



National Grain and Feed
Association



North American Export
Grain Association

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NGFA, NAEGA Urge Congress to Approve Bill Authorizing Use of Third-Party Agencies for U.S. Export Grain Inspections

...Step Would Maintain Inspection Integrity, Stem Burgeoning Costs...

WASHINGTON – The nation’s two leading grain industry organizations are urging Congress to amend the U.S. Grain Standards Act to authorize the U.S. Department of Agriculture to delegate to independent, third-party agencies the responsibility at export facilities for performing the hands-on inspection and weighing of grain, under 100 percent USDA supervision.

Taking such action is “absolutely essential” if a government-based official grain inspection and weighing system is to be “cost-competitive and remain viable for bulk U.S. grain and oilseed exports in the future,” according to the National Grain and Feed Association (NGFA) and North American Export Grain Association (NAEGA).

The NGFA and NAEGA made the statement in testimony prepared for delivery during separate hearings of the House Agriculture Committee’s Subcommittee on General Farm Commodities and Risk Management on May 24 and the Senate Committee on Agriculture, Nutrition and Forestry on May 25. Joining the NGFA and NAEGA in supporting the legislative change were six major farm 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 – as well as the American Association of Grain Inspection and Weighing Agencies, which represents most of the state and private inspection agencies that currently perform official inspections for GIPSA in the domestic market.

The NGFA and NAEGA said the competitiveness of U.S. grain and oilseed exports is being eroded by the steadily increasing cost of inspections performed by USDA’s Grain Inspection, Packers and Stockyards Administration (GIPSA). That federal agency currently is responsible for performing official grain inspection and weighing at all but a handful of export ports, where state agencies are authorized to perform such service. The NGFA and NAEGA said GIPSA’s fixed expenses for personnel and administrative overhead have increased well above the underlying rate of inflation, and show no signs of abating. Meanwhile, U.S. producers and industry confront intense foreign competition for grain and oilseed exports, including from Brazil and Argentina where inspections are done by third-party surveyors at a cost that is 20- to 25-cents per metric ton less than charged by GIPSA for U.S. export grain inspections.

“Confronting global competition, U.S. exporters have responded aggressively by reducing operating costs and enhancing efficiencies wherever possible,” said Jerry D. Gibson, regional manager for Bunge North America Inc., Destrehan, La., who testified for NGFA and NAEGA. “The one operating expense that remains beyond the reach of exporters’ control – and has come to represent the single largest uncontrollable expenditure we face – is the cost incurred for official grain inspection and weighing services performed by GIPSA.”

The NGFA and NAEGA estimated that making the change would result in an immediate 23 percent savings in official inspection costs, amounting to \$6.1 million per year. But because those savings would be compounded compared to the approximately 7 percent annual increase occurring now under GIPSA, the savings would grow to around \$17.5 million after a decade – a cumulative savings of approximately \$112 million over the 10-year period, the NGFA and NAEGA estimated.

The NGFA, established in 1896, consists of about 900 member companies from all sectors of the commercial grain, feed, integrator, processing and exporting business that operate about 5,000 facilities and handle more than two-thirds of all U.S. grains and oilseeds. NAEGA, established in 1912, is comprised of private and publicly owned companies and farmer-owned cooperatives that ship virtually all U.S. bulk grains and oilseed exports. The NGFA and NAEGA are co-located and have a joint operating and services agreement.

The two organizations said now also is an optimum time to make such a change because 70 percent of GIPSA's inspectors are scheduled to be eligible for retirement within the next five years.

The NGFA and NAEGA recommended a series of safeguards to ensure the continuation of the unquestioned integrity of U.S. official grain and oilseed inspections:

- GIPSA should approve and license the independent, third-party inspection agencies for export grain facilities under an open and transparent rulemaking process modeled after its approach for approving similar agencies to perform official inspections in the domestic market. The six states that currently perform official inspections at export grain facilities should retain their exclusive authority to do so, the NGFA and NAEGA said.
- GIPSA would continue to have a physical presence at all export grain facilities to perform 100 percent of the oversight of the independent, third-party inspectors doing the actual grading and weighing of grain. GIPSA would specify the procedures and requirements for performing such inspections, and would retain sole authority to suspend or revoke for cause the license of an independent third-party agency at any time.

- The GIPSA official inspection and weighing certificate that is accepted in international trade would continue to exist.
- GIPSA would maintain its comprehensive national quality-assurance/quality-control program to ensure grading accuracy and consistency, including the agency's appeal inspection service.
- The implementation of the use of independent, third-party inspection agencies should be phased in over a period not to exceed three years, starting first with lower-volume grain export facilities where the cost of providing official inspection services is comparatively more expensive than at higher-volume facilities. This would allow the program to be fine-tuned, as needed, before being implemented at higher-volume grain export ports.

“We believe 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,” Gibson said.

In their testimony, the NGFA and NAEGA also urged Congress to oppose any amendment to the U.S. Grain Standards Act that would authorize additional user fees to finance GIPSA's standardization activities. The Bush administration, as part of its fiscal 2006 budget, proposed to shift the \$4.3 million in standardization costs to user fees. Standardization activities include the costs of developing, reviewing and maintaining the U.S. grain standards, as well as maintaining the agency's quality-assurance/quality-control program that is designed to ensure consistent application of the grain standards nationwide to minimize inter-market grading differences.

The NGFA and NAEGA noted that GIPSA's grain standardization activities benefit the entire grain marketing system, including producers and consumers, because they foster accurate, consistent and efficient measurements of grain quality. “Thus,

shifting GIPSA's standardization activities to user fees represents a thinly disguised new tax that could be expected to drive up inspection costs and further undermine the cost-competitiveness of U.S. grain and oilseed exports," the NGFA and NAEGA said. "That, we submit, is exactly the wrong policy prescription."

The two associations noted that Congress has rejected proposals from every administration since the early 1980s to shift grain standardization costs to user fees, "viewing (the proposal) for what it is – an unwarranted new tax," and urged Congress do so again this year.

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 also has established strategic alliances with the Pet Food Institute and the Grain Elevator and Processing Society.

NAEGA's mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States. It acts to accomplish this mission from its office in Washington D.C., and in markets throughout the world.