to-date in marketing, by keeping a competitive edge in the technology we use, by skillfully blending raw materials, and by close competitive pricing of products specifically tailored for the buyers we serve. For each product and for most buyers the process varies. We do different things to obtain a high quality cake flour, versus a cracker flour, versus a pretzel flour, versus a wallpaper paste flour. We do things differently when we make bran for hog consumption than we do when we make bran for human consumption.

The way in which we accomplish these things, and the processes we use are economically critical to our well-being as a milling company. It would be devastating for us—or any other milling company—to have a competitor inadvertently learn what percentage of the total wheat kernel we put into any given fraction of the products that we turn out. So to have a Federal agency involved so closely in our business that it has access to all our milling records gets into an area which is closely held and guarded.

Let's look at this reporting system and see what the legislation really implies. It says that "complete and accurate records" would be required of:

(1) Purchases: Obviously we keep a record of our grain purchases—but the price at which we buy is critical to our competitive position. It should not be public information.

(2) Sales: Obviously we also keep a record of our sales—but sales from a flour mill are basically on an as-delivered basis, and for an inspector to understand the sales records, he has to know the cost elements that go into producing the product. This seems to go against the spirit of the Act, which as I understand it, is to facilitate the flow of food, not hamper it.

(3) Storage: We keep records on our grain storage—but, obviously, we have many different kinds of storage. We have delayed-price buying, Federal warehouse storage, third party storage, etc. Again, this is a very competitive part of

our business, the keen edge we have to maintain to stay in business to be able to pay our bankers and meet our payrolls.

(4) Weighing: In many mills, this consists of inbound grain weighing, and outbound product weighing, with very little in-between. To change these systems would be inefficient and probably, in the long run, give records that could mean little to anybody. As I said, we blend by volume and by quality testing—not by weight.

(5) Handling: We don't even know what this provision means, as laid out in the legislation. What sort of handling are we talking about?

(6) Treating: Again, we don't know what treating means. What records are being asked for? Records on fumigation, adding water, drying grain; what?

(7) Cleaning: Most mills clean wheat extremely carefully, but very few mills actually weigh what's cleaned out and later ground into animal feed. Yet it's an important part of our grain processing system and one that presumably would have to somehow be reported.

(8) Drying: Very few mills dry wheat. It is not economical to dry wheat, but still the product goes out at a different moisture than is found in the inbound grain. In our case it goes out drier. In the Pacific Northwest products go out wetter. In the East, the products go out drier. Do we have to keep some sort of track of this, and if so, how?

(9) Blending: I think we have already covered the blending situation pretty thoroughly.

(10) Other processing and official inspection and official weighing of grain and other processing: My question is what all this really means. I don't know. I question whether anyone does.

The Grain Standards Act of 1976 has, in theory, been enacted to protect and better serve consumers, the grain industry and producers alike. These are laudable goals.

But in fact, what has happened is that we have a restrictive monster on our hands that, if enforced to the letter—particularly in the reporting requirements—could probably spell the end of any sort of organized grain inspection service on a voluntary basis. The system would simply be too burdensome and inefficient for private participation. It would cost too much.

What appears to be the real life effect of being too restrictive is to force industry back to pre-1916 conditions—by eliminating third party refereeing in the grain business. I believe this to be retrogressive.

The year 1916 was the date of the original Grain Standards Act—which the milling industry strongly supported and helped to obtain. Overall, it has been a good system, one that has helped provide official weights and grades, which in turn has helped buyers and sellers understand each others' problems and specifications.

When a flour miller buys wheat from a grower or country elevator operator, he's not out to skin that producer's hide. He is out to help keep him in business so he will be around to provide quality grain again next year.

It would be a mistake for the imposition of restrictive reporting requirements on the country elevator system or the flour milling industry to jeopardize the acceptance of uniform national standards for grain. Yet that's just what you may be doing if all these reporting requirements are enforced.

To make the Grain Standard Act unworkable, to step back 60 years to a system in which there would be no point of third party appeal in cases of dispute between buyers and sellers, would be a tragic mistake and an expensive one for every American. A technical amendment to the Grain Standards Act of 1976 to relax recordkeeping and reporting to the Federal government should, it seems to me, to be a strong and crucial consideration of this committee.

Thank you very much for your attention and consideration in this matter.

STATEMENT OF WELLS HANLEY, PRESIDENT, AND JOHN T. BUTLER, CHIEF INSPECTOR AND WEIGHMASTER, MEMPHIS BOARD OF TRADE, MEMPHIS, TENN.

I am Wells Hanley, President of the Memphis Board of Trade, and this statement is made in behalf of that organization and its subsidiary company, the Memphis Grain and Hay Association. Cooperating with me will be Mr. John T. Butler, Chief Inspector and Weighmaster.

The Memphis Board of Trade was organized in 1883 and is one of the oldest grain exchanges in the country. Its membership includes commercial grain merchandisers, grain processors, soybean and cottonseed processors, feed manufacturers, brokerage and commission merchants, banks, railroads, and country shippers. Both buyers and sellers of farm commodities are members of the Memphis Board of Trade.

The Memphis Board of Trade established a grain and hay inspection department and standards of quality for grain and other commodities in 1885. When the Congress passed the U.S. Grain Standards Act in 1916, our inspection department became a designated official inspection agency under that Act. In 1962, a modern and efficient grain inspection station was built at a cost of almost $100,000. This was financed entirely by the Memphis Board of Trade.

The inspection department performs approximately 30,000 official inspections annually, on barges, rail cars, trucks, and submitted samples. These samples represent approximately 100 million bushels of soybeans and grain. Official inspection is furnished to anyone who desires it. We currently inspect grain for approximately 240 accounts, about equally divided between shippers and receivers of grain. Service is provided seven days a week, twenty-four hours a day during harvest periods. The operation is financed from fees charged for the service. The fees are the same for members and nonmembers and these fees have been modest as the department operates on a nonprofit basis. The territory serviced by our department includes the heavy grain and soybean producing area of eastern Arkansas as far west as the White River and all of West Tennessee.

We are concerned with the present interpretation of three parts of the Grain Standards Act of 1976 as it affects interior points. Those areas of concern are:

1. The recordkeeping provisions as we understand them.
2. The cost of Federal Supervision as it is presently proposed.
3. The conflict of interest provisions as they may be applied to "boards of trade."

The "record keeping" provisions of this bill, if enforced, to the full extent provided for, might well destroy the official grading system at interior points. This "paper work" would be so burdensome that many present users of "official grades" would simply forego their use in order to avoid the record keeping requirements of the Law. The burden would be most severely felt by the smaller "country elevators," who have limited bookkeeping capability, and have grain handling systems that *are* designed for the speedy and efficient handling of these crops. The systems *are not* designed to facilitate the gathering of this information and the operators are not disposed to accept these new requirements that would hamper their ability to handle the harvests. Thus, this record keeping provision might destroy the very system that the Law is supposed to protect. This, at a time when the public is clamoring for *less* bureaucratic involvement in their lives?

The Federal Supervision fees as currently outlined appear to be unrelated to the cost of supervising our inspection activities. In December of 1976, we were advised that the fee would be $11,135.68. In January we received the present schedule which would amount to about $83,000 per year based on our 1976 volume. Our total income from inspections was $177,000 in 1976, thus these supervision fees would amount to almost one-half as much as our inspection fees. The $83,000 would provide 5,200 hours per year of supervision (based on the F.G.I.S. figure of $16.00 per hour.) This is considerably more hours per year than the inspection station is open and equates to about three fulltime people. We have been told that we could expect no more than one government supervisor at our station.

One of the problems appears to be that the fee schedule is discriminatory as it relates to barges. The per bushel fee is the same for a 750 bushel truck as for a 50,000 bu. barge. Thus, it charges 66 times as much for one barge grade as for one truck grade. F.G.I.S. must know that this is not realistic as their per bushel charge for inspections is $16.00 per thousand bushels on trucks and $.96 per thousand bushels on barges. This is particularly important to us as about two-thirds of our inspection volume is on barges.

We strongly urge that the fees be made to reflect the cost of the supervision. Or, if this is too complicated, then we feel that the cost of supervision should be through appropriated funds, as in the past.

Our greatest concern regards possible interpretations of the provisions on conflict of interest.

The Law contains a provision in Section 13, Subsection (b), Item (5) which allows the Administrator to designate a board of trade as an official agency if he determines that any conflict of interest which may exist is not such as to jeopardize the integrity or the effective and objective operation of the functions performed by such agency.

This provision has been referred to as the "Bergland Amendment" as it was proposed by Mr. Bergland, who was at that time a member of the House Committee on Agriculture. This provision was included in the conference bill as recognition that many boards of trade had performed admirably as official agencies and could perform just as well in the future.

The Memphis Board of Trade is one of those who has served well and is in a position to continue that service. Please consider these advantages which we can bring.

The Memphis Board of Trade has operated an inspection service for ninety years without criticism, a record that cannot be matched by any state, federal, or private inspection agency that I know of.

But more important, the Memphis Board of Trade can, and if allowed, will provide this same quality service for another ninety years at no cost to the taxpayer. We are confident that we can do this because of the nature and objectives of our organization. The Memphis Board of Trade is a nonprofit corporation whose only interest is to promote a healthy, efficient farm commodity marketing system. The membership of our organization includes buyers and sellers, companies who both buy and sell on Memphis Board of Trade weights and grades, and persons who do not buy or sell farm commodities. Some of you may think of a Board of Trade as an organization made up of big buyers located in the city. Actually, only 12 of our members fit this description and 7 of those are also sellers. Thirteen of our members are country shippers. Three of the thirteeen country shippers are farmer owned co-operatives. Thirty-one (or 55%) or our members do not trade in commodities that we grade. Thus, we are interested only in the most expert, nonbiased, consistent inspection system possible.

Consider the advantages of having buyers and sellers represented in this process. They constantly compare the Memphis Board of Trade grades and weights with the results obtained by themselves on the same lots. This provides an immense amount of checking and counter checking. Typically, the seller will have his grades, the buyer will have his grades, and there will be the Memphis Board of Trade grades. If either the buyer or seller thinks the Board of Trade grade is in error, he may call for a USDA appeal grade. It is interesting to note, however, that USDA appeal grades are called for less than one percent of the time, and more than two-thirds of the appeal grades uphold the original Memphis Board of Trade grade.

Membership is open to all interested parties of good character. I know of no applications for membership that have been refused; and in fact, we have made a continuing effort to encourage new membership. The Boards of Directors of the Memphis Board of Trade and the Memphis Grain and Hay Assoications are elected by the membership at annual meetings, and all members are eligible for election to the Boards.

More than one-half of our members are persons who have no financial interest in the commodities we grade. This makes us uniquely qualified to establish an autonomous committee of noninterested parties to oversee the operation of the inspection and weighing services. This committee will be given authority to appropriate funds, establish salaries and wages, using a wage survey procedure, and to establish fees for our services. The committee will appoint the Chief Grain Inspector. At present he is Mr. John Butler, a highly skilled professional, who has complete autonomy in the staffing and operation of the inspection department. The present staff of inspectors have an average of twenty-six years' experience in grain inspection. They have been individually tested and licensed by the USDA, and are reexamined every three years for competence. Their tenure is based solely on their performance as inspectors.

We believe that the industry has confidence in the Memphis Board of Trade. No one is required to use our services, yet last year, we handled more than 30,000 inspections for 240 different accounts. This seems to indicate that we have a lot of satisfied customers.

We believe that the Department of Agriculture also has confidence in us. They have watched us and supervised us for many years with a very minimum of problems. Recently they moved most of their personnel from Memphis leaving

us with very little of their supervision. We urged them to stay in Memphis and offered to work with them in providing office space on our property (and by the way that offer is still open.) All of this indicates to us that they do recognize the job that we have done and do have confidence in us.

We want the Memphis Board of Trade to continue as an original inspection agency because as members of the industry we know that organization has, and will continue to, give us the service we need to provide an orderly market for grain and soybeans of the mid-south; and as citizens we know that the Memphis Board of Trade can continue this service without cost to the taxpayer.

F.G.I.S. employees have made statements indicating that they will now move very slowly in designating boards of trade as official agencies. Additionally, they have been quoted as saying they "do not have to give any waivers" and "will not give many". The Law is written in such a way that the initiative for this action to approve boards of trade is to be taken by the administrator of the F.G.I.S. It is clear to us that Congress intended to allow boards of trade to continue as official agencies at interior points where those boards of trade can demonstrate their ability to perform the functions. We have demonstrated our ability and we urge the Senate committee to follow this matter so that organizations such as ours may continue to serve the grain industry.

