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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS
AND THE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND
FOREIGN AGRICULTURE
OF THE
HOUSE COMMITTEE ON AGRICULTURE
ON THE
GENERAL ACCOUNTING OFFICE'S
REVIEW OF CONCERNS ABOUT QUALITY
IN U.S. GRAIN EXPORTS

Mr. Chairmen and Members of the Subcommittees:

We are here today at your request to discuss the results of our recently completed work on the quality of grain being exported from the United States. This work was done at the request of Congressman Byron L. Dorgan and resulted in our report entitled U.S. Grain Exports: Concerns About Quality (GAO/RCED-86-134, May 19, 1986). We are also here to discuss recent actions within the U.S. grain industry, the U.S. Department of Agriculture (USDA), and the Congress to bring about changes in the way in which U.S. grain is marketed overseas.

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First, I would like to discuss the work we did for Congressman Dorgan who requested that we investigate the alleged practice of adding dust and other material to U.S. grain before shipment overseas. This is a situation some believed was a reason why an increasing number of foreign purchasers of U.S. grain were complaining about the quality of the grain they had been receiving. There was a fear that if something was not done, these purchasers would turn to other countries to satisfy their grain needs, if they had not already done so.

We reported on

- the increase in the number of complaints being received and reported on by USDA's grain quality complaint system;
- the results of a number of surveys USDA's Federal Grain Inspection Service (FGIS) conducted related to the practice by some elevators of extracting dust from grain for safety reasons, but then adding it back to the grain before shipment overseas;
- the amount of dockage--waste material that can be easily removed from a sample--in wheat shipments throughout the marketing stream, and the extent to which various market participants were benefiting from the current rule of rounding dockage measurements down to the nearest one-half percent; and
- FGIS' disposition of recommendations we previously made relating to grain quality.

With respect to each of these items, we found the following.

FOREIGN COMPLAINTS ABOUT
THE QUALITY OF U.S. GRAIN

The number of foreign buyers complaining about the quality of U.S. grain seems to be on the rise. In the past year or so, numerous news accounts, anecdotal stories, and government and/or industry-supported conferences have been devoted to discussing the quality of U.S. grain that is being exported and the ramifications of exporting poor quality grain. Even USDA's complaint system, which admittedly does not capture all incidences of dissatisfaction, has shown a fairly significant rise since 1982 in the number of complaints being reported. This was particularly true in fiscal year 1985 when the total number of complaints increased to 75--three times the 1984 total.

FGIS SURVEYS OF EXPORT ELEVATORS THAT
EXTRACT AND REINTRODUCE GRAIN DUST

Since 1981 FGIS has conducted several surveys to determine the number of export elevators that, for safety reasons, extract airborne grain dust as it is leaving the elevator, but then add this dust back to the grain as it is being loaded onto the vessel for shipment overseas. We were told by FGIS officials that the impetus behind the surveys, at least initially, was legislation introduced in the Congress that, if passed, would have prohibited dust and other material from being added to grain at export elevators.

In 1981, 25 of 75 elevators surveyed were adding back such dust either totally or partially, compared with 30 of 77 elevators in 1983, and 32 of 70 elevators in 1985. FGIS officials told us, however, that the amount of dust involved at this point in an elevator's operations is insignificant and that it is unlikely that the amount of dust added by this practice is a primary reason why foreign purchasers have complained about U.S. grain quality.

WHEAT DOCKAGE

Our report also addressed the (1) amount of dockage in wheat at various points in the marketing stream and (2) extent to which market participants were benefiting from the current dockage rounding rule that some believe is too liberal and in need of tightening.

Dockage in wheat is all material, other than the wheat, that can be readily removed because it is either larger or smaller than the wheat kernels. Such material generally consists of chaff, course grains, weed seeds, and dust. It also includes underdeveloped, shriveled, and small pieces of wheat kernels. In terms of dockage, our analysis from the three data bases we used generally did not support wheat producers' contentions that the wheat leaving their farms is clean, but that dust and other material is added to it as it moves from their farms through interior points in the marketing stream to export. Although statistically valid comparisons cannot be made, our analysis showed that dockage measurements in wheat shipments at harvest ranged from 0 to over 10 percent and within interior marketing points ranged from 0 to 9.49 percent. These measurements represented much broader ranges than the dockage measurements taken at export, which ranged from 0 to 2.99 percent. As shown in exhibit I, our analysis can be interpreted in two ways: (1) that some clean wheat at harvest was downgraded through the practice of blending it with dirtier wheat as it moved through the marketing stream, or, (2) a substantial amount of wheat with relatively high levels of dockage early in the stream was upgraded as a result of blending or cleaning by the time it reached the export point.

