

REVIEW OF U.S. GRAIN STANDARDS ACT

HEARING BEFORE THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

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REVIEW OF THE U.S. GRAIN STANDARDS ACT

TUESDAY, MAY 24, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND
RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:00 a.m., in room 1300 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Members present: Representatives Johnson, Bonner, King, Neugebauer, Boustany, Conaway, Goodlatte [ex officio], Etheridge, Salazar, Butterfield, Pomeroy, Boswell, Chandler, Costa, and Peterson [ex officio].

Staff present: John Goldberg, Tyler Wegmeyer, Callista Gingrich, clerk; Chandler Goule, John Riley, and Anne Simmons.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. Good morning. The hearing of this subcommittee will now come to order. We are here today to discuss the reauthorization of certain authorities of the Grain Inspection, Packers, and Stockyards Administration that are set to expire this year, specifically, the Federal Grain Inspection Service's authority to collect and invest fees to cover administrative and supervisory expenses associated with grain inspection services; authority to collect fees to perform official inspections, official weighing, or supervision of weighing of grain; and the authority to receive appropriations; and the 30-percent cap on administrative and supervisory costs; and the authority for the USDA Grain Inspection Advisory Committee. Those things will expire later this year.

The U.S. Grains Standards Act was last authorized in the year 2000, and the reauthorization submitted to the committee by the administration calls for a 10-year extension through September 2015. On September 30 of this year, the reauthorization for the collection of fees by GIPSA will expire. Since approximately 80 percent of the grain inspection budget is obtained through the collection of fees and only 20 percent through appropriations, Congress will need to act or those activities will cease.

Thanks to Mr. Shipman and other top managers, FGIS has worked to contain its costs, but control of costs must remain a concern and a top priority. In the last 5 years particularly, costs have increased, and GIPSA's personal administrative expenses have reportedly increased more than 50 percent since the year 2000.

The topic this subcommittee will consider during reauthorization and I assume will be discussed here today is the authority of GIPSA to utilize third-party inspection agencies to perform official inspections for export grain. This approach is attractive to some because of the competitive environment that the industry is in. GIPSA's inspection costs have increased substantially at a rate twice as that of the private sector over the last 5 years. I believe Congress does have a responsibility to always look for ways to keep our agricultural industry competitive in this global market.

I thank our witnesses for their testimony, their appearances today, and I know that a significant effort has been made to prepare for today's testimony. I would now turn to the gentleman from North Carolina, our ranking member and my friend, Mr. Etheridge.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Mr. Chairman. As you have indicated, today the subcommittee is going to review yet another law that must be reauthorized before the end of this year for obvious reasons. The Grain Standard Act has enhanced the quality and integrity of our grain inspection and weighing system, and we should consider very carefully and very thoughtfully before we make any dramatic changes because we really are in a competitive world market.

And those of you who are witnesses today, we are going to hear and hopefully you will provide this subcommittee with the insight on what changes should and should not be made in the reauthorization. So Mr. Chairman, I look forward to hearing from them and working with you as chairman to reauthorize this legislation later this year. Thank you, and I yield back.

Mr. MORAN. I thank the gentleman from North Carolina. I would ask the other Members to submit their opening statements for the record.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

I want to thank subcommittee Chairman Moran and Ranking Member Etheridge for conducting this oversight hearing on the reauthorization of the U.S. Grain Standards Act.

We are certainly at a crossroads with this reauthorization. It is our collective responsibility to determine how we can continue to deliver the necessary services that this agency provides to our grain sector from farm to barge, even as market forces change and the experienced Federal grain inspection workforce ages and retires.

I encourage my colleagues to give serious consideration to the future of this Act. American grain farmers participate in a fiercely competitive world market. We need to ensure that our inspection system allows importers to maintain their confidence in the quality of U.S. grain.

I look forward to today's testimony and the discussion that will follow.

Mr. MORAN. We will begin with our first and only panel, who are already seated. Mr. David Shipman, who is the Deputy Administrator of Grain Inspection, Packers and Stockyards Administration for the U.S. Department of Agriculture; Mr. Garry Niemeyer, director, Corn Board of Directors, National Corn Growers Association from Glenarm, IL, on behalf of the National Corn Growers Associa-

tion, American Farm Bureau Federation, National Association of Wheat Growers, American Soybean Association, and the National Grain Sorghum Producers; Mr. Jerry D. Gibson, regional manager of Bunge North America, Inc., Destrehan, LA, on behalf of the National Feed and Grain Association and the North American Export Grain Association; Mr. Tom Dahl, president of the American Association of Grain Inspection and Weighing Agencies, Sioux City, IA; and Ms. Kathryn P. McCaw, member of the National Council of Grain Inspectors Locals, Aloha, OR.

Mr. Shipman, you may begin when you are ready. Welcome.

**STATEMENT OF DAVID SHIPMAN, ACTING ADMINISTRATOR,
GRAIN INSPECTION, PACKERS, AND STOCKYARDS ADMINIS-
TRATION, U.S. DEPARTMENT OF AGRICULTURE**

Mr. SHIPMAN. Good morning and thank you, Mr. Chairman Moran and members of the subcommittee. I appreciate the opportunity to be here today to discuss the reauthorization of U.S. Grain Standards Act. I would like to make a few opening comments this morning and then respectfully request that my full statement be included in the record.

Mr. MORAN. Without objection, so ordered.

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

For the past 29 years the employees of FGIS, which is now GIPSA, have dedicated themselves to building a national inspection and weighing system based on quality of service and integrity. During this same period, the structure and practices of the grain industry have dramatically changed as exporters developed closer relationship with overseas buyers to deliver quality and quantity of grain that meets those buyers' needs. In brief, the market environment of the 1970's no longer exists, and our trading partners have confidence in the quality and quantity of grain that is shipped to them by exporters and represented by the official USDA Inspection and Weighing Certificate.

Perhaps one of the best indicators of the changes that have occurred in the industry can be reflected in the number of foreign complaints that we have received. Back in 1985 we received 74 complaints representing about 2.2 percent of the exports. In 1995, 10 years later, that number dropped to 30, or about 1 percent of exports. And last year we received only four complaints, representing less than a tenth of a percent of the total grain exported.

As an impartial entity, we at GIPSA maintain over 1,400 different quality assessment terms and methods to test post-harvested crops for physical condition, impurities, contaminates, and intrinsic attributes. We work closely with all segments of the grain industry and the oilseed industry to ensure these terms and methods meet the changing needs of the marketplace.

In addition to establishing the standards by which quality of grains and oilseeds can be measured and communicated effectively

in the market, we manage a network of Federal, State, and private laboratories that provide impartial user-fee-funded services to the industry. Last year this network of labs provided over 2.6 million inspections, and I cannot overemphasize the commitment and hard work of the 523 Federal employees and over 2,000 other individuals employed by 12 States and 46 private agencies authorized by GIPSA to provide inspection service. Collectively, they provide high-quality service to American agriculture 24 hours a day, 7 days a week, 365 days a year.