We thank the U.S. Senate Subcommittee on Agricultural Production, Marketing and Price Stabilization for this opportunity to present the views of the Memphis Board of Trade.

STATEMENT OF ALLAN R. PINKERTON, OREGON WHEAT GROWERS LEAGUE, HELIX, OREG.

Chairman Huddleston and members of the committee, my name is Allan R. Pinkerton. I am a farmer from Helix, Oregon. I am the immediate past president of the Oregon Wheat Growers League, an organization of 9,000 wheat producers in the State of Oregon.

The Oregon Wheat Growers League, in concert with other producers, supported the concept of this law during its development. We especially desired the maintaining of state inspection agencies where they have been found to be above reproach. We continue this support and believe that Public Law 94–582 will do much to strengthen the integrity of the United States grain distributing and exporting system. However, we are concerned about its possible administration. We believe that the Service should be operated on a basis of need, not on the maximum amount of supervision allowable. We further believe that the intent of Congress was to correct some flaws where necessary but not to create another vast bureaucracy.

The inspection agencies of the states of Oregon and Washington have been investigated many times and have always been proven clean. We believe that the F.G.I.S. should recognize this and keep its supervision in the northwest at current levels. The state agencies have many attributes, among them are:

1. Proven success in terms of efficiency and foreign customer satisfaction.
2. Minimal cost to the state, grain trade, producer and consumer.
3. Tough, stringent standards already in existence and readily enforceable.
4. Ability to react to the needs of all entities involved, from producer to consumer.
5. Ability to provide local or unique services when needed, i.e. infra-red testing, protein testing, sprout damage problems.

Excessive federal inspection and/or supervision would inevitably reduce efficiency, increase cost, and multiply paperwork. The latter if only to justify its existence. Also, we are concerned that there are not sufficient restraints built into the Service. All of the producer-related services provided for are paid by fees. Thus, there exists no budgetary responsibility relating back to Congress. This opens the door to what could be tremendous growth within the Service. Even at this preliminary time, the estimated increase in cost to the Oregon and Washington producer is in the vicinity of 50 percent. But without any promise or even suggestion of a 50 percent increase in productivity. Indeed, the reverse is more likely. We believe that this is unnecessary.

Another real concern to the grain trade and the producer is the status of the 'certificate final' system currently in use. The official monitoring of grain unloaded in importing nations must not be allowed to destroy the viability of the 'certificate final' concept of grain trading. The weighing, sampling, and

inspection which take place at the time and point of loading must be allowed to remain the basis for the contract of sale. The system as now used provides for certain precise points at which title and risk pass from seller to buyer . . . all the way from the original producer to the buyer in the foreign country. We do not quarrel with the foreign point of inspection but do believe that its purposes should be to check upon the Service itself and to determine the quality of the carrier, not to interfere with the terms of the sale or to provide a crutch to the buyer to seek a lower price, should such a possibility develop.

Some other points of concern are:

1. The problem of samples crossing geographic lines; grain moving from a sub-terminal to an export terminal of one ownership. Does this necessitate multiple inspection? (Kennewick to Kalama, North Pacific Grain Growers, Inc.) (Arlington to Portland, Cargill, Inc.)

Also, does grain produced in Oregon and delivered to an elevator with headquarters in Washington have to be sampled and tested in Oregon or can it be handled at the facilities convenient to the main office?

2. The record-keeping requirement does not directly affect the producer except in terms of total cost. We hope that some means of minimizing the cost in terms of time and space are allowed and encouraged.

3. The Service will undoubtedly require or request additional facilities at nearly every delegated and designated location in order to perform their duties. These facilities will be additional to current ones and become a part of the cost of operation to the trade and the producer.

4. The termination of delegated agencies without hearing raises the possibility of an existing agency being subject to the whim of a disgruntled inspector. Surely, the Administrator would not allow this to happen, but what systems are available to deal with this problem?

In summary, we continue our strong support for the Federal Grain Inspection Service. In no way do we oppose the law. But we are strong and unified in our support of the state agencies of Oregon and Washington and urge the adoption of regulations that will both curb the improprieties that have occurred elsewhere and continue the good work that has historically been done here.

Thank you Mr. Chairman for the opportunity to appear before you and your committee and present our position.

STATEMENT OF MERRILL D. SATHER, REPRESENTATIVE, PACIFIC NORTHWEST GRAIN STANDARDS AND QUALITY COMMITTEE, PORTLAND, OREG.

Chairman Huddleston and members of the committee, my name is Merrill D. Sather from Portland, Oregon. I am representing today the four-state (Oregon, Washington, Idaho and Montana) regional Pacific Northwest Grain Standards and Quality Committee composed of all segments of the industry. I serve as a member of this committee. I am also employed as Executive Vice President of the Pacific Northwest Grain Dealers Association. The association concurs with the regional committee's testimony as here recorded.

The grain industry in the Pacific Northwest recognizes the need for any changes in the U.S. Grain Standards Act which would reduce or eliminate the possibilities of wrong-doing in the business of exporting grain and commends Congress for its efforts in that direction.

All industry segments, however, are deeply concerned with the monster we fear has been created. At a December meeting in Vancouver, Washington, USDA Agricultural Marketing Service officials explained the various provisions of the new act to the industry and provided information on their implementation. It became immediately evident that burdensome and costly record keeping would be required of the grain trade, and sharply increased inspection and weighing costs would result from the regulations being proposed. It is evident to us that the new Federal Grain Inspection Service has been given carte blanche authority to establish rules, to set fees, and to create a giant self-perpetuating bureaucracy.

Only a minimal amount of the increased costs are to be financed by Federal appropriation. The bulk of the costs will come from increased fees paid by the industry, and particularly by the grower segment. These increased costs will be passed along until the producer ultimately will pay for these services as an increased marketing cost. Let us emphasize that the American wheat producer

cannot continue to absorb every added cost in grain marketing and still stay liquid.

We take the position that the new recordkeeping requirements and the tremendous increase in supervisory staff is unnecessary and wasteful. Personnel in the Portland Field Office have increased from eight to thirty-one in the past year. This office supervises inspection at nine elevators in five ports. One new elevator came on line during the year which would probably account for one or two more needed men, but the need for a nearly fourfold increase is incredible.

Federal employees don't come cheap either. A check with the Oregon Departmentof Agriculture reveals that the grain inspection service in that state has a full time equivalent of 100.9 people in the current fiscal year. The agency budget is $1,707,275 or an average of $16,920 per staff member. This cost includes not only salaries and wages, but travel expenses, supplies and capital outlay. A similar study for Washington reveals a budget of $17,500 for the current fiscal year. The Federal Grain Inspection Service on the other hand is reported to ultimately employ 2600 people on a proposed budget of $54 million or $20,769 per individual.

Let us point out that during the nearly 70 year history of grain inspection conducted by state agencies in the Pacific Northwest, the integrity of those agencies has never been questioned. The states' programs have been well accepted by growers, handlers, dealers and exporters with no controversy. Importers, too, have likewise had little or no complaint regarding the quality of the work by these agencies. Why then should a time-tested, efficient and honorable service be so thoroughly disrupted because USDA let its guard down in another area of the country?

Our industry sees no logical reason for setting up a superfluous and costly bureaucracy in this region when there is and has been no corruption and no demonstrated need for such duplication of effort.

Others have or will testify to the burdensome aspects of Section 12(d) regarding record keeping requirements. Let us direct attention to fees by reviewing two paragraphs published by the USDA in the January 5, 1977 Federal Register.

"Provisions are also included for assessing and collecting fees from delegated State inspection or weighing agencies and from designated official agencies, as well as official inspection or weighing agencies that continue to operate for an interim period pursuant to section 27 of Public Law 94–582, to cover supervision costs as provided in the Act. These supervision fees are to be collected after the service is provided by the agency.

"In some instances, the information used as a basis for the fees consists of estimates based on time studies, and on expected volume and costs. Further evaluations will be made, and the fees will be adjusted, as needed, to equate the fees as nearly as possible with the cost of the services".

It is our thought that an additional paragraph should be added here stating that a "re-evaluation should be conducted in regard to the number of Federal employees needed to supervise inspection and weighing at Pacific Northwest points to adequately and effectively carry out the intent of Congress by complying with the provisions of Public Law 94–582 without incurring unnecessary burdensome marketing costs on the region's wheat industry".

Mr. Chairman our Committee appreciates the opportunity to appear before you and your committee to state our views.

STATEMENT OF DALE WALSH, LINCOLN GRAIN EXCHANGE, LINCOLN, NEBR.

We would like to present our views of the U.S. Grain Standards Act of 1976, and the problems that have arisen in the interpretation and implementation of the act.

Because of the amount of the supervision fees, the recordkeeping provision and the Conflict of Interest provision of the act, there is a considerable amount of talk across the country, about official inspection agencies operating on an "unofficial basis".

How serious this move becomes will depend on what can be done to correct these problems and other problems which may arise.

Had the supervision fees been in effect during 1976, the Lincoln Grain Exchange would have paid approximately $97,000. This would have been about 30 percent of our total income from inspections and about 35 percent of the total salaries paid to inspection personnel.

We believe that as inspection fees increase the volume of inspections will decrease. This will certainly be true of the submitted sample inspections and official truck inspections.

We have estimated that during 1976 more than 50 percent of the grain that arrived in Lincoln, Nebraska, arrived by truck. Nearly all of this grain was inspected by a submitted sample inspection or an official truck inspection. The income from these inspections amounted to approximately 50 percent of our total inspection income. We would have to increase all inspection fees to offset this lost income.

We would like to comment on the conflict of interest section of the act and the waiver provision for Grain Exchanges and like organizations.

We feel that because of file sample retention, federal appeal rights, having both processors and merchandising firms in our market, country elevators having the option of selling to several different markets and the fact that grain from our market is distributed to all areas of this country where, many times, it is again officially inspected does mandate the proper inspection of grain at our agency.

One of the most important aspects of grain inspection is timely service. Any delay, during a heavy movement of grain, can cause demurrage and possibly embargoes, both of which are very costly.

Organizations such as ours, although we may have an "inherent" conflict of interest, do have a "genuine" interest and are in a position to insure the timely service required to meet the requirements of the Declaration of Policy of the act which states in part, "with the objectives that grain be marketed in an orderly and timely manner and that trading in grain may be facilitated."

We believe that the conflict of interest section of the act does need clarification and would hope that criteria will be established in the writing of the regulations, that will allow organizations such as ours to remain in operation, under the waiver provisions of the act.

We hope with the cooperation of everyone concerned that a workable solution can be reached.

STATEMENT OF ROBERT L. ANDERSON, EXECUTIVE VICE PRESIDENT, NEBRASKA GRAIN AND FEED DEALERS ASSOCIATION, LINCOLN, NEBR.

My name is Robert L. Anderson; I am the Executive Vice President of the Nebraska Grain and Feed Dealers Association, a trade association which represents over 900 members in the State of Nebraska. Our membership includes 812 grain elevators in the State.

In reviewing the 1976 United States Grain Standards Act, which created the Federal Grain Inspection Service (F.G.I.S.), it is found the Act would have a very costly and detrimental effect on the Nebraska grain farmers. In addition to being costly to Nebraska farmers, it will also be costly in time and money to Nebraska's grain trade, even though the additional cost of F.G.I.S. can be passed on to the farmer by grain dealers in the form of a lower price for his grain.

The Association and its members are concerned by the possible additional costs in the following areas:

1. The supervision costs assessed to the trade in the form of "Official" inspection, weighing and other tests at the domestic and export locations.
2. The additional record-keeping costs made necessary by the new Act.
3. The possible demurrage charges assessed to rail cars while waiting for a federal inspection or re-inspection.
4. The discounts resulting recently from Federal re-inspections of wheat shipments.

Of the four items I previously referred to, I would like to give you an approximate cost for each item, which would also mean a Nebraska farmer would receive this amount less per bushel on his grain. This total will roughly amount to 9.4 cents less per bushel a farmer would receive for his grain.

