

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

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

Background

The Federal Grain Inspection Service was created by 1976 amendments to the U.S. Grain Standards Act (the Act) to address 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 report¹ concluded:

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.

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).*

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.

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 interrelationship of these attributes with food/feed manufacturing. In many instances, grain traders of the 1970s have

been replaced by agri-food companies that are more involved in the development, distribution, and marketing of food, feed, and fiber.

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

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

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

marketing of U.S. grain; and to ensure the global viability of the U.S. marketing system.

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

We are in 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.

Conclusion

GIPSA is an integral part of America's grain handling infrastructure -- a superior infrastructure of storage facilities, rail lines, and waterways that

makes American agriculture preeminently successful in the global marketplace. We recognize our role and will continue to provide all members of the U.S. grain handling system with the innovative, high-quality official inspection services they need to efficiently and effectively meet the challenges of a changing marketing environment.

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

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

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