The success of the U.S. grain inspection and weighing system did not just happen. It required the collective effort of these Federal, State, and private inspection personnel, and the full participation and cooperation of the grain industry, an industry that has evolved from traders involving string trades to agri-businesses with a greater focus on customer satisfaction. It required the introduction of new technology to sample, weigh, and measure the quality of grain, again accomplished through the cooperative effort of the inspection agencies in the industry.

It required continuous improvements in our quality controls and assurance systems to insure all measurements and inspectors were aligned with national references. And it required reaching out to our many trading partners around the world to ensure they understood the system and they had confidence in the system.

As you stated on September 30, 2005 several authorities under the statute will expire, and without these authorities reauthorized, we would be unable to collect the necessary revenue to operate our programs, resulting in a shutdown and disruption to the grain market, especially the export market.

We believe it is in the best interest of American agriculture that Congress extend and reauthorize these provisions for a 10-year period. With that said, our key customers and stakeholders support change, not to our mission or our role in the marketplace, but in how we are delivering our services. Recognizing the changes that have occurred to both the inspection system and customer relationships among industry participants over the last 29 years, an evaluation of service delivery is timely. State and private agencies have provided and continue to provide high-quality services to the domestic market. The introduction of private entities with Federal oversight into the export market is feasible, provided it is accomplished in a manner that does not compromise the fundamental integrity of the existing system.

The recommendations of the industry as presented so far to GIPSA establish a framework for change in the delivery of the services without compromising the integrity of the official system. The U.S. inspection system has gained worldwide recognition for its accuracy and reliability. Maintaining and strengthening this recognition in the future, regardless of how and by whom official services are delivered to our customers, is essential for the economic health of American agriculture.

I appreciate the opportunity to address the committee, and I would be happy to answer any questions.

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

Mr. MORAN. Thank you very much, Mr. Shipman. Mr. Niemeier.

**STATEMENT OF GARRY NIEMEYER, DIRECTOR, CORN BOARD,
NATIONAL CORN GROWERS ASSOCIATION, GLENARM, IL, ON
BEHALF OF THE NATIONAL CORN GROWERS ASSOCIATION,
AMERICAN FARM BUREAU FEDERATION, NATIONAL ASSO-
CIATION OF WHEAT GROWERS, AMERICAN SOYBEAN ASSO-
CIATION, AND THE NATIONAL GRAIN SORGHUM PRODUC-
ERS**

Mr. NIEMEYER. Mr. Chairman, the members of the Subcommittee on General Farm Commodities and Risk Management, thank you for the opportunity to testify today on the U.S. Grain Standards Act of 2005. I am Garry Niemeyer, a corn and soybean producer from Glenarm, Illinois. I currently serve on the Corn Board as the Association Relations Committee Chair for the National Corn Growers Association. I am also pleased to submit testimony on behalf of the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, and the National Grain Sorghum Producers, and the NCGA.

Agriculture is one of the few U.S. industries that enjoys a positive trade balance. When we move more commodities into the markets, both commodity prices and farm income tend to rise. During the 2002–03 fiscal year, \$56 billion worth of American agricultural products were exported around the globe. This leads directly into the topic of discussion for today’s hearing, the Grain Standards Act of 2005. The farm and commodity groups I represent strongly support the reauthorization of the U.S. Grain Standards Act. Grain inspection and weighing services by the Federal Grain Inspection Service are mandatory under the Grain Standards Act. Reauthorization of the Grain Standards Act is imperative to our export markets. We have built these markets based on product availability and quality.

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

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

Moreover, exporters have limited ability to pass on increased costs because of the highly competitive nature of the world’s bulk trade in grains and oilseeds. Dynamic and growing exporters such as Australia, Canada, Brazil, and Argentina are increasingly challenging the U.S. in a number of important overseas markets. While

these countries are working hard to narrow the cost advantage the U.S. currently enjoys because of its transportation and handling systems, Brazil and Argentina already have a cost advantage over U.S. shippers in one key area: the cost of obtaining export inspection services.

During an August 2004 fact-finding mission, GIPSA found that Brazilian and Argentinean exporters enjoyed approximately 20 to 25 cents per ton advantage over U.S. exporters in the cost of obtaining export inspections for quality. Brazilian and Argentinean exporters rely on private third-party surveyors to perform official export inspections for quality.

The U.S. must better manage the cost of export inspections, take advantage of modern technologies to enhance efficiency, and be flexible enough to respond to a changing industry structure in an increasingly competitive world. We support amending the U.S. Grain Standards Act to authorize GIPSA to delegate qualified third-party companies to provide official inspection and weighing services at ports where GIPSA currently provides such services. This change offers an opportunity to provide a degree of control over costs for inspection while retaining 100 percent GIPSA oversight of the system.

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

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

In addition, creating new fees for standardization work is inappropriate because such activities clearly benefit the entire marketing chain. Collection of the fees could be also problematic. Fees charged as part of mandatory official export would further reduce the value and competitiveness of U.S. exports of grains and oilseeds, and would lower production cost. And for these reasons, we urge Congress to reject any attempt to grant GIPSA the authority to collect user fees for standardization activities.

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

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

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

Mr. MORAN. Mr. Niemeyer, thank you very much. Mr. Gibson.

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

Mr. GIBSON. Chairman Moran and members of the subcommittee, good morning. My name is Jerry Gibson; I am the regional manager for Bunge North America in Destrehan, Louisiana. I manage Bunge's export elevator in Destrehan, a terminal involved in exporting grain and oilseeds around the world.

My testimony today is presented on behalf of the National Grain and Feed Association and the North American Export Grain Association. NGFA and NAEGA strongly support reauthorization of the U.S. Grain Standards Act to preserve the official grain inspection system. The official system is a valuable enhancement to the efficient U.S. grain marketing system and our ability to serve our global markets. USDA and GIPSA are to be commended for their efforts.

We believe a 5-year reauthorization is prudent to preserve effective oversight of the agency by Congress. As part of our support for reauthorization of the U.S. Grain Standards Act, the NGFA and NAEGA urge Congress to support two elements that we believe are essential to maintaining an effective official export grain inspection system.

First, we urge that Congress oppose any amendment to the U.S. Grain Standards Act that would authorize GIPSA to impose additional user fees to cover its grain standardization activities. Second, we urge Congress to amend the U.S. Grain Standards Act to give GIPSA the authority to delegate independent, third-party inspection agencies to perform the hands-on official inspection and weighing of grain and oilseeds at export facilities, under 100-percent GIPSA oversight using GIPSA-approved standards and procedures.