Our analysis also showed that 22 grain elevators, responsible for about 80 percent of the total wheat export shipments in 1984, were all benefiting from the current dockage rounding rule that

allows up to 0.49 of a percentage point of dockage to go unreported. The current rounding rule benefits the wheat seller to the degree that the seller receives wheat prices for the amount of dockage in the wheat being sold, up to 0.49 of a percentage point. Just the opposite is true, though, for the buyer of that wheat, who gets less wheat than what was paid for. Some buyers of U.S. wheat consider the above practice a form of deception, and some believe that the practice does not enhance U.S. wheat exports and that the current dockage rounding rule needs to be tightened. The extent to which each of the 22 export elevators was benefiting from the current dockage rounding rule varied. The highest amount of undisclosed dockage being shipped by an elevator was 0.43 of a percentage point, the lowest amount was 0.13 percent, and the average for the 22 elevators was about 0.26 percent. (See exhibit II.)

Officials of two export elevators we spoke with said that it is good business practice to blend together wheat with varied amounts of dockage and for which they paid varied prices. Such a practice enables an elevator to optimize the economic benefits to be derived from grain standard tolerances such as those for dockage. Not all elevators have the ability to do this, however. Much depends on the facilities and storage capacities of each elevator and upon the amount of dockage in the wheat each elevator purchases and receives.

STATUS OF PREVIOUS
GAO RECOMMENDATIONS

A number of recommendations we have made in past reports concerned with the quality of U.S. grain shipped overseas have

been considered by FGIS, but have not been implemented.¹ One recommendation, in particular, dealt with revising applicable grain standards to require that dockage measurements be certified to the nearest one-tenth of a percent, rather than down to the next one-half percent as is now done. Other recommendations we made centered on the need for (1) greater uniformity in the quality of grain shipments destined for multiple buyers, (2) zero tolerances for insects in the grain standards, (3) research to be conducted relative to restricting certain grain blending practices, and (4) protein content in wheat to be computed and reported on a standardized moisture basis.

We believe that these recommendations, if implemented, would result in inspection certificates that more accurately reflect the actual quality of grain, provide end-users with better information on certain quality factors, and assure greater uniformity in grain quality within specific grain shipments. In the past, FGIS has resisted making certain changes in the Official United States Standards for Grain because of a lack of majority support within the industry and FGIS' conviction that the standards are "standards of consensus." This attitude ties in with what appears to have been a reluctance on the part of the U.S. grain industry and the government to openly acknowledge any quality problems or new opportunities with respect to U.S. grain exports. During the past year, however, this mood seems to have changed, and it appears that at least some of the changes we recommended several years ago to improve the quality of U.S. grain exports are being considered more seriously now.

¹Specifically, there have been two reports: Assessment of the National Grain Inspection System (RCED-76-71, Feb. 12, 1976) and Federal Export Grain Inspection and Weighing Programs: Improvements Can Make Them More Effective and Less Costly (CED-80-15, Nov. 30, 1979).

RECENT ACTIONS TAKEN BY THE GRAIN
INDUSTRY AND THE GOVERNMENT
TO RECOGNIZE AND DEAL WITH
GRAIN QUALITY PROBLEMS

Both the grain industry and the government now seem to be more sensitive to the concerns being expressed about the quality of U.S. grain exports. A number of government and/or industry-sponsored conferences and workshops have been or are being held to discuss grain quality problems and possible solutions.

This change in attitude may be due, in part, to the greater number of foreign buyers that have been complaining about grain quality, or the interest being expressed within the Congress for the industry to either correct the situation or face more restrictive legislation. The change is also due undoubtedly to the significant decline in the volume of U.S. grain exports in recent years. Although the grain industry does not subscribe to the theory that poor quality U.S. grain is the primary reason for the steep decline in exports, it does concede that quality plays a role in the foreign buyer's choice (after other "more important" factors such as price, credit terms, availability of foreign exchange, reliability of supply, and the degree of promptness by which contracts are executed).

Quality is recognized by the industry as an area in which improvements can be made and through which lost world grain markets might possibly be regained. A recently issued industry

report² suggests that, for this to happen, the entire industry must make an effort to improve the United States' image and reputation regarding grain quality, in part, by providing greater reliability and integrity of export certificates. The report stated that the industry has "***accepted the challenge of determining how our existing system of grain grading can or should be altered, augmented or otherwise enhanced" and it included a number of proposals and recommendations for doing just that.

FGIS has likewise been active in recommending certain changes to the grain standards. Two such changes are consistent with the recommendations we made in 1979 to require that "*** dockage grading results be certified to the nearest one-tenth of a percent," and "***protein content be computed and reported on a standardized moisture basis." These two proposed changes are making their way through FGIS' rulemaking process. Early indications are that there is widespread support within the industry for the changes, quite a different reaction than when the changes were first proposed in the late 1970's and early 1980's. FGIS officials are hopeful that these changes can be put into effect by May 1987, thus affecting the 1987 wheat crop.

Last month in a Federal Register notice, FGIS invited the public to comment on suggested changes to tolerances and grading factors relating to insect infestation of grain. The hope is that such changes would reduce the amount of infestation in grain and thereby (1) reduce certain problems encountered by the domestic food industry and (2) enhance grain exports. Comments on this notice are due to FGIS by September 5, 1986.

²Commitment to Quality-A Consensus Report of the Grain Quality Workshop. June 1986. This report resulted from a series of workshops, under the aegis of the North American Export Grain Association, and attended by some 76 individuals from 30 organizations and companies representing the grain export industry.