Additional F.G.I.S. supervision costs

	Per bushel
First inspection at interior point on a 3,000-bushel hopper car ($18 per car)	$0.006
Second inspection at export point by one FGIS employee on a 3,000-bushel hopper car ($18 per car)	.006
Weighing fee at export point on 3,000-bushel hopper car ($14 per car)	.005
Protein fee at export point on 3,000-bushel hopper car ($11.50 per car)	.004
Optional (official) weighing fee at interior point on 3,000-bushel hopper car	.004
Additional cost for adding 2 employees instead of 1, to officially weigh and supervise the weighing at export point	.004
Total possible costs for FGIS supervision	.03

Staying on the safe side and applying only 2.5 cents per bushel cost, instead of 3 cents per bushel, to all grains sold in Nebraska, you come up with an exorbitant figure. For instance, 613,148,000 total bushels were sold in Nebraska last year. Subtracting 245,993,000 bushels from this total for feed equivalents a total of 367,155,000 conservative bushels then could be equated as sold in normal grain channels during 1975. If you applied the 2.5 cents per bushel against the 367,155,000 bushels, this means Nebraska grain farmers would lose $9,178,875 during each of the coming years. In wheat grain alone, which approximates 85 million bushels sold through grain channels, Nebraska's wheat farmers could lose $2,125,000 each year. This is a healthy sum which Nebraska farmers will pay from their own pockets on a decreased grain price and the State's economy will lose in additional buying power.

ADDITIONAL RECORDKEEPING COSTS

Under Section 12 (D), of the 1976 United States Grain Standards Act, every "commercial grain elevator . . . engaged in merchandising of grain other than as a producer, and who, at any time, has obtained or obtains official inspection or weighing . . . shall maintain complete and accurate records of purchases, sales, transportation, storage, weighing, handling, treating, cleaning, drying, blending, and any other processing . . ."

From the above wording, it appears this would apply to any operator who has only one official inspection, and this could be a single submitted sample used to settle a disagreement between a warehouseman and the farmer as to the grade on a given lot of grain. In this manner it appears that an elevator warehouseman obligates himself to recordkeeping requirements for five (5) years.

Let's use an example of a small grain elevator in Nebraska, 200,000 bushel capacity, that turn his capacity over four times each year. Let's say the additional costs of labor over-head, and equipment can be equated to hiring a full-time person at $5.00 an hour for the year, or $10,400. Dividing the total number of bushels he'll run through his warehouse during the year (800,000) into the 10,400 dollars, equals to 1.3 cents per bushel in cost. This is 1.3 cents less per bushel, a Nebraska grain farmer would receive for his grain. Or looking at it another way, 1.3 cents times 367,155,000 bushels of grain sold in Nebraska's grain trades means a loss of $4,773,015 to Nebraska's economy.

ADDITIONAL DEMURRAGE COSTS

Recently, Federal re-inspections have cost $80 per hopper car, due to delays in inspections. Let's say a 3,000 bushel hopper car with a railroad penalty cost, demurrage, equates to 2.5 cents per bushel ($80 per car). For the sake of this example, assume, the delays of Federally supervised inspections at either the interior or gulf points are applied to the nation's entire grain trade. Then multiply 2.5 cents against the Nebraska's total 367,155,000 bushels, this would result in another $9,178,875 lost to Nebraska's economy.

DISCOUNTS ON FEDERAL REINSPECTION

Last December in Kansas, thousands of bushels of Hard-Red Winter Wheat, sub-class were re-classified to Yellow Hard-Winter Wheat sub-class. At that time, a discount of 3 cents per bushel was taken. If this discount was applied at a later time, the discount would have risen to 5 cents per bushel and at other

times this discount could easily rise above this point. For the sake of this example, let's apply the 3 cents per bushel discount against Nebraska's 367,155,000 total grain bushels, assuming discounts could also apply to the feed grains along with wheat. In this case, Nebraska's economy would lose $11,014,650. Or only applying the discount to 85 million bushels of wheat, at the 3 cents per bushel discount, would mean a loss of $2,550,000 to Nebraska.

	Per bushel
Additional F.G.I.S. supervision costs	$0.025
Elevator recordkeeping costs	0.013
Demurrage costs	0.026
Discounts	0.03
Total possible farmer loss per bushel on his grain	0.094

The previous items I discussed with you on potential additional costs to the grain trade, which will in turn be passed on to the farmer, are not meant to be total costs on each bushel of grain. But, for the sake of this example, if the 9.4 cents cost per bushel was applied on each bushel of Nebraska grain, sold through the elevator, this would mean a loss to Nebraska's economy and Nebraska's farmers, of $34,512,570. A fantastic amount, I think you will agree.

For the nation's farmers presently experiencing low grain prices and an increased cost of doing business, even a small portion of this amount would be way too much.

The trends over the past several years, have shown an increased level of government regulation at both the federal and the state level against the nation's small businessman. The 1976 United States Grain Standards Act seems to be no exception, as seen from the proposed Rules and Regulations proposed by the Federal Grain Inspection Service, (F.G.I.S.).

The country elevators in the Nebraska Grain and Feed Dealers Association urge you to take whatever action is necessary to stop the implementation of the new Federal Grain Inspection Service's Rules and Regulations.

With any criticism, you should propose solutions:

(1) The costs of the new Federal Grain Inspection Service be covered by, like under the old law, appropriations from Congress. In addition to this, inspections and weighing at interior points be continued as they have in the past.

In Nebraska our grain inspection services have been efficient, low cost and a benefit to the grain trade and Nebraska's farmers. It is the Association's feeling the grain inspection agencies in our State have been operating successfully without difficulties; therefore, why should they be changed.

(2) The new system of record-keeping suggested by the Act, be changed to read that only such records as have been kept in the past be required. In this way, the country elevator would not bear the equal costs and additional paper-headaches. The proposed record-keeping system seems impractical and more than the country elevator can bear.

The 900-member, Nebraska Grain and Feed Dealers Association urges and hopes this Sub-Committee and the Congress of the United States will make the changes necessary in the 1976 United States Grain Standards Act. Through these changes, the small country elevator will be helped instead of over-regulated; Nebraska's economy will be helped through the savings of money in our agricultural economy; and, Nebraska's farmers will be helped by receiving their full price on his feed grains because they did not have to lose it through over-regulation costs.

Thank you for this opportunity to present this testimony at this hearing. Any action you take to help Nebraska's grain trade and farmers will be greatly appreciated.

STATEMENT OF FRANK HEMMEN, PRESIDENT, TEXAS GRAIN AND FEED ASSOCIATION, FORT WORTH, TEX.

Mr. Chairman and members of the subcommittee: I am Frank J. Hemmen, President of the Texas Grain and Feed Association, an association of over 1200 members working in the areas of grain handling, feed manufacturing and allied industries. I am appearing here today in behalf of the private grain exchanges, located in Texas at Fort Worth, Amarillo, Lubbock and Plainview. Our association is pleased to have this opportunity.

The intense concern of the agricultural community that prompted recent meeting and these hearings is basically founded in the belief that the U.S. grain standards act of 1976, as implemented by the federal grain inspection service is not in the intent of Congress nor the law as enacted. The timetable under which the FGIS was forced to operate placed them in a less than enviable position. We are sure that the FGIS would welcome the input of industry and further guidelines from Congress as to the scope and direction of their efforts.

HISTORY

Our association is sure that everyone in this room shares the very happy feelings of the five Houston grain inspectors who were cleared of all charges made in April of 1974 and who now have had their licenses to inspect grain restored to them. It was a difficult two years for the men during which they could neither ply their trade nor come to trial. Their clearing was also a happy occasion for the southwest grain trade because indictment of these men in Texas in some way indicated a link of the Texas gulf coast with the wrong doing discovered in the Mississippi River system. While our association continues to feel that the coastal grain inspection points from Brownsville to Port Arthur have been guilty of no misdeeds we are realists as well. Because of the massive amount of publicity given to questionable export practices on other parts of the Nation's coastline, it was accepted that federal inspections at export points had to be accepted as inevitable. The involvement of grain inspection services on all coasts of the United States and not just the Mississippi River area was considered overreaction by some in the agricultural community, but accepted. Our membership, and indeed the entire agricultural community was shocked however, when the first act of implementation of the law by FGIS, was to involve every interior inspection point in the United States in one way or another.

COST

Based on some cost of operating basis, a charge of 80 cents per 1000 bushels inspected was imposed on the interior grain exchanges. The grain exchange continues to perform the inspecting, sampling and other function. Therefore, the charge imposed by the FGIS has been referred to by some as a "royalty" for the use of the trademark "Official" on the certificates. To bring this into perspective; the grain exchange will sample and inspect a jumbo hopper car of grain in some cases for $6 per car. The checkoff to FGIS on that car would be $2.40. Another illustration of enormous cost is at the seaboard where estimates of FGIS weight supervisors alone needed per elevator range from 6 to 11. For example; in the case of the use of only 6 if we assume an elevator works 100 hours per week, as many have for prolonged periods since 1972, this would be calculated as 20 hours per day 5 days per week. There would be 40 hours straight time and 60 hours overtime.

6 weight watchers times 40 equals 240 hours straight time.

6 weight watchers times 60 equals 360 hours overtime.

Basis FGIS announced contract service fees of $14.00/hr. straight time and $18.00/hr. overtime we see the following cost

240 straight hours times $14 equals $3,360.

360 overtime hours times $16 equals $5,760.

Weekly cost: $9,120.

or a staggering annual cost of $474,240 for weight watching. Our association is sure the FGIS considers the most efficient use of people to carry out the intent of the law at the least cost to the taxpayers. One Texas gulf elevator was advised to prepare 25 parking places for government employees. Once again, the law left the FGIS with a difficult task. The law states that the bureau outside Washington will be supported by fees. Funding for the bureau in Washington would come from appropriated funds. This unusual portion of the law, we are sure, forced the institution of those fees based on per/1000 bushels inspected and weighed. We would recommend consideration of funding by Congress with the built-in control of the size of the bureau by way of controlling the size of the appropriation.

In a press release the first week of January the FGIS stated "All fees for Federal grain inspections and weighing services are charged to buyers or sellers who use the service, whether at export markets, where inspection and weighing are essentially mandatory under the new law, or at domestic markets, where

inspection remains voluntary". This statement is not compatible with the actual customs of grain trading. In any grain trade the seller has to prove to the buyer delivery of the quality and quantity sold, whether it be a bobtail truck, semi-trailer truck, railcar, barge or boat load. When grain moves from the country elevator and into commercial marketing channels the burden of quality and quantity being the same as contracted is the responsibility of the seller. Grading and weighing costs then accrue back to each seller, and ultimately to the farmer at the country origination point. The farmer is by nature a seller of grain.

RECORDKEEPING

We will not belabor this point because we believe it is already obvious to the implementors of the Act that this Section 12(d) of the Grain Standards Act of 1976 is not workable. Requiring every country elevator that obtains an "Official" grade during the year to keep records on eleven different functions within the country elevator, imposes an imponderable burden. The country elevator is required to handle all products the farmer chooses to market, with a tremendous amount moving in a brief period at harvest time. Varying qualities of grain have to be properly binned so that all products can eventually be blended in the system into a final good uniform product. Grains such as corn, for instance, are particularly delicate in this area of the grain marketing system. This harvested product must immediately begin the process of drying and screening in order to make it a marketable product. The country elevator initiates the movement into the grain handling system which, thru further cleaning, conditioning and blending of the varying qualities, etc., produces a standard high quality product into domestic and export markets. The opinion has been expressed that Section 12(d) of the U.S. Grain Standard Act of 1976 would put a needless burden on the country elevator and hinder economic and efficient performance of the primary tasks of the country elevator.

All the requirements of section 12(d) would not explain the sources of shortages and overages if this was its purpose. The present records kept by country elevators are sufficient to display shortages thru theft. The normal shrinks and gains in the handling of grain would not be explained by these additional records. For example, we all know that grain is porous and will take on, or release, moisture under certain conditions. This ability to release moisture makes the drying process possible. This drying process keeps the moisture in the grain low enough to prevent sprouting. For purposes of this illustration let us liken to a bin of corn, wheat or grain sorghums to a sponge. If a sponge is placed in a dry arid western part of our state of Texas it will weigh less than if placed on our humid coastal plains. If that sponge is divided by the standard bushel estimate of 56 pounds in the case of feed grains or 60 pounds in the case of wheat, there will be more bushels produced by the weight of the sponge on the coast and there would be less bushels in the sponge in the arid areas of west Texas. The same facts hold true for grain—if the moisture increases or decreases so do the bushels. This fact of nature for instance would not be explained by the intricacies of section 12(d). There would, however, be an enormous number of man hours required in the keeping of such records and another burden of cost would be placed on our agricultural production and distribution system; a production and distribution system that is the envy of the world.

ALLEGED CONFLICT OF INTEREST

The provisions of this section of the act produce the most vivid threat to our interior grain inspecting system. As recently as Monday, January 24, 1977 the acting administrator of FGIS advised one of our Texas interior exchanges that in his view and interpretation of the law, there existed a "black and white" situation of conflict of interest. The exchange could not survive. We do not believe that this was the intent of Congress, and we offer the following in defense of our interior inspection points in Texas.