With respect to the second point, we would make the following recommendations: first, GIPSA's process for determining and approving independent third-party agencies to perform official inspections at export facilities should be open and transparent. Second, exporters should be free to contract with any GIPSA-approved third-party delegated agencies to perform these official services. Third, GIPSA would utilize fully the right to perform 100-percent on-site oversight authority at each export location and would collect a fee for performing this oversight function that is retained under the Act. Fourth, GIPSA would continue to issue final, official inspection and weighing certificates. Fifth, GIPSA would maintain its comprehensive national quality assurance and control program, including its appealed inspection service.

We believe now is the opportune time for change. The nature of the grain export industry and the global grain marketplace have changed dramatically in the last decade. The amendment would also give GIPSA the necessary flexibility to respond to competitive pressures in the global marketplace. Brazilian and Argentinean exporters have a decided cost advantage for quality inspections compared to the United States, and exporters in both countries utilize non-government surveyors for export quality inspections.

In fronting this global competition U.S. exporters have responded aggressively by reducing operating costs and enhancing efficiencies

wherever possible. The one operating expense that remains beyond the reach of exporters' control and has come to represent the single largest uncontrollable operating expenditure we face is the cost incurred for official grain inspection and weighing services performed by GIPSA.

GIPSA's corporate costs have increased 54 percent in the last 5 years, and the direct cost of GIPSA-provided official services have been rising at a rate well above the underlying rate of inflation. This problem is not new. But the quickening pace of foreign competition and a number of other factors have provided a new sense of urgency to address this issue immediately. We believe that immediate savings from making this change would be about 23 percent or \$6.1 million annually. But because future official inspection costs would be growing at a slower rate, the savings over time would expand compared to what would be expected to occur in the absence of such a change, simply because the savings would be compounded from year to year.

Thus, after a decade we estimate the annual savings would go to around \$17.5 million with a cumulative savings of approximately \$112 million over the 10-year period. In addition to reflecting industry change and cost competition, the time is right because fully 70 percent of GIPSA's inspection workforce will be eligible for retirement within the next 5 years. Making a change now would minimize the impact on Federal employees.

The NGFA and NAEGA believe this approach holds great promise. The competitive position of U.S. grain and oilseed exports can be maintained and enhanced. The integrity of U.S. inspection results will be retained. U.S. official inspection and weighing services will be more viable in the long-term. We are not alone in this belief. Last week six major farm and commodity organizations joined NGFA and NAEGA signing a letter urging Congress to adopt this approach. I would like to submit this letter for the hearing record.

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

Thank you for the opportunity to testify, and I will be happy to respond to any questions you have.

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

Mr. MORAN. Mr. Gibson, thank you for your time and testimony. Mr. Dahl.

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

Mr. DAHL. Thank you, Mr. Chairman and the committee for allowing me to speak today. I am the current president of the American Association of Grain Inspection and Weighing Agencies and I own and operate the inspection lab in Sioux City, Iowa.

The American Association of Grain Inspection and Weighing Agencies, AAGIWA, is the national professional association representing the public and private agencies that are designated and

delegated by USDA's Grain Inspection, Packers and Stockyards Administration to weigh, inspect, and grade the Nation's domestic grain. Its member agencies are located throughout the major grain-producing regions of the United States and represent the majority of all domestic inspections performed under the U.S. Grain Standards Act.

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

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

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

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

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

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

Support changes that would provide GIPSA the authority to delegate third-party inspection providers to perform official inspection and weighing services at ports under direct GIPSA supervision in those ports where GIPSA currently performs those functions. These third-party providers would be officially designated and would fol-

low the same criteria as presently designated agencies. The proposed amendment should not affect those ports where inspection and weighing services are currently performed by delegated State agencies. To enhance the port inspections' feasibility, official, origin domestic interior inspections should be utilized.

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

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

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

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

Mr. MORAN. Thank you very much, Mr. Dahl. Ms. McCaw, welcome.

STATEMENT OF KATHRYN P. MCCAW, MEMBER, NATIONAL COUNCIL OF GRAIN INSPECTORS LOCALS, ALOHA, OR

Ms. MCCAW. Thank you for letting me come today. I am a Federal grain inspector, and I have been for close to 27 years. I represent a lot of the views in the field which are similar and dissimilar to the people on this panel here.

The first reason to privatize is to lower fees, and the second reason is to lower cost for the industry. I don't know if any of this subcommittee were present during the grain scandal of 1976, you know, in Government service, but at that time when the scandal broke, we were the breadbasket of the world and the world didn't want us.

Industry had control of their grades and weights at that time, though there was Federal oversight, which is being proposed under this privatization. Controlling grades at that time was called grade shaving and it is a very simple process. An inspector doesn't have printouts or tapes or readouts. He inspects his grain; he announces the result. We calculate results to the thousandth of a percent, we round to the tenth. If an undesirability quality was too high, we would simply shave off a couple of thousandths. The value would round down a tenth, and the grain industry would be credited for meeting contract. The foreign buyers would be paying full cost for low-quality grain. And then we had a grain scandal. And suffice to say, that is all I will say about the grain scandal.

I can't intelligently or morally agree with any of these people on the panel as far as their wanting to privatize, but I do agree with their cost concerns. Federal grain at this time doesn't work, and it

hasn't worked for a long time. And the inspectors in the field have echoed all of these comments that you have heard here about costs. We assess tonnage fees to cover overhead administrative costs in Washington; we assess hourly fees for the people in the field. The administrative costs have never been covered by tonnage; they simply siphon off money from our hourly fees to pay their costs. And so appropriated funds, they don't do anything for standardization. Standardization benefits everyone in this country from the domestic market to the export market, and yet the full burden of that cost is put on the exporters through the fee system. And that is just ridiculous and it is not fair. It doesn't make sense. It hinders these people's ability to do business.

So while I don't agree with them about privatization, I think that is wrong. I do agree and the inspectors in the field agree that we have a problem here, and we have expressed these views for many years. No one has ever listened. The only relief that this agency has ever offered the industry is to cut the inspectors in the field. That doesn't do anything to cut the administrative overhead costs, which are higher than ours and which have, over the years, had to siphon money from our account just to survive.

Without us to take money from I don't think this administration could survive. It is like taking the wheels off your wagon and then expecting to haul it somewhere. It just isn't going to work.

If they privatize, these overhead oversight costs for privatization are going to have to not only cover the local and national oversight, they are also going to have to cover the cost overruns of the administrative part of our agency. So I don't think that the savings that are being talked about are going to be that significant. And when privatization doesn't work out, has this privatization plan built any contingency plans or escape hatches in to save American agriculture? Because this is what it is about. It is not about my job, even though I will lose it. It is about what American agriculture does and the fact that they need to have their share of the global market, and they need the integrity and the reputation to keep it.