We believe that changes such as the ones discussed above are overdue and ought to be made as soon as practical. We would also like to see renewed consideration given to recommendations we previously made to improve the uniformity of grain quality in ships destined for multiple buyers and to conduct research on the need for restricting certain blending practices.

We believe generally that the recommendations we made in our earlier reports are as relevant today as they were in the late 1970's when they were made. We are encouraged that the U.S. grain industry and FGIS consider grain quality to be an important issue and that, in fact, they are working together to bring about change. Such change, will help promote the United States as a reliable supplier of quality grain and, perhaps, improve the position of the United States in world grain markets.

Whereas the response of the industry and government to today's grain marketing situation has been somewhat reactive, we believe that in the future both industry and government leaders ought to more aggressively anticipate and deal with the opportunities and problems in marketing U.S. grain. To successfully compete in today's world grain markets, U.S. industry and government leaders need to design and oversee grain standards that (1) are based on an extensive understanding of the needs and perceptions of many different kinds of grain users, (2) respond to and satisfy the needs of those users, and (3) otherwise ensure the competitiveness of U.S. grain relative to the grain of other exporting countries.

LEGISLATION PROPOSED BY
THE CONGRESS TO IMPROVE
U.S. GRAIN QUALITY

Over the past several years a number of bills have been proposed within the Congress to improve the quality of U.S.

grain. One of the more recent ones, H.R. 4714, was introduced by Congressmen Evans, Dorgan, Bereuter, and Coats on April 30, 1986. Although we are not in a position to comment on the specifics of this bill, we do endorse the bill's overall intention of helping improve the quality of U.S. grain. As noted in our May 1986 report and earlier in this statement, we believe that congressional focus to improve U.S. grain marketing, by proposed legislation such as H.R. 4714 and through congressional hearings, have encouraged the industry and FGIS in making changes in the U.S. grain standards.

This concludes my statement. We will be glad to respond to any questions.

Percentage Distribution of Dockage
Using Harvest, Interior, and Export Dockage Measurements

Dockage range ^a	Harvest (60,756 measurements)	Interior (12,532 measurements)	Export (2,711 measurements)
0.00 - 0.49	31.18	14.30	14.06
0.50 - 0.99	41.44	55.03	71.17
1.00 - 1.49	<u>14.28</u>	<u>18.70</u>	<u>13.99</u>
Subtotal	<u>86.90</u>	<u>88.03</u>	<u>99.22</u>
1.50 - 1.99	5.18	5.99	0.74
2.00 - 2.49	2.53	2.51	0.00
2.50 - 2.99	1.45	1.36	0.04
3.00 - 3.49	0.96	0.79	-
3.50 - 3.99	0.71	0.43	-
4.00 - 4.49	0.57	0.20	-
4.50 - 4.99	0.37	0.16	-
5.00 - 5.49	0.31	0.13	-
5.50 - 5.99	0.19	0.13	-
6.00 - 6.49	0.13	0.09	-
6.50 - 6.99	0.12	0.07	-
7.00 - 7.49	0.11	0.06	-
7.50 - 7.99	0.09	0.00	-
8.00 - 8.49	0.06	0.02	-
8.50 - 8.99	0.06	0.01	-
9.00 - 9.49	0.02	0.02	-
9.50 - 9.99	0.04	-	-
Over 10.00	<u>0.20</u>	<u>-</u>	<u>-</u>
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

^aExpressed as a percent of the wheat shipment that was inspected.

Average Dockage Amounts in Wheat Shipments
From Export Elevators Responsible for 1 Percent or More
of the Total Shipments in 1984

<u>Elevator</u>	<u>Weighted average dockage amount</u>	<u>Percent of total shipments elevator was responsible for</u>	<u>Reintroduced dust (as was discussed on p. 3)</u>	<u>Location</u>
A	0.43	4.8	No	Gulf
B	0.35	1.2	Some	Great Lakes
C	0.35	2.2	Some	Great Lakes
D	0.34	9.4	No	West
E	0.32	1.5	No	Gulf
F	0.29	3.9	No	Great Lakes
G	0.28	5.6	Some	West
H	0.28	1.2	Some	Great Lakes
I	0.27	4.4	No	Great Lakes
J	0.27	3.1	No	Great Lakes
K	0.25	4.9	No	Gulf
L	0.25	3.9	No	West
M	0.23	3.0	No	Gulf
N	0.23	2.4	Some	Gulf
O	0.22	1.5	No	Great Lakes
P	0.22	1.1	No	Gulf
Q	0.21	3.0	No	West
R	0.20	3.5	Yes	Gulf
S	0.20	3.0	No	Gulf
T	0.18	3.5	No	Gulf
U	0.17	4.3	Yes	Gulf
V	0.13	<u>7.9</u>	Some	Gulf
Total	a	<u>79.3</u>		

^aThe average dockage amount for the 22 elevators was 0.26 percent. This average was obtained by summing the column and dividing the result by the 22 elevators (5.67 divided by 22 = 0.258).