(1) *History.*—These exchanges have operated honestly without scandal or taint of accusation for 50 years or more.

(2) *Checks and balances.*—It is natural in the formation of these exchanges that the founders would be grain firms from a given area who desired a third party opinion of the quality of grain traded in that area. It is not logical that the local car dealers, for instance, would form a grain exchange. Hence the "nature of the trade" ownership is natural. It is important to keep in mind that

buyers and sellers of grain are represented in this ownership. These exchanges in the interior do not operate in a vacuum. After a car, truck or barge is inspected at these interior points the grain is moved to domestic feed mills, domestic flour mills, grain terminals and other knowledgable receivers. If, for instance, a particular location showed a better grade consistently for their shippers that owned stocks than the receivers found to be the fact, then that shipping point would no longer be acceptable to the buyers. This is a check. In such a case certainly supervision would come into play as it properly should.

The act as written permits a strange alternative as interpreted by FGIS. The broad ownership may, according to FGIS, liquidate its ownership to the chief inspector leaving, in our opinion, a situation that is fraught with danger of potential corruption in the future. We do not believe that it was the intent of congress to destroy the time proven interior inspection system of the United States. We urge that waivers if necessary regarding alleged conflict of interest are justified for interior exchanges.

ALTERNATIVES

To this point we have addressed ourselves to the cost in the fees to the farmers and other segments of the grain community for use of the term "Official". In cases where FGIS actually does the inspection and sampling at the seaboard however, costs truly skyrocket. In addition to the high cost of the system there is concern that the federal inspection system will not lend itself to the flexibility necessary to handle harvest pressures nor high stress situations of movements in times of increased foreign trade. At export points the act addresses itself to mandatory inbound weights and outbound weights and outbound grade by FGIS. The act is permissive regarding inbound grade at export. This allows the alternative to the farmer of paying $3 to $4 per truck load for a grade certificate issued by an inspector other than FGIS. Each elevator at export location would provide such service. The farmer can, of course, get FGIS inspection for $12 to $14 per truck load. These rates are as per USDA FGIS Notice 4.

To the grain producing and handling community the honest opinion of the inspector is most important. The trademark "official" does not alter the integrity of the man. Grain inspection is a skill of judgment. A person who has inspected grain for twenty years develops a speed and accuracy natural to that length of experience. Such costs variances as described will cause the grain producer to consider alternatives to FGIS grades at export, just as accurate, without such expense. We would urge authorization to allow the existing coastal exchanges to conduct official inspections under the supervision of the FGIS if the presently franchised inspection agency so chooses. This would also reduce costs to farmers and allow speed and accuracy of grades to facilitate movement of grain at times of stress such as harvest.

CONCLUSION

At the general convention of the Texas grain and feed association in El Paso, Texas, April 10, 1976, there were eleven resolutions adopted before the general convention. Among them was a resolution of appreciation to the President of the United States for his address to our convention. I would quote here from a most important resolution, No. 4:

Grain Grading and Inspection Legislation

"Whereas the grain industry in the United States during the past year has received a "black eye", because a few grain inspection agencies located primarily in one gulf port area have not properly performed their responsibilities,

"And whereas the grain trade must regain the confidence of foreign grain customers who buy a very large percent of U.S. farm production.

"And whereas it is our firm belief that this cannot be accomplished by turning over more of our business to big government in Washington; therefore, be it

"*Resolved*, That this convention of the Texas Grain and Feed Association does oppose the Humphrey/Clark Senate Bill 3055 which would federalize the U.S. grain inspection system,

"And that this convention does give support to that portion of House Bill 12572 calling for greater penalties for those who break the law, and stronger Department of Agriculture supervision to insure proper weighing and grading of grain."

Our opinions as an association are unchanged from this statement. The term overreaction has been used and we consider it accurate. We do not believe that it

was the intent of Congress to take over or alter drastically the interior inspection system and efficient grain marketing system within the United States. We feel that advisory committees of industry personnel such as used by the Commodity Futures Trading Commission at its inception would be of value to the FGIS.

The FGIS has stated that additional personnel needs for sampling and inspecting grain just at the seaboard would be 2,800 people. At the present time there are 2,500 people involved in the entire grain inspection system in both the interior and at the seacoast. This announced intention of the FGIS per news released information to build a staff of 2,800 people in the field prompts natural questions as to their intentions to restrict their activities to the seaboard.

Other nations may have the ability to produce automobiles more cheaply than we are able to produce them, another nation may be able to produce watch movements, or other items at less cost than we, but no nation in the world has the ability to produce and distribute grain from areas or surplus to areas of deficit, with the low cost and the high efficiency, that we have in the United States of America. Texas Grain and Feed Association feels that a needless bureaucracy should not be imposed on this system. Imposition of its burden in areas of the system that have not conducted themselves in a manner that would warrant such imposition, should be prevented by the Congress. Let us not destroy efficient movement of agricultural products within the United States. This efficiency helps to hold down consumer product costs and aids in the fight on inflation. Efficient exports of agricultural products are the prime source of revenue in offsetting our foreign balance of payments against oil imports. The Texas Grain and Feed Association is sure that it is not the intent of Congress to impose a needless or unwarranted burden of bureaucracy on the farmers of the United States and the distribution system.

STATEMENT OF D. G. "BILL" NELSON, EXECUTIVE VICE PRESIDENT, TEXAS WHEAT PRODUCERS ASSOCIATION, AMARILLO, TEX.

Mr. Chairman and Honorable Committe Members: My name is Bill Nelson. I am the executive staff officer of Texas Wheat Producers Association, a voluntary membership commodity organization serving wheat producers throughout Texas. Additionally, I hold a similar administrative post with the Texas Wheat Producers Board (commission), which assesses one-half cent per bushel on wheat produced in a 34-county commercial wheat producing area of the State in order to expand research, market development and related services which might enhance the value of their crop and improve their grain income.

While being professionals in production and preferably focusing their attention to matters between their own fences, wheat producers historically have shown an interest in and supported activities which would improve their product or respond to the interest of consumers at home and abroad, as evidenced by their support to develop and acceptance of improved varieties and hybrids, response to quality-improvement farming and fertility practices, investment in quality-maintenance on-farm and cooperative storage facilities—or customer loyalty to private firms making similar investments, as well as the support of self-help research, education and market development activities such as already mentioned.

Texas is not a major wheat producing state. Yet, it usually ranks from sixth to tenth in annual production and has exceeded 100 million bushels each of the past two years. Due to its proximity to the ports, freight rate structure toward domestic mills and to the types of qualities produced, virtually all of the production moves into commercial trade channels making it subject to official inspection and grading with over ninety percent moving into the export market as compared to fifty to seventy-five percent nationally.

Texas wheat producers were appalled—as were members of this committee—at the shadow cast on quality of U.S. grains by the now infamous "scandals" at certain East Gulf export points. They personally morally and through requests for legislative action, supported the identifying and prosecution of the offenders and strengthening of the private inspection service and the federal supervision of it to correct and prevent recurrence of such abuse and laxity. Texas wheat producers were similarly appalled at the realization that the bill passed by Congress and signed by the President and as now being interpreted, not only

moved to correct the identified situations, but virtually wiped out or drastically altered the entire system of inland as well as export inspection and supervision system—which as farmers know and members of the Senate pointed out on the floor during discussion of the Grain Inspection Reform Act last session—has for the most part operated technically correct, and financially sound as well as time and cost efficient. There are six inland official grain inspection agencies and four at principal export points, some of each providing services at other than headquarter locations in Texas. None of these have ever been accused of any lax inspection or misgrading of grain. As an example, the Amarillo Grain Exchange, in my headquarters city, is a major inland exchange handling thousands of samples representing more than 50 million bushels of grain annually. Reportedly, there is request for grade appeal on less than one percent of these samples and of those appeals, less than ten percent result in a grade change. A record of accuracy exceeding ninety-nine and nine-tenths percent. Yet, it, and others like it, in effect stand indicted and fined to the extent that they too are now federalized unless exempted, and in any case will be charged eighty cents per thousand bushels for increased supervision; these charges of course being passed back to the producer in terms of lower prices for his grain.

It first appears that 80 cents per bushel on a 100 million bushel Texas crop would result in increased fees of $80,000. It is more typical for the grain to be inspected at least three times en route from the country to export market—sold by the local elevator to an exporter on "point of origin" grades, inspected and graded on receipt at the export terminal and inspected and graded en route to the shipping vessel. These eighty cent per thousand announced supervision charges become more like $2.40 to $3 per thousand bushel charges when the impact reaches the producer—or in Texas $240,000 to $300,000.

This review of established producer interest in producing and marketing quality wheat with the added assurance that the domestic and foreign buyer "gets what he orders and pays for", along with the established record of service of private operated inland inspection agencies, including those inspecting grain going into export houses, leads us to some specific recommendations for new legislation, or new interpretation of current legislation dealing with the Federal Grain Inspection Service.

The Federal Grain Inspection Service should be "Federally Funded" whether supervision or inspection. Much concern has been expressed by some members of Congress about possible conflicts of interest by "user firms" jointly owning the grain inspection exchanges. I know of no stronger reason for these exchanges to be impartial in their grading than when one of their members is the seller and another is the buyer, as is the situation in most instances. Producers are more concerned about "federal" supervision being done by an employee of the government supervising an exchange which collects and pays fees on which he must depend on to pay his "federal" salary and benefits, as required by the current law. This is conflict of interest in the highest order. Further, if it is good for the country to have grain inspected in domestic and international commerce—and I believe that this Committee thinks that it is or you would not be meeting today—then it follows that the "country" should pay for it as it does other services determined to be in the public interest. Accordingly, producers appeal to you individually, as members of this Committee and to the Congress, to legislatively reject the recently enacted fee system and return to a federally funded service. The fee system—where the fee in effect is passed back to the producer—smacks of being "taxation without representation", for at no point does the producer have an opportunity for advice, consent or review of the inspection service he is paying for or as to the level of or use of the funds the fee generates.

The Federal Grain Inspection Service should be administered in such a manner as to perform only the supervision services which were being successfully carried-out under provisions of its predecessor through the Grain Act at all inspection points except from the export house to the vessel where the current law provides for it performing the actual inspection. This would achieve the objective of the current law—the integrity of the Federal government behind the issuance of grade certificates to a foreign customer. This would allow the producers to benefit from the economics, speed and proven accuracy of the competitive private system developed through the years.

In conclusion, Texas wheat producers are interested in the integrity of U.S. grain grades and grading and strongly support the identity and prosecution of individuals and/or firms that violate this trust when they are supervising or inspecting grain grading. Producers are concerned about and shocked with the fee system that is evolving and forsee the opportunity for abuse and conflict of interest in such a scheme. Accordingly, this Committee is respectfully requested to:

1. Repeal the fee system for supervision in favor of a truly federal program with appropriated funds.
2. Direct that the administration of the program fully utilize the present private grain inspection service and limit supervision to immediate past levels, except as the law provides, when situations arise dictating otherwise.
3. Direct that Federal inspection be limited only to inspection from export houses, not into them or at any other inland point.
4. Establish that more joint ownership of a bona fide grain exchange for the purpose of inspecting members' grain does not in itself constitute a "conflict of interest" unless proven otherwise, and that if otherwise meeting qualifications, be exempt from becoming a federal inspection point.

Mr. Chairman, thank you and the Committee for holding these hearings demonstrating your interest in a sound grain grading system to facilitate the domestic and foreign marketing of United States grains.

STATEMENT OF W. W. HART, EXECUTIVE DIRECTOR, SOUTH TEXAS COTTON AND GRAIN ASSOCIATION, INC., FT. WORTH, TEX.

My name is W. W. Hart. I am the Executive Director of South Texas Cotton and Grain Association, a producer organization along the Gulf Coast and inland including the Winter Garden area. Our organization is composed of approximately 7,500 members in twenty counties.

The new grain grading and weighing law passed by Congress last year is a travesty of justice. We are in full accord with Congress that changes must be implemented to assure that grain be graded and weighed correctly.

The old system failed because of a lack of supervision. A USDA official reported to me that he asked Congress for additional monies to add the necessary supervisors and Congress turned this request down, even though it was urgently needed and the request was timely.

Our Congress saw fit to solve the problem in a way that I can describe best as an over-kill.

South Texas, described by drawing a line from Eagle Pass to Houston and considering the counties lying south of this line, produces about 3 or 3½ million tons of grain sorghum each year. Almost this entire crop goes into the export market. If the present law is allowed to go into effect and function as it is written, it will cost grain producers in South Texas $3 to $3½ million per year.