There are no escape hatches if privatization goes wrong, absolutely none. By the time the foreign backlash hits and the industry realizes they aren't saving money, all the Federal inspectors and technicians will be laid off and gone. And then it will be your job to come up with an answer for how do we regain our global market trust.

This rubberstamp that we are calling the Federal Certificate that is so widely respected everywhere, our foreign buyers I don't believe are going to fall for the fact that it is now a Federal Certificate with no Federal inspection. It is a rubberstamp. And I don't think our foreign buyers are that naive.

I attended the advisory board meeting a few weeks ago, and at that meeting when the final resolutions were drafted, the industry was very careful to say that they wanted the word privatization removed from all resolutions and the word outsourcing put in because the foreign buyers were not comfortable with the total concept of privatization.

In the field our Federal management has threatened us with legal consequences if we talk to the national foreign buyers and explain what privatization is because that could affect and harm

American agriculture. So to me the possibility of a backlash is alive and dangerous at this point. No one is saying that the foreign buyer is going to accept all of this privatization, and Congress will not be left with a single tool if they don't. They will have not a tool to bring back what we have as our global market share.

If the Act is successful, it is a successful global marketing tool. It has been around for 30 years. It has gained the respect of the world. The question that Congress must answer is the degree of viability. If privatization endangers our global share and endangers American agriculture, is it a viable risk to take?

And given the fact that there are no answers and that there is question about how much money this would save, these gentlemen here, I don't think that it is a viable risk to take. The answer has to be no. We do have to control cost, but we have to go after the agency overhead and someone has to take the true look at what the costs are. These people are not going to save the money they are being told with privatization.

[The prepared statement of Ms. McCaw appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much for your testimony, Ms. McCaw. The gentleman from Minnesota, Mr. Peterson, do you have any questions? The gentleman from Virginia, Mr. Goodlatte.

The CHAIRMAN. Mr. Chairman, thank you for holding this hearing. This is an issue that is of great importance and one that has had some contention over time. So I appreciate your efforts on this. I don't have any questions, however.

Mr. MORAN. We thank both the ranking member and the chairman of the full committee for joining us today.

Let me pursue several questions. Ms. McCaw, she agrees that there is a problem with cost, that particular our folks from the grain industry have testified to as far as our competitiveness. But my impression is that her suggestion is that the concern with cost is related to the concern with administrative costs. Is there a comparison between administrative costs that we experience in the United States versus our competitors in Brazil or elsewhere? Mr. Shipman.

Mr. SHIPMAN. Well, we have taken a look at what the costs are in South America as an example and Brazil and Argentina. The overall cost down there, they charge around, in Brazil, between 10 and 15 cents a ton, where our charges right now are running around 34 cents a ton. And in Argentina it is around 10 cents a ton. We were not able to get from them the administrative costs versus direct labor costs.

Mr. MORAN. Do Mr. Niemeyer or Mr. Gibson have any thoughts about that topic? It seems to me that your focus is on privatization of the employees involved in the inspection of export grain. Concerns about administrative costs at GIPSA?

Mr. NIEMEYER. Well, as you can understand, we want to lower all the costs that are competitive to us. I mean from the farming standpoint our cost of fertilizer chemicals and everything has gone up, from the standpoint of shipping our grain we have 70-year-old locks, and those costs have increased. And anything that does not make us any more competitive is a problem, and we just feel like the privatization would be the best way to go.

Mr. GIBSON. I think from NGFA and NAEGA's stand we have worked with the Federal agency for many years to try to keep our costs in line or bring some kind of cost control and work toward more efficiency and automation and wherever it could be gained, but we are just running out of opportunities I think. And I think that what we are asking for in this change in the Act is that the ability to give FGIS and GIPSA some flexibility in how we can respond to these things rather than mandate that they are all Federal employees. Due to the seasonality of our export business around the country, some flexibility is greatly needed that we do believe would bring some cost savings. Maybe not immediately but would slow down this rapid increase in cost.

Mr. MORAN. In your search for lower cost apparently the conclusion is that privatization of the inspection of grain for export is the best solution. Are there other things that GIPSA or Congress should be aware of in ways that we can reduce the cost, new technologies? Are we doing the things that your competitors are doing?

Mr. GIBSON. I think we are. I think, and Mr. Shipman can respond too, that are we doing the things, but we are bringing technology and advancements and probably leading the world in that. But that all comes at a price, too. So again, I think we have worked for many years together, the industry and the agency, to see how we can keep the costs under control.

Mr. MORAN. Mr. Shipman.

Mr. SHIPMAN. Yes, just to offer a few comments on the whole cost issue. If we are looking at just the export market, our budget this fiscal year for the export services is \$28.6 million. And non-field services represent about 20 percent of that cost. That would be all of our administrative activities, our e-Gov initiatives, our payroll systems, workmen's comp, all of the things that are classified as overhead, indirect costs. So we are running about 20 percent for that.

I would have to agree with Kathryn that at the field level our folks have made great strides to be as efficient as possible. When we started this business 30 years ago at an export facility, a crew would consist of in the neighborhood of 10 employees because there were manual scales, and in some cases manual sampling. In working with the industry over the last 30 years, automated samplers have been put in, alongside with automated scale systems, improved technologies for keeping track of information and so forth for our inspectors. And now a crew, depending on the services that are being requested, is between four and five, maybe six employees. So the employees on the frontline really are doing more with less. And there is no question about that.

At headquarters we have made efforts to contain the costs. I think a 20 percent overhead when you consider that it is workmen's comp as well as payroll and services and billing services, and so forth is not out of line with what we would benchmark other organizations.

Mr. MORAN. How does the remaining 80 percent break down?

Mr. SHIPMAN. That is all for actual field delivery, the work that is done in the field—

Mr. MORAN. And I assume that that is mostly labor costs, salaries?

Mr. SHIPMAN. It is 90 percent labor costs, yes.

Mr. MORAN. Thank you. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Shipman, I notice from your testimony and it did say in your report that you are working closely with other nations as relates to grain quality issues and inspection methods. Can you tell us whether most nations have export grain inspection regimes similar to ours or does the world use private inspectors like Brazil and Argentina? And also in your experience are there certain importing countries that seem especially interested in having a Government certificate accompanying their purchases or a Government certificate or inspector? And do you see it in certain commodities or is it in all the commodities?

Mr. SHIPMAN. Starting off with the first part of your question in terms of what other countries do. Certainly, in South America our major competitors, Argentina and Brazil, have a completely privatized system with very little federal oversight involved at all. Canada has a very federal system for their exports and their cost; our latest estimates run around 50 cents a ton. So in Canada they have a very rigorous federal system, and they are constantly under the pressure of reducing costs also. If we look to Australia, Australia has kind of an in-between. It is somewhat privatized with Federal oversight as well.

Here in the States we talk about Federal inspectors at export; that is for about 80 percent of the exports. We also delegate States. And 20 percent of the exports that leave the United States are handled by State employees with Federal oversight, Washington State being one of the primary ones.

In terms of do buyers want the official certificate, the simple answer is yes. I think that all buyers look for that official USDA certificate to accompany the paperwork that is associated with their contracts. And I will let the industry folks talk about it, but their basic contract that is used for selling U.S. agricultural products on exports uses that certificate and relies on that certificate to validate the quality and quantity.

Mr. GIBSON. Responding as part of that question at least, seven of the leading Japanese trading houses that are some of our leading customers for U.S. feed grains have endorsed this recommendation by NAEGA and NGFA. So they are interested in allowing FGIS to have the flexibility to help control their cost for this service.

Mr. ETHERIDGE. I hope we don't get to where we did with the beef issue. We have to be careful where we do it because we may shoot ourselves in the foot. Mr. Gibson, since I have you let me ask you a question regarding your chart that you have provided for us on the estimated annual cost savings of privatizing on page 13 of your testimony. For the status quo you took the current average cost of 35 cents per metric ton and extrapolated that out assuming there is 7-percent annual increase in GIPSA's cost. You compare this with your estimated 27 cent per ton under privatization and extrapolated that figure assuming a 2.5-percent annual increase. Correct?

Mr. GIBSON. Yes, sir.

Mr. ETHERIDGE. All right. So you are assuming a 2.5-percent annual increase not only for costs borne by private inspectors, but also by GIPSA as well for its cost of maintaining 100-percent supervision of these independent third parties. Correct?

Mr. GIBSON. Yes, sir.

Mr. ETHERIDGE. OK. Given your testimony that GIPSA's corporate costs have increased 54 percent in the last 5 years and that GIPSA's inspection cost increased 7 percent annually, wouldn't it be prudent to assume that GIPSA's 13-percent share of your estimate 27 cent cost per ton, which is almost 50 percent of the cost, will increase at a figure much greater than the 2.5 percent per year?

Mr. GIBSON. I think we are suggesting that the direct supervision cost, not necessarily the overhead costs would increase at 2.5 percent as opposed to 7 percent.

Mr. ETHERIDGE. Why would that be at 2.5 percent when his starting numbers don't bear that out?

Mr. GIBSON. On the private, if we have a privatization—

Mr. ETHERIDGE. No, according to GIPSA number. I ask this question because I think you might want to go back and redo that chart and resubmit it. Well, let me move on. If you would, I would appreciate it.

Mr. GIBSON. Yes, we will review that we will review and resubmit for the record.

Mr. ETHERIDGE. I ask you because I am concerned that if we are implementing this proposal, if we should implement at your request and we did it for 10 years, my guess is you going to have to be back here 10 years from now and say, you know, we aren't competitive. We need to do away with the supervision because these numbers are well above what we had anticipated. And I don't think that we, as a committee, want to get in that situation.

Mr. GIBSON. No.

Mr. ETHERIDGE. If you will resubmit that, I would appreciate it. Thank you, sir. Thank you, Mr. Chairman.

Mr. MORAN. I thank the gentleman. The gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. You have talked about privatization and granting authority to GIPSA to utilize third-party inspection agencies with GIPSA oversight, and that makes sense to me by increasing competition, bring down cost. I want to talk about the six States that had those export ports and you do not recommend privatization at that level. Could you talk a little more about that?

Mr. GIBSON. I think maybe Mr. Shipman might address that. You know, when FGIS was created those States were given that authority to continue their inspection programs. I guess FGIS collects an oversight fee, so it is not dissimilar to what we are proposing, except we are not proposing a State-owned or managed agency. We are offering up as a private agency.

Mr. BOUSTANY. Do you have any comments on that?

Mr. SHIPMAN. No, not really. Currently, the statute authorizes certain States to be delegated and those have been the States that choose to. And the recommendation that is put forth by the indus-

try is talking about offering private companies to have an opportunity in the export market.

Mr. BOUSTANY. OK. Thank you. Ms. McCaw, you were talking about administrative cost and cost overruns. If we were not to privatize, what recommendations would you have to bring those costs down?

Ms. MCCAW. During the 1990's in a previous administration we were allowed to ask questions and comment on that, and we met with the agency regularly, four or five times a year to discuss where the money was going and why. And we never got anywhere. We were told that yes, they are taking funds out of our hourly fees because they can't cover cost, but nothing was ever done.

Under the A-76 list, the FAIR Act, all of the slots that are designated for privatization are in fact inspector slots. The administrative end is all exempt, which worries me because—I don't have the numbers in front of me; I think Dave Shipman has them—wages alone for the Washington crew are extremely high. The supervision, this direct oversight we are talking about that also happens, all the supervisors in the field are exempt from the A-76 list. Most of them do not even grade grain anymore and they are going to be the ones who are providing this direct oversight. They are not grain inspectors. How they will oversee and maintain the integrity of inspection service when they don't even inspect grain, I don't know and I don't understand.

We have always asked that the same cuts in the field be applied to the administrative end, and given the new A-76 list in the FAIR Act, that will not happen. So I don't have the solution for that. The agency went to the FAIR Act Court in 2003 and applied the standards that field people are privatizable while they are not. And they won that case. Therefore, that took away my answer, which was to cut equally on the administrative end. Legally, we can't do that now.

Mr. BOUSTANY. Mr. Shipman, do you want to comment on any of that?

Mr. SHIPMAN. Yes, I do. In terms of administrative costs in headquarters, we are constantly looking at ways to streamline and re-engineer our business practices. We have a number of human resource software packages being developed right now by the department that we will capitalize on and hopefully drive down some of our personnel costs, our HR costs. We have extensive enterprise architecture web-based applications being developed right now that, again, there is some up-front cost long-term, but it should be able to help drive down some of those administrative costs.

I already mentioned that I think our field folks are doing a very good job of containing costs and doing more with less. And we hold the headquarters folks to that same standard. In headquarters right now, and when I classify headquarters, I am also saying we call our Kansas City technical center part of headquarters because they get involved with policy development and so forth—there are 124 people in FGIS headquarter, 70 of them are located out there at the technical center where they are really doing research and other policy development activities. And there is a constant focus on trying to contain administrative costs.

Mr. BOUSTANY. Thank you.

Mr. MORAN. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. I appreciate you holding this hearing and testimony of the witnesses. A lot of this territory has been covered, but a gap that exists, I think, in my sense of efficiency would be one in some knowledge that I am wondering if Mr. Dahl could respond to. And I would ask specifically if you know how many States have State grain inspectors as well as federally contracted grain inspectors and how that works across the country?