As Executive Director of South Texas Cotton and Grain Association, I respectfully suggest and urgently request that this Committee take steps to abolish the law for many reasons. I will attempt to list a few.

1. Cost to producers is excessive. It will amount to about a 500% increase in cost compared to the old system.
2. Adequate supervision must be maintained in the new law to assure honest grading and weighing. Supervision would have insured honesty and efficiency under the old system.
3. No incentive is present in the new law to keep costs from multiplying over and over. The grain producers will pay the bill while USDA will hire the number of personnel and set their pay scale.
4. Record keeping as required in the new law shows a complete lack of knowledge on the part of the writers of the bill. Either the enforcement of a portion of these provisions will be ignored by Industry and USDA or the country elevators will be forced to "make" records that will mean absolutely nothing, but will add to the cost of operation that must be passed back to the producer. An example of this is blending of grain. Most blending in South Texas occurs at the country elevators. Blending at the country elevators is not something done in the office with a computer. It is accomplished in the plant by turning a few valves.

5. Most of the Grain Exchanges and Board of Trades were set up under the free enterprise system. The majority operated properly, without scandal. Congress and the press painted all grain handlers with the same brush, when scandals developed around the New Orleans area. This is a signal injustice and is not complementary to Congress, the press, nor the Grain Industry.

Briefly, we suggest that you help undo an injustice, abolish this monstrosity of a law and provide adequate supervision to insure proper grade and weight on grain.

I appreciate this opportunity to present this material to you.

STATEMENT OF FRED BRUEGEL, JR., TEXAS CORN GROWERS AND COUNTRY ELEVATORS, DIMMITT, TEX.

Gentlemen: As a farm owner, country elevator operator and as a member of the Plainview Grain Exchange, I wish to express my sincere appreciation to this Committee for allowing me time to present this statement.

In a recent USDA released "market basket" statistic the USDA showed an annual increase in the cost to the consumer of one percent. This was the lowest increase in cost since 1967. The Department further stated that farmers received 4.5 percent less of the money paid by the consumers. This is further evidence that while the farmers' cost of production continues to rise, his fair share is being absorbed by someone else in the marketing process. Although farm prices have been down sharply, and this includes everything from cattle to corn, prices to consumers have not shown similar changes.

Thus the farmer receives the blame. And with a new rise in prices hopefully on the way, the blame will grow. Some place the blame on retailers, others blame the middlemen. Both disclaim any rise in margins or profit change. However it is quite obvious that the extra producer's share is going somewhere.

In 1974 it was front page news when our prices were good. Where is the coverage now that prices are below the cost of production?

It is time the government realizes where food comes from and that eating is the first necessity of life. It is time for the government to understand how hard the American farmer works to put food on the table for people all over the world. It is time for the government to understand that one good year does not carry a farmer through years of hail, drought, early freezes and years of below production costs.

The added cost of marketing our grain, which is coming about as a result of the new FGIS rules which are being imposed upon the grain industry, will surely be passed back to the producer.

It appears that all logic has been abandoned in our grain inspection system. It is estimated that grain is weighed, sampled and graded five to six times from the time it leaves the producer until it gets into the final market place. This is a system that has worked for over one hundred years and is still working effectively today.

There is no doubt that acts of dishonesty and gross abuses have existed in the past and there will continue to be similar problems in the future. People can still be bought at a price and because a person is employed by the Federal Government this does not immune him from the temptation of unscrupulous acts. The inspection system we have is good. Let's correct the problems but not throw out the whole system.

What you are seeking is proper safeguards. I maintain that in the case of the grain exchanges with which I am familiar, we have these safeguards. We have USDA licensed inspectors supervised by federal inspectors who in turn are supervised by a federal appeal and review board. Under this type of supervision it is nearly impossible for the integrity of a licensed inspector to be in jeopardy.

In the grain industry we are all either producers, buyers or sellers of grain. We expect to be treated fairly whether we are buying or selling. In most instances the buyer and seller use the same grain exchange and the same sample of grain from each lot sold. This is in itself self-policing in that both parties are receiving the same treatment. If either party is dissatisfied, then the appeals board will arbitrate and make the decision final.

I would like to review briefly the history of the grain exchange with which I am most familiar. In 1928, out of desperation to have official grades in the Plainview, Texas, area, a single stockholder organized the Plainview Grain Ex-

change. The following year it was increased to four stockholders. It continued to lose money and was subsidized by those using the service until 1959. At that time it was reorganized with a membership of 28 stockholders. After operating for two years without showing a profit, it began to earn income above expense and has since operated with a small profit each year.

What started out as a one-man operation has turned into a business which employs 16 people and serves over a dozen communities. During all these years there has never, to my knowledge, been even a hint of corruption, dishonesty or unfair treatment by anyone. It was under federal supervision from the beginning and continues to operate under federal supervision today. I feel sure that most inland grain exchanges in the United States today have had similar historical beginnings as the one just described.

Gentlemen, what I am trying to relate to you is that as far as inland grain exchanges are concerned, we have a system that functions very well. Operational costs are held to a minimum, service is excellent and everyone in the trade, from the producer to the consumer, benefits. It is my sincere hope that the regulations of the F.G.I.S. can be amended so that this economical and excellent service can be maintained.

STATEMENT OF DAVID SWINFORD, PRESIDENT AND GENERAL MANAGER, MOORE COUNTY GRAIN HANDLING CO., DUMAS, TEX.

Mr. Chairman: It is a great honor and privilege for me to present my testimony before your esteemed committee. I appreciate the interest and concern that you have expressed by allowing me to appear before you to relate to you and your committee my feelings, needs, and opinions on the Federal Grain Standards Act of 1976 and the Federal Grain Inspection System.

My name is David Swinford. I am the president and general manager of Moore County Grain Handling Co., a small country elevator located in Dumas, Texas. Dumas is a town of approx. 12,000 people located 50 miles north of Amarillo on the high plains of Texas. Our primary crops are wheat, milo, corn, and sorghum seed production. We depend on irrigation wells powered by natural gas for approximately 95 percent of our total agricultural production.

Our elevator is one of two in Dumas. We have a capacity to 1,173,000 bushels and usually handle in excess of 2,000,000 bushels of grain each year. The ownership of our elevator is four farmers and myself each owning 20 percent of the total stock. I speak not only as a grain elevator manager, but as a spokesman for my four farmer partners.

It is our considered opinion that as a small country elevator, we have let the giant grain companies speak for us much too often. We do not have a large staff of employees. We have three men to handle the small feed business and seed business that we have, plus the receiving, drying, processing, buying, selling of the grain that we handle each year. We employ two full time bookkeepers to keep accurate and necessary records of all grain transactions in addition to our feed and seed business. We have no computers, accountants, or legal staff as many large grain companies have. We have only the five employees mentioned above and do not have the material wealth to hire any specialists.

We are a minority of the first degree. There are very few independent country elevators left in our nation today. This is due largely to the increased demands of the Department of Agriculture and legislators that keep putting more and more rules, stipulations, and requirements on the grain trade. The small country elevator can no longer exist because of the complex regulations that we are required to deal with. It is not that the government has pointed a finger at us and tried to drive us out of business but out of their desire to rid our business of undesirables and to make better operators out of us, they have made us unable to comply with many of these requirements. Instead of punishing the guilty parties, the grain industry has been punished thru unknowledgeable legislation and negative attitudes on the part of the Department of Agriculture Administrators. This is the reason I am here to testify today.

A prime example of my preceeding statements is the Federal Grain Standard Act of 1976. Good intentions on the part of Congress has created a monster for the grain industry. For instance, the Federal Grain Inspection System will employ 2,600 to 2,800 persons to take over supervision of grading and inspecting of grains. At present, we have less than 2,500 inspectors in the entire United States counting all private exchanges, inland exchanges and port grain inspec-

tion agencies. It appears that the Federal Grain Inspection System (FGIS) wants man for man supervision. This is highly irregular and much too expensive. This was brought about by a few dishonest persons. What about the 99 percent of the inspectors that have been doing a great job all these years? Would it not be more proper and less expensive to simply set up more severe penalties for dishonesty?

Our local grain exchange in Amarillo, Tex., is a prime example of the way grain inspections should be handled. They perform at a reasonable cost a very good system of inspection that is acceptable to all persons in the industry. At present, when we submit a sample of grain to Amarillo Grain Exchange, we can be sure of a fair and just return. If for any reason we are not satisfied with the grade, we can appeal to a federal inspector for his opinion. We may lose this right of appeal if federal control is enforced.

The grain exchange in Amarillo serves feedlots, farmers, grain-men or anyone else that might need their service. It is owned primarily by grain-men. This is the very reason that the service is good, fair and reasonable. It was set up to provide a service to the grain industry by the grain industry. It was not set up as a private firm to make large profits. During harvest each year, this exchange works hand in hand with the persons using it. Long hours, no holidays is a fact about agriculture that Congress cannot deny.

The amount of grain handled by our elevator is only a small amount of grain inspected by the Amarillo Grain Exchange. If the new regulations are allowed and if the Amarillo Grain Exchange uses the new schedule of rates that was mailed to us effective February 1, 1977, it will cost our grain company over $3,000 in increased inspection fees in the next 12 months. These costs cannot be absorbed by us and will reflect in less money paid to the farmer by us. Our farmer is already on the verge of going out of business. This small reduction in value of his commodity might put him out.

Another point of contention that we have is the recordkeeping requirements that have been presented. Section 12 (d) of the act would be impossible in a small independent grain handling facility such as ours. During harvest, trucks line up for blocks and blocks waiting to dump grain. We still have 30 to 60 days at a time that our elevating equipment will run without stopping. When one bin fills up, we switch to another with constant blending, turning, drying, loading out and receiving all taking place at one time. We have 45 grain bins ranging in capacity from 2,000 bushels to 60,000 bushels. It is not unusual to combine 20 small bins into one big bin trying to upgrade the quality of all grain involved.

It might be possible if we received grain at our request so that each load could be handled separately to keep records and run a better grain operation. This is impossible however, with some 100 farmers using some 500 trucks of different sizes to haul grain in at the same time. This is a nightmare without trying to keep records as to where it was put or how it was blended. We are hard pressed just to get it weighed and put into bins. I fail to see where it comes from or how grain was blended would or could effect the grade. The grade shows the requirements for certain grains, if these requirements are met, the grain is what the buyer wants. The additional cost of bookkeeping would be approximately $10,000 per year to keep anymore records.

In summary, I would like to make the following points:

(1) We are a small independent country elevator.

(2) We do not have the manpower to do any more recordkeeping than we are doing now.

(3) The new grain inspection regulations and bookkeeping requirements would cost in excess of $13,000 per year.

(4) The Grain Inspection System we have now is doing a good job. We have no complaints.

(5) If grain meets certain grade requirements, it doesn't matter how it was blended to meet these requirements.

(6) We have become whipping boys because a few dishonest people were involved in the grading and handling of grain.

(7) You cannot legislate honesty by putting in force the new rules and laws that you expect us to operate under.

(8) You have questioned the honesty and integrity of a fine group of people involved in the grain business and inspection agencies.

In closing, I suggest amending the prescribed laws governing grain grading and record keeping that now exist under the Federal Grain Standard Act of 1976. This and only this will allow small country elevators such as ours to operate.

I love agriculture and I love America, but I love the freedom and independence of doing business as I see fit even more. If I cannot continue to run my grain business without so much intervention, I must choose another profession.

You, as very important and influential persons, have my future and the future of our American Agriculture in your hands. Please hold us carefully and do not drop us. With this final plea, I give you thanks for your time and consideration.

STATEMENT OF HAROLD F. PRIDDY, FRED SHELL GRAIN CO., RALLS, TEX.

Thank you for allowing me to appear before this hearing to present our views on the implementation of the "United States Grain Standards Act of 1976." I am Harold F. Priddy, owner and operator of a country grain elevator located in Ralls, Texas in the Texas Panhandle. This elevator has been operated by our family for forty years. Our business has relied upon the Lubbock Grain Exchange these forty years for official grades in our activities of both buying and selling grain. This inland inspection station functions under a system which insures as fair and equal treatment to me, a small independent grain dealer, as it does to the largest multi-national grain firm. I have confidence in this system because I know that if I am satisfied with a grade issued by the Lubbock Grain Exchange for a carload or truckload of grain. I can (1) request a re-grade, or (2) appeal the grade to the federal supervisor at Fort Worth, Texas, or (3) order grading at another official inspection station enroute to or at destination. With these three avenues of appeal, I have never failed to receive satisfaction as to the accuracy, integrity and fairness of the present system. I reiterate: with the smallness of my business, I exercise the least clout in the entire grain trade and would certainly be the object of grading abuses if they occurred at this inland inspection station.