Mr. DAHL. I am not real familiar with the States because we are private in Iowa. Minnesota is a State, Washington; California was a State until recently on the inspection side. But as far as State inspectors go, I don't know how that works as much as what the private side goes.

Mr. KING. And so you wouldn't speculate as to whether there is a duplication that takes place there in an unnecessary—

Mr. DAHL. Oh, I don't believe there is a duplication. They have the same oversight up in, say, Minnesota is what they do with the field office that we operate under in Iowa. They have the one field in Minneapolis, the supervisors are people there.

Mr. KING. So it is simply a duplication in those States that have it?

Mr. DAHL. Right.

Mr. KING. And would you render an opinion as to whether it is necessary to have State inspectors to supplement our Federal inspectors?

Mr. DAHL. Well, in Minnesota, for instance, I believe it is delegated, so it is the State people doing the Federal work up there with Federal oversight. And I mean it is just the same thing as the field offices operating out of Minneapolis that oversees them just like the field office of, say, Cedar Rapids oversees us.

Mr. KING. Thank you, Mr. Dahl. Would anyone else care to comment on that?

Mr. SHIPMAN. Yes, I would like to make a quick comment just to clarify. There is really no duplication when we delegate or designate a State or a private company to provide service. They are the ones that work directly with the customers. For them to be successful they have to be aligned with a national reference, and so our local offices are aligning that private company or State with a national reference for those 1,400 attributes that we test for. And they provide a minimum level of supervision to ensure no fraud or misuse is occurring in the system. But we do not have Federal inspectors doing the same inspection work at the same place that we have a private company or a State delegate.

Mr. KING. And so if I get reports that that exists, I should look into that?

Mr. SHIPMAN. Yes.

Mr. KING. Thank you. I appreciate that. Thank you, Mr. Chairman. I yield back.

Mr. MORAN. Mr. King, thank you. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I understand we have got votes going on across the street. In Mr. Shipman's testimony, he said that you guys inspected 246 million metric tons last year and that your overall costs were \$28.6 million?

Mr. SHIPMAN. For the export program, that is correct.

Mr. CONAWAY. Give me a sense of what the differential is.

Mr. SHIPMAN. OK. When we say we inspected that 240 million metric tons, that included the 20 percent that the States were doing because we were talking about the national system at large—

Mr. CONAWAY. I don't have a computer but that won't raise it 25 cents a ton. So where is the differential between your costs per ton and the—

Mr. SHIPMAN. No, I—

Mr. GIBSON. Throughout the official system, but some of that is domestically traded grain too that is part of the official system, right, David?

Mr. SHIPMAN. That is correct. And so not just the export. Roughly, export is 80, 90 million tons, metric tons, total export out of the United States.

Mr. CONAWAY. Who is paying the 34 cents per ton?

Mr. SHIPMAN. Exporters.

Mr. CONAWAY. OK. So the 246 million includes the whole system?

Mr. SHIPMAN. No. I don't know the number exactly, but around 70, 80 million metric tons would be exported out of the United States. But throughout the whole U.S. grain inspection system, there are probably 250 million that utilize part of the Federal grain inspection, whether it be through private agencies or State agencies. But FGIS has oversight over all that system. But the exporters is where the user fees are collected, so on that roughly 80 million metric tons.

Mr. CONAWAY. So the 80 million tons pays all of the fees of the \$28.6 million?

Mr. SHIPMAN. Yes, sir.

Mr. CONAWAY. All right. And one other thing is cotton has a similar standardization program that they go through periodically, updating the grades and the colors and all those kinds of things. And your group is wanting to create some other standards as well? There is like a \$4 million tag on that. I should know that answer. Does cotton pay for that themselves or do the taxpayers pay for the standardization work that goes on versus the standardization work that you are proposing?

Mr. SHIPMAN. It is my understanding that currently, under the Agricultural Marketing Service, standardization activities are funded with appropriated funds and that their budget, as well as our budget, included new user fees for that activity.

Mr. CONAWAY. OK. All right. Mr. Chairman, I yield back.

Mr. MORAN. Mr. Conaway, thank you very much. The gentleman from North Carolina has a follow-up.

Mr. ETHERIDGE. Just briefly, Mr. Shipman, would it be possible for you to provide to the chairman and the members of this committee and organizational chart showing from the USDA all the way down to the respective office levels with the number of staffing in each one of those areas, please?

Mr. SHIPMAN. Absolutely.

Mr. ETHERIDGE. Thank you.

Mr. MORAN. The gentleman from Minnesota.

Mr. PETERSON. Thank you, Mr. Chairman. I have to admit I am skeptical that privatizing anything is going to necessarily save any money. We have not proven that with some other things we have tried to do. And I am concerned that we may have the Japanese saying that they support this, but given our experience with some of these folks—I am very skeptical. I am not sure it is not a bait and switch, that they are not going to have us go along with this so they can use it as an excuse to keep us out of their markets. And so I am concerned that if we go ahead with this, that we are going to end up in some kind of a situation where we are back here trying to undo something.

The other concern I have is that we have had—I guess it is not as much of a problem—but I kept getting complaints, still do to some extent, of people putting foreign material in the stuff that is exported and that is apparently been improved. We aren't getting as many of those kind of complaints now as we used to, but I am also concerned about what happens if we end up getting into that kind of a situation if we have a private system, how we are going to get at that. So I don't know, I guess I am making a statement, but I would appreciate—I guess you folks that are advocating this responding or, Mr. Shipman, if you care to comment.

Mr. SHIPMAN. Sure, I will make some comments on that. I guess if we look at our domestic model where we have private companies, some 46 of them, and we look at our quality control, we look at their customer satisfaction, and so forth, and they ship an awful lot of grain to Mexico even though that is export when it is generated in a domestic location, a private company can provide that service. And the satisfaction and the quality of service is equivalent to what we see States providing and what we see in terms of our Federal employees. So that is just one thing to look at.

In terms of if change occurs, we would advocate that we do go slow, that we implement port by port starting with a rather small port to ensure that it works properly. We have experience with working with States and private companies right now. It is hard to look and see is this model going to actually work as well in the export market? And that is one of our reasons that we, if change does occur, would advocate that it take time and we go over a period of time to implement.

Mr. MORAN. Mr. Shipman, Mr. Niemeyer, and Mr. Gibson, if you have intention to respond to the ranking member's question, would be OK with you, Mr. Peterson, if they do that in a follow-up? We are going to try to conclude this hearing and go vote.

Mr. PETERSON. Sure.

Mr. MORAN. But if you have comments to Mr. Peterson's comments and questions, please submit those to the committee in writing so we can read what you have to say about the foreign substance and about concerns of our privatization.