I appear both as a user of services and as a shareholder of the Lubbock Grain Exchange which was organized in Lubbock, Texas, in 1928 by a group of concerned area grain firms needing an official arbiter. Our family bought one share in 1937. Presently, ten firms share ownership of the inspection station, which operates on a fee basis at minimum rates, sufficient only to maintain reserves to insure that the doors will stay open. For the nearly fifty years of its operation, I challenge any person, firm or governing body to produce evidence of irregularities or wrongdoing by this inspection station. Therefore, as a country user of the inspection services, as a spokesman for the shareholders, and as a friend of my farmer customers who must ultimately pay the bill, I protest the dictatorial authority and excessive supervision fees announced by the USDA in their implementation of the U.S. Grain Standards Act of 1976.

In view of the incontrovertible fact that present supervision is adequate, why must the financially hardpressed agricultural community be saddled with more supervision, which will not enhance the service, but will only invite additional regimentation?

During the nearly fifty years of operation of the Lubbock Grain Exchange, there has never arisen a problem over conflict of interest, or bias in grading shown any of its owners or other users. We owners are buyers one day and sellers the next and cannot function or survive except with a system that guarantees immediate recourse. We did not ask for, do not warrant, and should not have imposed any additional supervision.

I pray that I will never see the day when our inspection station is owned or operated by entities who have no direct interest in the grain business. I envision such a grading system which could (a) have all the bureaucratic inefficiencies of a Russian state farm or our own U.S. postal system, or (2) be a pawn going to the highest bidder, with the only recourse available to a small shipper, such as me, of a letter to my congressman.

STATEMENT OF DEWAYNE BROWN, SECRETARY AND MANAGER OF FARMERS GRAIN COMPANY, INC., HART, TEX., AND PRESIDENT OF PLAINVIEW GRAIN INSPECTION AND WEIGHING SERVICE, INC., PLAINVIEW, TEX.

Senator Huddleston and honorable members of this committee: I shall begin with a brief background of both the Farmers Grain Company and the Plainview Inspection and Weighing Service, Inc. Farmers Grain Company was founded in 1929 as a stock Company with approximately 100 stockholders and a very

little Grain Storage of 25,000 bushels of wooden storage capacity. Through the years, we have become a family owned Corporation with a present storage capacity of 2,851,000 bushel capacity. We are considered a country elevator operation, merchandisers of Grain as well as a country storage facility for such commodities as Corn, Grain Sorghum, Wheat and Soybeans.

The Plainview Grain Inspection and Weighing Service, Inc., as presently known, as organized in 1928 with limited capital, limited equipment and a very minimum of stockholders or some three or four and considered a one man operation. From this point on the Grain Inspection and weighing service struggled through lean years and finally reorganized in 1959 with some 28 stockholders. Today, the Plainview Grain Inspection and Weighing Service with 16 employees, six of these employees being licensed Inspectors, services an area with a sizable radius of approximately 6,400 square miles and in excess of 150,000,000 bushels of available Grain Storage capacities. We reach a momentum of some 100 accounts during our peak season.

I will begin with the section of the Grain Standards Act pertaining to the "Conflict of Interest Clause". I know of no grounds of conflict or problems arising from the Interior Grain Inspection Points. We are a multiple purpose inspection Station servicing truck inspections, Grain Elevators, both country and terminal Elevators, all of which are both buyers and sellers of grain. Under these conditions of inspecting grain for a buyer or seller and or both and at times one in the same leaves little temptations to tolerate favortism to any one Stockholder or Grain Company. Whereas a single stockholder owned facility or a Chamber of Commerce operated concern with an over-riding customer doing a large percent of the inspections with the Grain Inspection Company or Corporation would lead to an automatic invitation of one yielding to the temptation. These inspections are performed to acquire Grades between Grain Companies and not between Producers and Grain Companies. These stockholder owned Grain Inspection businesses have been doing their jobs honest and well for many years with a very minimum of problems and need to continue to maintain this opportunity. Therefore, Gentlemen, I am asking you to qualify yourselves on a Waiver for Stockholder owned Grain Inspection Services, Companies and Corporations.

Second, I would like to elaborate briefly on the record keeping section of the Grain Standards Act. I would like to speak from a Country Elevator Operator position concerning this aspect of the Act. We maintain records of purchases, sales, transportation, weighing of such commodities. As to the handling, treating, blending, and other processing, it would be virtually impossible to maintain such records with any accuracy. We have a storage agreement of comingled stored basis and would have to keep Identity Preserved records which could not be performed properly with our facilities.

Third, let me touch briefly on the Supervision Fees section of the Grain Standards Act. We feel there is much need for protest in these fees as the added cost for inspections would be terrific and most burdensome to Grain Companies. We have been getting a hopper car officially inspected for a fee of $6. The 80 cents per 1,000 bushel supervision fee would be an automatic one time 40 percent increase. This eventually would be passed on to the Producers of Grain as most Companies could not pay this type of increase with our present margins of profits. Also, as written now, there would be numerous duplications of these fees being collected on the same grain.

Gentlemen, in closing my comments of testimony to you, let me say I am most grateful for your time to hear me out and most respectful for this committee and your duties. Also, let us remind ourselves of the freedom we have in this United States of America for such opportunities. Thank you.

STATEMENT OF SAM ATTEBURY, DIRECTOR, AMARILLO GRAIN EXCHANGE, AMARILLO, TEX.

Mr. Chairman: Thank you for the opportunity of appearing before your Committee as a representative of the Amarillo Grain Exchange which has been in existence for over 50 years. The agency has been serving the Texas Panhandle as a grain inspection agency competently and honestly during its existence, and we feel, has done an excellent job in assisting the farmers and all other segments of agriculture which deal in grain and need our service.

The membership by-laws in our corporation are such that no one firm can dominate the membership or the board of directors. The membership and board of directors consist of various representatives of the grain and feed industry, including country elevators, exporters, terminal elevators, cattle feeders and farmers. Because the membership and board of directors do consist of representatives of all facets of the industry and is not dominated by any one firm, there is a constant and continuing concern for the overall and best interest of the area grain trade. This system has functioned well over the years. The present law will restrict an inspection agency, such as ours, from being owned by any one involved in the grain trade. It is our understanding that we have 24 months from the date of the bill to come into compliance with the conflict of interest provisions or we must receive a waiver from the Secretary of Agriculture concerning these conflict provisions. We are presently fearful that the present Secretary of Agriculture or some future Secretary of Agriculture might indiscriminately decide not to grant us such a waiver. We feel that there should be some provision built in the legislation to assure us that we would not be arbitrarily or indiscriminately refused a waiver. We feel that it should be made explicitly clear in the legislation that inspection agencies such as ours, that are designed and operated in such a way as would not provide an undue conflict of interest, would be allowed to continue to render service as in the past.

There is no guarantee that a privately owned inspection agency, or a State agency, or a Federal agency cannot be subject to dishonest or arbitrary operations. Our exchange with its owner built in safeguards, self policing more or less, tends to be the best type of ownership, in our opinion, to keep the inspection service efficiently and honestly run. This is especially true in an organization, such as ours, where the manager has been instructed to deal directly with all inspection agency personnel and eliminates the membership and directors from giving any technical or direct instructions to the employees.

Another area we would like to mention is the new fee requirement which has been placed upon our inspection agency for supervisory services by the Federal Grain Inspection Service. Under the present schedule a fee is being assessed at approximately 80¢ per 1,000 bushels of grain that has been inspected the previous month. While these charges may or may not be reasonable, there is no assurance that this fee could not be increased during the years to an intolerable expense to the grain trade and their customers. As a consequence, the grain grading system that has worked so well may be handicapped to the extent of eliminating our very system. We would suggest a return to direct appropriation funding for the supervisory service or as an alternative would suggest that fee perimeters be considered in the legislation that would give some guide line to USDA personnel in setting the fee schedule. This may prevent at some future date arbitrary and unreasonable fees which could eliminate the very service and system the law is trying to improve and protect.

There is another area in the law which has been of great concern to all grain dealers which we think should be mentioned. That is the harsh requirement of record keeping which appears to be far beyond any need and is very impractical for any grain firm to comply with. This section certainly needs to be modified to an acceptable standard.

Thank you for this opportunity to present these thoughts regarding the legislation which you are considering.

STATEMENT OF C. G. MATHEWS, GENERAL MANAGER, FORT WORTH GRAIN EXCHANGE, FORT WORTH, TEX.

My name is C. G. Mathews. I have been the General Manager of the Fort Worth Grain Exchange since May 1963. I have no financial interest in the grain, feed or milling industry, transportation for hire or storage. I have managerial oversight and responsibility for the day to day services of the Exchange in all facets of operation.

I appeared before the joint Subcommittees of the Senate Committee on Agriculture and Forestry in hearings March 16, 1976 on S. 3055. At that hearing I outlined, in detail, the services performed and areas served by several Exchanges and Boards of Trade and since that is already a matter of record, I will not take up your valuable time of repeating it.

I also attended the informal meeting on January 18, 1977, called by Senator Dole for the purpose of identifying problem areas of PL 94–582 endeavoring to effect speedy and practical solutions. We appreciate his interest and that of this Subcommittee in moving forward quickly to solve some of these problems.

I have tried to outline, as briefly as possible what we feel to be the most significant problem areas that need some remedial action.

GEOGRAPHIC AREA

Public Law 94–582, 90 Stat 2872 provides, in part:

"No official agency or State delegated authority pursuant to subsection (e) (2) of this section shall officially inspect under this Act any official or other sample drawn from a lot of grain and submitted for inspection unless such lot of grain is physically located within the geographic area assigned to the agency by the Administrator at the time such sample is drawn."

The above provision specifically prohibits an elevator or even a farmer from sending submitted samples to an official inspection agency where his grain might customarily be inspected. For example, wheat from central and southern Oklahoma, when shipped by Rail, normally would move to Fort Worth, Tex., for official inspection where it would then be unloaded or perhaps diverted on to the Gulf Port for export, this is in compliance with the act. However; if the same shipper were to draw his own sample from elevator bins or trucks, he could not send those samples to Forth Worth, Texas but would have to send them to Enid, Oklahoma. Many other similar examples could be made.

Also there are times when an Official inspection agency is literally "covered up" with rail carloads of grain to be inspected and they cannot promptly get to "submitted samples"; therefore there needs to be sufficient flexibility whereby a person could send a submitted sample to any official inspection agency for a grade. In other words the "white and yellow" inspection certificates should be issued only by the OIA performing service in the Geographic area where the sample is taken however an OIA should be permitted to issue "Pink" inspection certificates irrespective of where the sample is drawn.

SUPERVISION FEES

Public Law 94–582, 90 Stat 2873 paragraph (J) (2) provides that OIA's shall pay to the Administrator fees to cover the estimated cost incurred by the FGIS (outside of the Washington Office) related to direct supervision of official agency personnel and direct supervision by Service personnel of its field office personnel. It further provides that failure to pay the fees within thirty days after it is due shall result in automatic termination of the delegation or designation until payment plus interest is paid.

Under date of December 7, 1976, the Fort Worth Grain Exchange was advised that the annual "Supervision Fee" would be $16,703. However on December 14, 1976, at a meeting in Kansas City we were advised that these figures were all "out the window" and we should be hearing about some revised fees shortly. On December 22 we learned, to our astonishment, that the new "Supervision Fees" would be 80 cents per 1,000 bushels, i.e., 60 cents on trucks and submitted samples; $1.60 on box cars and $2.40 on covered hopper cars.

We promptly undertook a study to see what this would amount to on an annual basis and were shocked at the results—$87,328. This was almost $71,000 higher than the first figure given us.

The Fort Worth Grain Exchange has 8 full time licensed inspectors and employs another one on a part-time basis during wheat harvest. Based upon 30 supervised samples per full-time inspector the FGIS would supervise approximately 240 samples per year at a cost to us of $87,328 or approximately $360 per sample.

During the period July–December 1976, the FGIS has been training new employees and therefore have supervised about 623 samples from Fort Worth Grain Exchange; this is about 2.8 percent of the 22,316 samples officially inspected by our inspectors. If we were to annualize this abnormally highly volume of supervision it would be 1,246 samples and a supervision cost of $70 per sample.

During 1976 we paid salaries of $223,286 to our samplers and inspectors who actually sampled and inspected the grain and by comparison we would have paid, if applicable, supervision fees of $87,328. These supervision fees amount to 39

percent of the salaries paid but FGIS would only be supervising from .6 percent to 2.8 percent (based on July–December activity) of the actual inspections.