Gentlemen and Ms. McCaw, thank you very much for your testimony. The House is voting and I think rather than try to bring the committee back, we are going to conclude this hearing. If you have additional comments you would like to make to me or to the ranking member, please make sure that you contact us. We are happy to follow up further.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material, supplement any written responses from witnesses to any question proposed by a member of the panel. The hearing on the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 11:02 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF DAVID SHIPMAN

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

BACKGROUND

The Federal Grain Inspection Service was created by 1976 amendments to the U.S. Grain Standards Act (the Act) to address what was then a real threat to the U.S. grain market share due to widespread misuse and abuse of grain inspection and weighing processes.

Irregularities in the inspection of grain under the United States Grain Standards Act became widely known in May 1975, when newspapers reported the indictments of several licensed private inspectors in New Orleans and Houston. Following those reports, investigations were undertaken on allegations that grain was misgraded and short-weighted, that bribes were paid to inspectors, that grain had been systematically stolen, and that other Federal laws were violated. Between May 1975 and February 1976, more than 38 indictments were issued charging 61 people and four companies with more than 280 criminal acts. Most pleaded guilty.

In 1975, Congress authorized an investigation of grain marketing and inspection, "from farm field to foreign port," by the U.S. General Accounting Office. The congressional report concluded:¹

The quality of American grain in world markets has been an important factor in the success of our commercial [i.e., agricultural, transportation, and storage industries] and humanitarian export programs. [I]t is essential to 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. It is essential that our customers have faith in the integrity of our inspection and weighing system, and that they get the grade, quality, and quantity of grain for which they contract and pay.

Congress instituted FGIS in 1976 to manage the national grain inspection system, which initially was established in 1916, and to establish a national grain weighing program. The goal of creating a single Federal grain inspection entity was to ensure development and maintenance of uniform

U.S. standards, to develop inspection and weighing procedures for grain in domestic and export trade, and to facilitate grain marketing.

FGIS TODAY

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

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

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

These activities promote fair and transparent markets, increase crop value by aligning crop quality with specific consumer demands, reduce trade disputes resulting from conflicting descriptions of crop quality and value, and minimize the cost of transactions between buyer and seller in domestic and global markets.

¹ Source: Report on Irregularities in the Marketing of Grain: An Evaluation of the Inspection and Weighing of Grain, prepared by the United States General Accounting Office for the United States Senate and United States House of Representatives, February 17, 1976 (USGPO, Washington, 1976, 66-328 0).

Each day, buyers and sellers of U.S. grain worldwide use GIPSA's official U.S. grain standards as a common language to trade grain; rely on GIPSA's verified quality assessments to accurately differentiate quality factors for marketing and end-use purposes; and use our impartial services to obtain an official inspection and weighing certificate. In fiscal year 2004, GIPSA provided 2.6 million inspections on 246 million metric tons of grain, or nearly 61 percent of America's \$50 billion total grain production, and facilitated the marketing of \$14 billion of U.S. grain exports. America's trading partners rely on USDA official certificates to represent the true quality and quantity of product purchased. Perhaps one of the best indicators of our success in gaining the confidence of world markets is reflected in the number of complaints received from international buyers. In 1985, GIPSA received 74 complaints from international buyers that accounted for 2.2 percent of America's total export grain volume. By 1995, the number of complaints dropped to 30, or 1.0 percent of exports; and, last year, GIPSA received only 4 complaints on 0.1 percent of the total volume of grain exported from the United States.

ACTIVITIES AND ACCOMPLISHMENTS

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

New and more intricate production and marketing processes have evolved that provide greater differentiation of crop quality from the farm to final consumer. In the export market, vessels that once loaded a single commodity now sail with a load of diverse quality grain to meet buyers' needs around the world. Domestically, the market is increasingly segregating crops by production processes and quality attributes to meet the needs of food processors and, in turn, their customers.

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

OUR EFFORTS TO PROVIDE THE MARKET WITH THE INFORMATION IT NEEDS TO FACILITATE

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

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

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

more effectively target resources to improve accuracy of the system with fewer field offices and personnel.

REAUTHORIZATION OF THE U.S. GRAIN STANDARDS ACT

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

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

MANDATORY EXPORT INSPECTION AND WEIGHING SERVICES

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

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

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

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

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

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

We must carefully consider whether implementing change now will deliver long-term savings and improve American agriculture's competitive position. The 1976 amendments to the United States Grain Standards Act specified that only GIPSA, or States delegated by GIPSA, can provide mandatory export inspection and weighing services in recognition that the integrity of the official system is central to international grain trade and must be maintained.

Changes to the official system must not compromise the fundamental principles upon which the system is based. Any change must improve the efficiency of service delivery; ensure that America has a reliable USDA-backed export inspection system; and maintain worldwide recognition of and confidence in the integrity and accuracy of the USDA certificate.

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

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

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

STATEMENT OF THOMAS DAHL

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

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

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

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

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

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

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

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

Support GIPSA in the evaluation of quality inspection tests for ethanol by-products. The criteria should be established for the end use of this product. These by-

products enter our food system through feed given to livestock. Tests that monitor the levels of mycotoxins should be established.

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

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

STATEMENT OF JERRY GIBSON

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

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

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

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

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

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

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

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

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

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

OPPOSITION TO SHIFTING GIPSA STANDARDIZATION ACTIVITIES TO USER FEES

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

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

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

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

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

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

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

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

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

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

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

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

- Fourth, as mentioned previously, GIPSA under the legislative language would retain the right to perform 100 percent on-site oversight authority at each export location to continually monitor and audit the performance of the third-party agency, and would collect a fee for performing this oversight function. GIPSA also would retain the authority to suspend or revoke the authority of the third-party agency at any time for cause.

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

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

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

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

- First, in the case of export facilities, GIPSA should maintain 100 percent on-site supervision of the personnel hired by the GIPSA-designated independent, third-party agency to perform the actual official grading and weighing of grain. As in the case with state and private agencies that GIPSA delegates and designates to perform official inspections in the domestic market, GIPSA should set the standards for the private agency and for the performance of the inspectors. And GIPSA would retain the sole authority to suspend or revoke the license of a third-party agency at any time for cause.

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

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

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

So, why make such a change?

For starters, the nature of the grain export industry and the global grain marketplace has changed dramatically in the last decade. The old industry model a decade ago was one where international grain traders took ownership positions in paper representing grain and sold it to a string of other traders that eventually resold the shipment as a commodity to end-users. Today, much of the international grain trade

involves more direct relationships between buyer and seller. Supply chains have been established that provide for long-term stability in trading relationships and drive improvements in efficiency. These supply chains frequently are accompanied by direct foreign investment in grain-deficit countries by international grain companies to receive, process and utilize imported grains and oilseeds for grain- and animal-based food products. Thus, the old business model of a multi-national grain trade that provided commodities to national firms for grain processing or animal feed now is being overshadowed by international agribusiness models that increasingly are focused on grain processing and that have direct supply relationships with end-user customers.

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

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

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

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

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

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

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

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

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

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

mated range of 21- to 33-cents per ton, after adding GIPSA's supervisory fee. We assume that the overall national average would be somewhat less than the midpoint of 27 cents per ton, given that the most efficient export elevators tend to operate at higher-volume ports. However, using the midpoint as a reasonable estimate average, cost savings would be expected to be about 8 cents per metric ton.

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

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

Why is the time right to make such a change?

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

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

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

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

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

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

There was another time in the not-to-distant past that Congress acted to preserve the financial integrity of the official grain inspection system. During the late 1970's—a mere four years after its creation—the Federal Grain Inspection Service's administrative overhead had grown to such an extent that the ratio of administrative/supervisory personnel to actual inspectors was a staggering 2.1 to 1. For every dollar spent by FGIS to actually inspect and weigh grain, another 82 cents was being spent to “administer and supervise” the inspection and weighing system. The situation clearly was unsustainable.

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

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

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

STATEMENT OF KATHRYN MCCAW

Being a Federal Grain Inspector for over 26 years, I am presenting the views of the most basic level stakeholder in this Reauthorization issue.

In 1975, even though Federal oversight was already in place, widespread corruption and an ensuing series of grain scandals inspired the creation of the United States Grain Standards Act. Corruption had helped to destroy our country's ability to compete in the world trade of agricultural goods. Direct Federal inspection and weighing was implemented to correct and to prevent any future fraudulent schemes to misrepresent the quality and quantity of US grain exports.

With the formation of the Federal Grain Inspection Service came a global marketing tool based on the United States Grain Standards Act, test services, and extensive inspection training, monitors and quality controls. With direct Federal control placed over inspection, weighing and testing processes, confidence of our foreign buyers and choice to purchase US Agricultural goods were renewed and our positive position in the world market restored. Today, Federal Grain Inspection still forms the cornerstone of US Agriculture sales in the global market, guaranteeing integrity, quality and trust in the United States as a valued trading partner.

We are here questioning the success and viability of our Inspection system, not because of quality or market scandals or foreign mistrust: the only true issue that brings us here is costs. How we react to correct those cost problems will certainly maintain or destroy our integrity and our respect in the world market and our ability to sell American Agriculture. Changing the Grain Standards Act to return to privatization, basing our integrity on third-party inspection services is NAEGA's proposal here. Reopening the door to questions of conflict and the appearance of collusion, loss of trust and respect for our products is the first risk in privatization.

How will the international market react upon learning that official Federal inspection and weighing certificates are being used as a front for integrity for privatization? GIPSA-issued Federal weight and inspection certificates no longer based on Federal weighing and inspection personnel will not signal integrity or inspire trust in our products. The lack of any contingency plan to deal with foreign backlash and possible rejection of the privatization concept leaves our Government and our country's agricultural industry with no escape hatch, no corrective tools to restore our current success in the market. That privatization creates this grave risk is a given. The question that begs careful and focused consideration: do we have to place our farm and grain industries in harm's way just to correct a money issue? Is this our best choice, or even our only choice? Is the risk a necessity?

In any business, a reputation of excellence takes years to achieve, and it has been the guarantee of highly qualified people within our Federal inspection service that sells the assurance of quality, not a USDA label.

Our hourly fees are too high and they burden our grain traders. Privatization of the (lowest paid) field employees will not significantly reduce costs. Reduction of national overhead costs is not a part of the proposed privatization plan. A comparison of the current Fair Act A-76 list against the current staffing list for Agency overhead shows that all agency upper level positions (highest cost) have been exempted from privatization.

Our current fee schedule mandates that tonnage fees cover national overhead costs, while hourly fees are charged for Federal personnel in the field. Tonnage fees have never covered these national costs. Moneys have always been shifted from the hourly fees to make up for the shortfall. Elimination of field inspectors and technicians means elimination of the fees they generate; the budget shortfall for national overhead will be an immediate problem for privatization, correctible only by an increase of other fees.

The Federal Grain Inspection service must make changes to address our high costs to the Grain industry. Until structural changes are made to correct our problems within to reduce national overhead costs, privatization cannot provide true relief to America's farmers and exporters.

With no real cost savings in the offing, possible endangerment of the United States' position in the global market, and long-term damage to American agriculture is not a viable risk to consider.

Thank you for giving me this opportunity to express the views of Federal Grain Inspection personnel in the field.

SUPPLEMENTARY TESTIMONY

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

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

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

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

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

Grain inspection cannot be successfully accomplished by remote control. In 1976 there was Federal oversight of inspection and weighing in place, but the grain scandal happened anyway. You have to understand the nature of grain inspection to see how easy it is for industry to control their own grades. Wheat kernels are roughly one-quarter of an inch long, and our grading portion is 1,000 grams (just over 2 pounds).

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

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

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

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

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

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

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

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

The need for industry financial relief is without question. But the numbers behind privatization savings are not proven, nor have they been tested to a minimally rea-

sonable extent by anyone (unbiased) outside of the industry or Dave Shipman-controlled Agency processes.

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

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

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

STATEMENT OF GARRY NIEMEYER

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

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

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

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

U.S. GRAIN STANDARDS ACT

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

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

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

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

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

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

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

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

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

The undersigned organizations support the reauthorization of the U.S. Grain Standards Act (USGSA) that expires on September 30, 2005. In conjunction with reauthorization, we: (1) support changes that would provide USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) authority to delegate third party inspection providers to perform official inspection and weighing services of grains and oilseeds at ports under direct GIPSA supervision and (2) oppose amending the U.S. Grain Standards Act to authorize the collection of new fees to cover the cost of GIPSA standardization activities.

U.S. grain and oilseed producers, grain handlers, exporters and customers have long supported the official inspection and weighing system administered by GIPSA. We believe that the high credibility enjoyed by GIPSA promotes U.S. exports and fosters an efficient commercial system. All segments of the grain industry strongly support maintaining and enhancing the benefits of the official inspection and weighing services provided by GIPSA through the U.S. Grain Standards Act. Maintaining credibility and integrity is vital, especially when competing with exporters that emphasize high quality.

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

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

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

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

Thank you for considering our views. We stand ready to work with you as Congress considers legislation reauthorizing GIPSA to perform its responsibilities under the U.S. Grain Standards Act.

American Association of Grain Inspection and Weighing Agencies
 American Farm Bureau Federation
 American Soybean Association
 National Association of Wheat Growers
 National Corn Growers Association
 National Grain and Feed Association
 National Grain Sorghum Producers
 North American Export Grain Association
 U.S. Wheat Associates