I have also reviewed the comparative relationship for Amarillo, Lubbock, Plainview and Farwell, Tex., and find the same trend. Their 1976 projected supervision fees, if applicable, would fall within a range of 36 percent to 42.6 percent of total salaries paid to samplers and inspectors actually performing the work. If the Supervision fees (80 cents per 1,000 bushels) had been in effect during 1976 these OIA's including Fort Worth would have paid approximately $250,000 to the Fort Worth FGIS field office, which only covers the northern half of Texas.

I believe this level of Supervision fees to be unduly excessive and inflationary. We suggest that the cost of "Supervision" should be covered by appropriations, as has been the practice for many years, rather than "Supervision Fees" that would be borne by the Grain Producers. We would urge that this be given favorable consideration.

WEIGHING AT INTERIOR POINTS

In our statement March 16, 1976, before the Senate Committee on Agriculture and Forestry on S. 3055 we outlined the operation of our Weight Supervision Department and on page 7 therein stated:

"The USDA had the following comment, at page 87 of the GAO report:

"We do not believe that any weighing system will significantly reduce net shortages in quantity at destination below ½ percent. We believe that the report's statistics on weighing supports USDA's position that it is not necessary for USDA to become involved in interior weighing.

"We agree that accurate weights are necessary for accurate grades for shipments out of port elevators where the quantity is divided into sub-lots. However we do not agree that accurate weights are significant in establishing accurate grades at interior points. We believe, however, that accurate weights are vital in transactions between buyers and sellers."

Public Law 94–582, 90 Stat 2874 paragraph (b)(1) directs the FGIS and Office of Investigation-USDA to conduct investigation into and study weighing in the interior of the United States; (4) requires them to report back within 18 months to the Senate and House Committees and Comptroller General; and (5) requires the Comptroller General to assess and evaluate the reports of FGIS and OI-USDA submitting a report of his findings and recommendations within two years after the effective date of the Act.

In December 1976, we were shocked to hear that the Association of American Railroads in conjunction with the Western Weighing and Inspection Bureau were planning on a phase-out of their weight supervision program at interior points. Upon checking into this matter with the AAR in Chicago we were advised they understood that FGIS would be taking this over. We advised them that our discussion with FGIS did not confirm this course of action and we now understand AAR plans to continue their weight supervision program—at least for the time being.

However, in the early part of January 1977, we received an "Agreement for Payment of Supervision Fees under the United States Grain Standards Act" which stated that Fees for weighing supervision at interior points would be assessed at the rate of $16 per hour during the regular work day, and $20 per hour for supervision performed outside the regular work day. It also stated that the weighing fees would be initiated as soon as the Service is able to provide the supervision and we would be given 60 days advance notice of the effective date of such fees. The signing of such an agreement would be tantamount to signing a "blank check" and giving it to FGIS, as they would be at liberty to spend as much time supervising as they wanted and whenever they wanted to whether or not it was needed. It is quite possible that "Weight Supervision Fees" charged to OIA's could almost equal the present fees charged by Fort Worth Grain Exchange and other Exchanges or Boards of Trade.

If our understanding is correct it will probably be about two years before the Senate and House receive a report from the Comptroller General on Weighing at interior points; therefore do not believe it necessary for FGIS to staff their field offices and regional offices with weighing supervisors at this time.

We have not had an opportunity to calculate the cost of such a program but can readily see it would substantially increase our fees for weight supervision and that would reduce the price farmers would get for their grain.

If the Senate and House Committees intended to have a report back from the Comptroller General before FGIS instituted a Weight Supervision program at interior points then it should be clarified.

The railroads have a primary responsibility of weighing shipments for the assessment of freight charges; however most terminal elevators presently have AAR-WWIB-Exchange supervised Class 2 weights as a matter of convenience and it helps facilitate the flow of interstate commerce. The present service is performed at a nominal cost to the shipper and a substantial savings to the railroads in (a) maximizing the utilization of equipment (b) their not bearing the cost of motive power and weighers for weighing the cars, also it should be noted that they do not pay claims for loss of grain unless it exceeds one-fourth of 1 percent. As a general rule they do not pay any claims on shipments in covered hopper cars regardless of the difference in origin-destination weights unless the cause of loss can be shown as a result of defective equipment or a wreck, etc.

If additional charges are imposed upon terminal elevators for supervision of weights by FGIS it is possible they would conclude to just let the Railroads weigh all the cars for freight charges and claim purposes. If the Railroads do have to weigh all the rail cars of grain it would instantly create a congested situation at Railroad terminals; delay the interchange of all rail traffic; cause a tremendous delay in the number of trips a car makes in a year. The net result could be a reduction of 25 to 30 percent in the rail grain car supply.

I believe the present AAR-WWIB-Exchange weight supervision program at interior points is adequate and should be continued rather than being replaced by FGIS.

CONFLICTS OF INTEREST

Public Law 94–582, 90 Stat 2880–2881 provides for an amended "Conflict of Interest" section; however paragraph (5) provides in part:

"Notwithstanding the foregoing provisions of this subsection, the Administrator may delegate authority to a State agency or designate a governmental agency, board of trade, chamber of commerce, or grain exchange to perform Official inspection or perform supervision of weighing—if he determines that any conflict of interest which may exist between the agency or person or any member, officer, employee, or stockholder thereof and any business involving the transportation, storage, merchandising, or other handling of grain or use of official inspection or weighing service is not such as to jeopardize the integrity or the effective and operation of the functions performed by such agency."

We believe the Senate and House Agriculture Committee purpose in including this "Waiver of Conflicts of Interest" was that it be used when such conflicts did not jeopardize the integrity of the inspection or weighing; however numerous public statements made by USDA-FGIS personnel indicate they do not intend to grant such Waivers.

The Fort Worth Grain Exchange has been in existence since 1907 performing efficient, economical, reliable inspections and supervision of weights without any serious complaints from Producer, country elevators, terminal elevators or USDA.

The FGIS instituted a monitoring system last year to review the work of each individual grain inspector and all the inspectors of the inspection agency as a group. One would think that this to be one important measure of "integrity of the inspection". The individual inspector could have his license revoked if he does not stay in line and should he knowingly violated the ACT in misgrading is subject to increased penalties. Also the Official inspection agency could have its designation revoked if its inspectors "get out of line" on their quality of grading.

We believe that these "safeguards" and the increased penalties assure that "integrity" at interior official inspection agencies operated by Exchanges and Boards of Trade will continue to be maintained; therefore positive relief should be granted.

Perhaps a substitution of wording in paragraph (5) of 90 Stat 2881 reading as follows could be made:

"Notwithstanding the foregoing provisions of this subsection, the Administrator *shall* delegate authority to a State agency, or designate a governmental agency, board of trade, chamber of commerce or grain exchange (which was operative on August 15, 1968) to perform Official inspection or perform supervision of weighing—etc—if he determines that any conflict of interest, etc—is not such as to jeopardize the integrity or the effective and objective operation of the functions performed by such agency, etc."

We are also hopeful that FGIS will seek the counsel and guidance of "users of the services" to determine what is practicable, functional, expendient and most economical whereby the orderly marketing of the nation's grain crops might be facilitated rather than stymied.

RECORDKEEPING

90 Stat 2882 paragraph (d) imposes voluminous record keeping requirements for 5 years upon all persons (other than producers) who obtains any official inspection or weighting services. Some of the records are already maintained in the normal course of business; however we understand that many of the records to be kept under the Act would be unduly burdensome and serve no useful purpose. I am sure some of the elevator operators or their associations will offer some specific details in this area.

CONCLUSION

I appreciate the opportunity of appearing before this Subcommittee and hope we have been of assistance in solving some of the problem areas thereby making the USGSA of 1976 a reasonable and functional Statute.

STATEMENT OF GLEN NAYLOR, VICE PRESIDENT, SOUTH TEXAS COUNTRY ELEVATOR ASSOCIATION, REFRIGIO, TEX.

Gentlemen: I am Glen Naylor, vice president of the South Texas Country Elevator Association which consists of approximately 100 members in the southern part of Texas. Our principal business is handling and storing grain for farmers and we are deeply concerned with the Federal Grain Standard Act of 1976. Our chief concern is milo being shipped to the Ports of Corpus Christi and Brownsville, Tex. This is a vital part of our economy and well-being for South Texas farmers and country elevator operators. Much depends on the efficiency and speed of official grades and weights at these two export terminals.

COMPARISON OF GRAIN INSPECTION COSTS

Comparing fees of Corpus Christi Grain Exchange and fees published by Federal Grain Inspection Service—both for supervision which will be charged beginning February 1, 1977 and fees to be charged when Corpus Christi inspection is taken over by the Federal Grain Inspection Service on October 1, 1977.

COMPARISON BASED ON CORPUS CHRISTI GRAIN EXCHANGE—FISCAL YEAR APR. 1, 1975 TO MAR. 31, 1976

	Corpus Christi grain exchange		Federal supervision		Federal inspection	
	Rate	Amount	Rate	Amount	Rate	Amount
Box cars (3,185)	$2.50	$7,962	$1.60	$5,096	$15.00	$47,775
Hopper cars (28,185)	5.00	140,925	2.40	67,644	18.00	507,330
Trucks (60,859)	2.00	121,718	.60	36,515	12.00	730,308
Submitted samples (6,575)	1.75	11,506	.60	3,945	9.50	62,462
Totals		282,111		113,200		1,347,785
Adjust fees to tariff Oct. 1, 1976		97,160				
Total		379,271				
Inspection grain loaded on ships (approx. 160,000,000 bushel)		[1] 256,000		[2] 128,000		[3]
Total in and out		635,271		241,240		

[1] At $1.50 per 1,000 bushel.
[2] At $0.80 per 1,000 bushel.
[3] Unknown.

Above costs are based on normal day rates—no provision for overtime. Federal Inspection excluding ship loading will cost $968.514 more than Corpus Christi Grain Exchange based on fees in tariff of October 1, 1976. Federal Supervision

which will begin on February 1, 1977, will cost $241,200, approximately 37 percent of cost of inspection by Corpus Christi Grain Exchange. This act is creating additional costs which will have to be passed on to the farmers by the Country Elevators.

The Federal Grain Inspection Service fees for supervision which will become effective on February 1, 1977, will cost $241,000 at the ports of Corpus Christi and Brownsville, based on volume of inspection done by Corpus Christi Grain Exchange in year ending March 31, 1976. This is approximately 37 percent of the cost of inspection work done by the Corpus Christi Grain Exchange for this period based on current tariff charges, we feel that this is excessive as it represents not the actual inspection but only supervision.

At the time the Federal Grain Inspection Service takes over the complete inspection service at Corpus Christi and Brownsville which is set for October 1, 1977, fees for in-bound inspections only, again based on year ending March 31, 1976, will be $1,347,785 compared with fees of $379,271 collected by the Corpus Christi Grain Exchange for the original inspection. This is an increase of 255 percent. These figures are based on the fee schedule published by the Federal Grain Inspection Service and compared to Corpus Christi Grain Exchange fees as follows:

	Corpus Christi Grain Exchange	Federal Grain Inspection Service
Boxcar	$3.50	$15
Hopper car	6.00	18
Truck	3.00	12

We are sure that the increased cost of $968,514 will be passed on to the farmer in one way or another. We do not know the exact amount of the fees for grain loaded into ships, but have been quoted from $2.25 to $2.50 per 1,000 bushels.

This compared with Corpus Christi Grain Exchange fees of $1.50 per 1,000 bushels, an increase of 75¢ to $1.00 per 1,000 bushels or 50 percent to 66 percent. This will be an increase in costs of $120,000 to $160,000 which will be passed to the buyer or the farmer. The net result will be more costly to the buyer or the farmer.

We have been well pleased and satisfied with the service performed by the Corpus Christi Grain Exchange and it is very doubtful if the Federal Grain Inspection service will be able to provide a more efficient service or more honest grades.

We understand that the purpose of this Act was to help the farmer, but instead it appears the farmer is going to be charged with additional costs for which he will not receive any benefits.

In conclusion, we hereby suggest that the following amendments be made to the Act by legislation or administrative action:

1. The original inspection on in-bound grades be returned to Corpus Christi Grain Exchange or a similar inspection service. We feel that this is reasonable as the purpose of the Act was to assure that the foreign buyer would receive proper grades and weights.
2. That the supervision cost should be funded from the Federal budget. We feel that this is proper as it was done under prior grain inspection legislation and is done in the case of other commodities.
3. We feel that weighing should be delegated to the agency performing the grain inspection on in-bound shipments and could be supervised by the Federal Grain Inspection Agency.
4. Should Congress have the original inspection on in-bound grain remain in the Federal Grain Inspection Agency, again, we feel that this should be funded from the Federal budget.

We feel that if the original inspection at the port is left in the hands of the Federal Grain Inspection Agency at the fees published, a great deal of grain will be sold without official grades and in the end, this will prove determinal to the farmer.

We feel that by enforcing the Federal Inspection on original inspection at the Ports of Corpus Christi and Brownsville, the farmers in the area are being dis-

criminated against and country elevators in other sections further from the ports have the opportunity of using Board of Trade or Private Inspection Agencies for their original inspection at a lower cost. The elevators adjacent to the ports are being forced to have an original federal inspection at a cost of approximately 255 percent higher than what private inspection agencies charge.

Finally, we believe Federal Inspection is needed for outbound inspection and weighing at all port terminals and in-bound inspections and weighing should be done by private agencies. This would enable us to give better and more economical service to the country elevators and farmers.

We sincerely hope the Committee will take into study and consideration this report.

Thank you for the opportunity to appear.

STATEMENT OF OWEN LAFFERTY, PRESIDENT, PANHANDLE GRAIN & FEED ASSOCIATION, AMARILLO, TEX.

I am Owen Lafferty, President of the Panhandle Grain and Feed Association of Amarillo, Tex., and Vice President of Wheeler-Evans Elevator Company located at White Deer, Tex.

The directors and members of The Panhandle Grain and Feed Association requested that I attend this hearing concerning the United States Grain Standards Act of 1976, on behalf of themselves and their customers, the farmer.

One point of interest in which we are concerned about is that of record keeping. Under Section 12(d) of the new law we are to keep for 5 years complete and accurate records of purchases, sales, transportation, storage, weighing, handling, treating, drying, blending and other processing, and official inspection and official weighing of grain. It is requested that this law remain as in the past, for it has worked very efficiently. Under the new law additional employees will have to be added and the farmer will end up being the scape goat for the bill, for additional margins on grain will have to be taken in order to pay for the salaries for the added personnel.

Another area which we are concerned about is the high inspection fees at export facilities. Presently, the inspection centers at the port facilities can operate at a profit. Now the Federal Grain Inspection Service is now charging to inspect trucks at the rate of $12 per truck for regular hours and $14.50 for overtime which compares to $3 to $5 per truck for both regular and overtime. That is a 240 percent increase for regular time and a 290 percent increase for overtime.

Charges for box cars is $15 and $18 respectively for regular and overtime compared to $8 charged by the port inspection points. That is a 188 percent and 225 percent increase respectively for regular and overtime.

Hopper car rates are $18 and $22 respectively for regular and for overtime compared to $8 by the port inspection points. This is a 225 percent and 275 percent increase respectively for regular and for overtime.

Protein charges will be $11.50 per sample for regular time and $13.50 for overtime. Most private operations charge $1.75 to $2.25 per sample. Based on the $2.25 charge, that is an increase of 511 percent for regular time and 600 percent for overtime.

If private inspection centers can realize a profit from the charges just quoted, then what justification does the FGIS have to impose such outlandish charges as was just quoted?

This new FGIS bureaucracy proposes 2,600 to 2,800 employees to overlook 2,500 licensed inspectors in the entire United States. This alone will cost the American farmer more than $87,360,000. Then in addition to this figure the FGIS is charging a supervisory fee of 80 cents per 1,000 bushels being inspected. With a 2.814-billion bushel Wheat crop, a 6.216-billion bushel Corn crop, a 1.510-billion bushel Soybean crop, a 776-million bushel Grain Sorghum crop, a 770-million bushel Oat crop, a 521-million bushel Barley crop, and a 153-million bushel Rice crop, to name just a few, along with this new 80 cent per 1,000 bushel charge will come to a total of $10,208,720.

This figure may even be underestimated even though some of the above mentioned grain may not be inspected during a year's time, but some of the grain will be inspected as much as three times.

This $10,208,720 figure and the $87,360,000 employment figure comes to a total of $97,568,720. Now this figure will be higher, for one can inspect more than one

sample per truck, per box car, and hopper car per hour at the rate of $12, $15 and $18 per sample respectively.

Who is going to pay for this as the end result? It will be the farmer. The grain exchanges raises their rates to the elevator and the elevator directly passes it to the farmer by increasing their margins. If the American farmer thinks the grain embargo was bad, then wait until this inspection system has been in effect for awhile, you haven't seen anything yet.

The Federal Government has formed a bureaucracy that will cost the American farmer far more than the total cost of the grain scandal ever materialized. And just because we have formed another Federal bureaucracy, does this eliminate dishonesty? Weren't some Federal employees indicted in the grain scandal? Weren't Federal employees involved with Watergate? Wayne Hays, Agnew and Bobby Baker are just a few more who were Federal employees who have done dishonest acts, so why the bureaucracy?

There is a story I heard a long time ago about a Japanese passenger liner. If someone stole something on a Japanese liner, the Japanese would cut off the offender's right hand if he was righthanded, or his left hand if he was lefthanded, and kicked the guilty passenger off the ship at the next port. Needless to say there wasn't any stealing on a Japanese liner compared to other liners of other countries who had a lesser punishment.

The point is this: When is our government going to realize that the guilty should be punished and let our free enterprise system operate like it should without nationalizing our grain inspection system, oil industry, or any other industry, for if this continues to happen our children will not live to see another 200 years like we have enjoyed in the past. For if we continue in this direction we will all be slaves to our masters, the Federal Government, and the story of "Roots" will begin all over again.

STATEMENT OF RICHARD POTTER, MORGAN GRAIN & FEED CO., MORGAN, MINN.

My name is Dick Potter. I am owner and operator of the Morgan Grain and Feed Company, Morgan, Minn., which is a typical country elevator operation in southwestern Minnesota. I am also president of the Northwest Agri-Dealers Association, a trade association having 500 members, most of whom are country elevators doing business in Minnesota. Our membership is composed of approximately 40 percent cooperatives and 60 percent independents. The testimony I am about to give today is based on a consensus of the grain committee of the Northwest Agri-Dealers Association which represented the thinking of two cooperative elevators and three independent elevators. The reason that we are taking pains to establish the ratios of cooperatives and independents is because we think this mix truly reflects a good sampling of the country elevator industry and also establishes closer ties to producer interests and concerns.

It is also important to recognize that we as the country elevator segment have been the victims of, not the benefactors from, any fraudulent grain activities at the ports, and we as an organization in no way condone the illegal activities and in fact we recognize that some changes are not only inevitable, but absolutely necessary to keep the United States a respected supplier of grain in the world markets.

The passing of the U.S. Grain Standards Act of 1976, however, knowingly or unknowingly, will have some profound effects on our segment of the grain industry. The following features of the act give us cause for great concern:

(1) The requirement that all elevators or shippers of grain who call for official grades or weights or an appeal inspection will be bound to keep records of grain handled, weighed, or processed for a period of up to five years will place a huge and unnecessary burden on the country elevator system.

To help you better understand why this places a burden on us, you must understand that there is a basic difference between the way country elevators and terminals receive grain. Much of the grain delivered to our elevators is of high moisture and in some cases damaged—that is to say we receive grain that covers the spectrum from good to bad, but because of limited storage facilities we are not able to segregate grain on an identity-preserved basis. So, in general, we try to separate good grain from damaged grain after it has been dried.

Oftentimes grain is stored in flat storage which is difficult to adequately inventory and segregate. Country elevators also have a number of different dump-

ing sites which means that grain of various qualities can get mixed quite easily because after the grain is weighed, a farmer may proceed to a dump area with the shortest line.

Therefore, our objection to the record keeping requirement is not only based on the actual bookkeeping problem associated with it, but also the mechanical handling problems as well.

We also think it is well that you understand exactly the size and scope of the country elevator business. Previously we have mentioned that we have about 500 members in our association. These elevators range in size from 1 to 2 man firms having annual sales of less than a million dollars to firms with 25 or more employees and multi-million dollar sales, with most firms falling in the range of from 6 to 10 employees.

Particularly for the smaller and average size firms having to perform another bookkeeping function such as this would increase our cost, and probably be reflected back to the producer. It is not common practice for a country elevator to call for origin official weights and grades, but we should not be penalized by a recordkeeping requirement that would have the effect of prohibiting us from using origin grades and weights.

(2) The costs associated with the supervisory and basic fees are such that this represents an increased cost to us of approximately 20 percent. I think it is important to know that when our costs for something as significant as this increase of over 20 percent the producer will be accepting less for his grain. In the State of Minnesota it is estimated that the supervisory charge alone for inspection will be in excess of $500,000 and over $100,000 for weighing supervision. These are added costs and do not reflect the basic cost for the service.

As a result of these costs, we believe that terminals and processors whenever possible will have their own grades and weights and shy away from official grades and weights. This puts the marketer of grain at the country elevator level in the difficult position of having a number of different standards depending upon the particular market he might be selling to and would put the industry back in the position it was in the early 1900's before the federal government adopted the Uniform Grain Standards Act.

The exportation of grain is is not merely a problem of the grain trade and the processor, but really a national problem that has a significant consumer and public interest aspect as well. It has been suggested that federal funds be used to subsidize the initial start up of the supervisory service, but we submit that because of the nature and importance of the grain sales to the national economy that general revenue funds be used on a permanent basis for the supervisory inspection and weighing fees. A number of agencies such as the Securities and Exchange Commission, Food and Drug Administration, and ICC currently regulate and oversee industries, but do not charge them user fees to subsidize the entire service.

(3) A third disadvantage under the new system is that shippers of grain wishing to make an appeal on a grade would have to make it to the same body as made the original inspection. We feel that a disinterested third party such as an appeals board should be responsible for this. It is very difficult for a person, firm, or agency to sit in judgment of themselves and to render objective decisions.

We hope you will give these problem areas serious consideration.

Thank you very much for your time.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

We appreciate this opportunity to present Farm Bureau's views on implementation of the 1976 amendments to the United States Grain Standards Act, P.L. 94–582.

Farm Bureau represents farmers who produce virtually every agricultural commodity that is produced on a commercial basis in this country, including products destined for export markets as well as domestic consumption. Farm Bureau members are vitally interested in the implementation of a grain inspection system in which farmers and the public can have full confidence.

As we stated during hearings last year, a reliable grain inspection system is clearly in the best interests of producers, merchandisers, warehousemen, processors, and consumers of grain.

Several State Farm Bureaus have received reports of difficulties with the new grain inspection law. Most of the problems appear to center around the fee structure and the record-keeping requirements. In addressing these problems, we recognize that the new Administration has not had an opportunity to appoint an administrator for the Federal Grain Inspection Service (FGIS) and that record keeping and other requirements under the new law have not been finalized or fully implemented.

The FGIS should move as expeditiously as possible to clarify the new rules and to provide widespread distribution of information relative to the new grain inspection and weighing service.

The new law authorizes the FGIS to charge and collect reasonable fees to recover the cost of the service for supervision of nonfederal inspectors and for inspection, weighing, and other duties performed by representatives of FGIS. A change from the appropriation of federal funds to a fee structure constitutes a major change in the funding of our grain inspection system. The abrupt elimination of appropriated funds and the initiation of the fee schedule are causing confusion and misunderstanding.

To soften the impact of this significant change in funding, we recommend that the Congress appropriate part of the funds needed to handle federal grain inspection and supervision between now and November 20, 1978, when the new law is to be totally operational. This would permit a smoother transition from appropriations to fees by allowing the fee structure to be implemented gradually over the next two years. It would have the further advantage of allowing the FGIS two years to operate under a partial fee system and thus would permit the agency to acquire the experience necessary to set fees at appropriate levels.

Because the concept of recovering—through fees—"all inspection, weighing and supervisory costs incurred by the grain inspection service" is new, and because there is little information available to help determine the future size of cost of such services, we recommend that this requirement be reviewed periodically to ensure that the cost of the program does not impose a heavy burden on the buyers or sellers of grain.

We further recommend that every effort be made to keep the record-keeping requirements associated with the new law as simple as possible. In particular, we do not believe that elevator operators should be burdened with extensive record-keeping requirements if they are only marginally involved with official inspection or weighing. If legislation is required to avoid unnecessary burdensome record keeping, we would support such amendments to the United States Grain Standards Act.

We also strongly urge officials in the FGIS to draft the final record-keeping regulations in a manner which will allow, to the maximum extent possible, the utilization of records already kept by elevator owners and operators.

We appreciate this opportunity to present our views on the implementation of this important legislation.