Wichita, KS

MEMORANDUM

TO: SENATOR
FR: JOHN GORDLEY
RE: ADDITIONAL POINTS FOR ADDRESS TO
WICHITA FEED AND GRAIN ASSOC.
DA: APRIL 25, 1986

- Loans in warehouses:

  - Amstutz indicates USDA will give farmers with grain under loan in commercial storage the option of receiving a commodity certificate in lieu of forgiving part of their loan for the advance deficiency payment.

  - Announcement should be made prior to the May 1 deadline.

- Grain Storage Outlook:

  - Amstutz currently estimates grain surplus on November 1, 1986 at about 500 million bushels nationwide. (Approx. 2% of total U.S. storage capacity).

  - Kansas should have surplus storage capacity of about 80 million bushels. Other Great Plains states should be OK also.

  - However, storage shortage will total 800 million bushels in Illinois (186), Indiana (357), Ohio (277).

  - Amstutz indicates USDA is taking some precautionary steps but the problem looks real and could get worse.

April 24, 1986

TO: Senator Dole

FROM: Steve Coen

SUBJECT: Staggers Act/ Kansas Grain and Feed Dealers Assoc.

I understand you may be asked your opinion on the 1980 Staggers Rail Deregulation Act at the Kansas Grain and Feed Dealers convention. Below is a summary of the issue.

Background

Before the Staggers Act, railroads were required to offer the same rates to all shippers, large and small. The Staggers Act allowed the railroads to sign contracts that offer lower rates to some shippers, usually the larger elevators that ship more grain.

A contract for a lower rail rate allows one elevator to pay farmers several cents a bushel more for grain than its competitors. With farmers scrambling to get the best wheat price available, a favorable rail contract can give an elevator a clear advantage over its competitors.

Congress, in passing the Staggers Act, was clearly concerned that the use of contracts could have an anti-competitive impact on small rural shippers and therefore provided a procedure for a shipper to obtain discovery of a contract that constituted "unjust discrimination" or a "destructive competitive practice." However, the procedures for discovery, as interpreted by the ICC, make this procedure difficult at best. First of all, it is nearly impossible to know if a contract is unfair because neither the parties to the contract, the rates being paid, nor the specific points of origin, destination, intermediate points, transit points or other shipper facilities to which the contract applies are required to be disclosed in the contract summary that must be filed with the ICC.

Recent Department of Agriculture Study

The U.S. Department of Agriculture, in conjunction with Kansas State University, recently released a study claiming that Staggers had contributed to lower rates for shipping wheat in Kansas. The study concluded that rail rates from local points to Kansas City, increased an average of 60% from 1977 to 1981, or 21.1 cents per bushel of wheat, but decreased an average of 24% from 1981 through 1984, or 13.4 cents a bushel. Of course, those opposed to more contract disclosure are quick to point to this study. However, they ignore the fact that this study also pointed out that deregulation had caused some serious problems for small, isolated shippers of wheat.

Your Involvement in Staggers

During the floor debate on the Staggers Act in 1980 you noted that differences of as much as 2 to 4 cents a bushel in contract rates could be dangerous to the survival of small elevators. The recent USDA study noted average differences in contract rates, as compared to tariff rates, of 11 cents per bushel.

Soon after I arrived here, we were approached by Stan Sexton, an attorney representing Evans Grain, to become involved in cure legislation for the disparities in Staggers. Due to your influence on this matter, Senator Danforth held oversight hearings on Staggers - much to the dismay of the Association of American Railroads. Stan testified on behalf of Evans Grain and we entered a statement in the record asking for more comprehensive contract rate disclosures.

Since that time, not much has happened, except that Stan Sexton testified once more about this problem on March 16, 1986 before the House Subcommittee on Commerce, Transportation and Tourism, Committee on Energy and Commerce. **This time he testified on behalf of the Kansas Grain and Feed Dealers.**

Current Status in the Senate

Obviously, opening up Staggers is a real hot potato. The American Association of Railroads and the National Grain and Feed Dealers Association fear a return to rate regulation. In an effort to avoid further legislation, they have entered into an agreement, filed with the ICC, allowing further rate disclosure. This agreement does not open up rate disclosure to the extent advocated by Evans Grain and the Kansas Grain and Feed Dealers but they are willing to compromise. Comments are being accepted on this proposal until May 5, 1986. Evans Grain has asked us to, and I suggest we do, file comments favoring the proposal.

Two Senate bills are pending that address the issue to some degree. S. 477, the Consumer Rail Equity Act and S. 447, the Railroad Anti-Monopoly Act. Hearings on S. 477 have been held in the Commerce Committee and S. 447 in the Judiciary Committee. No mark-up has been scheduled on either bill. Senator Kassebaum may offer legislation specifically addressing Evans Grain and Kansas Grain and Feed Dealers concerns, specifically, if the ICC does not accept the agreement. Supposedly, some House members are considering an amendment to the Conrail bill.

Conclusion

The Kansas Grain and Feed Dealers should be happy with your position on this issue. You might want to inform them that you plan on filing comments with the ICC favoring the agreement entered into by the American Association of Railroads and the National Grain and Feed Dealers Association. You can say you understand it probably doesn't go far enough but is a good compromise. However, should the ICC not accept the agreement, you would sponsor legislation with Senator Kassebaum to address this issue.

BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 18, 1986

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: IMPACT OF YOUR DEPRECIATION AND FARMER AMENDMENTS ON KANSAS

Depreciation

The Roth-Heinz modification of the Packwood proposal on cost recovery essentially gave back about $25 billion of the $145 billion gained from repealing the investment tax credit. Because of you, airplanes were included in the most favored class of assets -- those that can be depreciated over five years using the 200 percent declining balance method.

The general aviation manufacturers, especially Beech, mounted a mail campaign to save the investment tax credit. You did what you could to help them.

Farmers

When a creditor writes down the principal on a loan, the amount of this "debt forgiveness" is considered to be income to the debtor. It is treated as though the creditor wrote the debtor a check in the amount of the debt forgiven and the debtor endorsed it back.

Under present law, if a taxpayer is insolvent, the amount forgiven is not considered income. However, the taxpayer has to reduce the basis in his property and reduce the amount of his other tax attributes such as NOL's and ITC carryforwards first.

The Grassley-Dole amendment extends this treatment to farmers who are not quite insolvent if they have a high debt to asset ratio.

Individuals would be treated as engaged in the trade or business of farming for purposes of the amendment, if at least 50 percent of their average annual gross receipts during the three taxable years preceding the year of the debt write-down was derived from the trade or business of farming. Only those individuals having a debt-equity ratio of at least 70-30 immediately before the write-down would be eligible for this treatment.

KANSAS GRAIN AND FEED DEALERS

TALKING POINTS

1985 FARM BILL

o Summary -- The bill was about as good as Congress and the Administration could do. The lower loan rates will help make U.S. farm exports competitive. However, the Administration needs to supplement the loans with more effective export programs. I have written and met with Secretary Lyng about the ineffectiveness of the highly targeted Export Enhancement Program. Lyng can't do much to change the Administration's opposition to a more comprehensive approach without some help.

o Farm Program Costs -- The Farm Bill was estimated to cost $52 billion over three years back in December. It appears it will run at half that amount -- $26 billion -- in FY-86 alone. We hope to head off major cuts in farm spending under the Gramm-Rudman-Hollings deficit reduction program in FY-87. Due to the way G-R-H is drafted, agriculture would bear the brunt of the cuts. Farmers have a strong interest in urging Congress and the Administration to negotiate a compromise on the budget this year.

o Clear Title Provision -- Kansas Grain and Feed Dealers strongly supported including clear title protection in the farm bill. The provision will protect buyers of farm commodities against having to pay twice if the seller defaults on his outstanding lien, providing they notify specified lenders of the purchase.

o 1986 Farm Program -- We had to pass two bills in February and March to correct technical and policy problems in the farm bill. The limit on reductions in proven yields for 1986 and 1987 crops will help many farmers in Kansas. Nonetheless, the changes caused delays in getting out program details. Sign-up for the regular program was postponed and the deadline extended to April 25 (Friday). Sign-up for the conservation reserve had to be reopened.

o Grain Storage Outlook -- Depending on this year's harvest, there could be a serious shortage of grain storage space this Fall. Last October 1, 92% of available commercial and on-farm storage was filled, and there was a large amount of grain on the ground in Ohio, Indiana and other states. The USDA has extended the emergency storage program to allow use of rail cars, barges, and on-ground storage, but only at the warehouseman's risk. An updated report on the outlook for this Fall will be available next week, and is expected to show surpluses in excess of storage capacity in Midwest and Pacific Northwest states..

o Advance Payment Problem--USDA intends to make advance deficiency payments by mid-May. Part of the payments will be made in-kind, either by forgiving prior loans or in generic commodity certificates. Forgiving loans could be a big problem for farmers whose grain is in commercial storage: it could take over 4 weeks before receipts reflecting the change in loan status can be processed. In the interim, harvest pressures could reduce wheat prices by 25-50 cents per bushel. I have brought this problem to Secretary Lyng's attention in a letter with Senator Nickles.

Example: Kansas Situation: Of 45,000 Kansas wheat loans maturing at the end of April and May, nearly 43,000 (over 90%) are warehouse loans (as opposed to on-farm storage loans). Local ASCS offices and elevators would be backlogged for weeks trying to process "split receipts" if part of each producer's loan is forgiven under the advance payment program. By the time receipts were processed in mid to late June, the value of the wheat would be considerably less due to harvest pressures.

FARM CREDIT SITUATION

o Spring Planting -- USDA diverted $750 million from the emergency disaster program to FmHA operating loans to help finance Spring planting. Kansas has received over $10 million of these funds since March. Advance deficiency payments will provide an additional $4 billion: $3 billion in cash and $1 billion in commodities. Also, FmHA has $490 million available to buy down interest rates on guaranteed loans up to 2% if the lender agrees to reduce the rate by an equal amount. The major problem is not availability of financing but farmers' ability to cash-flow new debt.

o Regulator Forbearance -- Back in February, I met with the heads of the FDIC, the Federal Reserve Board, and the Comptroller of the Currency to urge them to adopt more flexible policies in regulating commercial lenders. As a result, they annnounced more lenient guidelines just before Easter. We have been trying to pass legislation mandating these changes.

o Farm Credit System Resolution -- I have obtained 52 cosponsors (including 21 Democrats) on a concurrent resolution urging member institutions of the Farm Credit System to take a number of steps to stay with their borrowers. These include the so-called "minimum cost" test: if the cost of foreclosure exceeds the cost of restructuring the loan at concessional terms, the lender must restructure. The resolution also calls on the Farm Credit Administration to follow the same forbearance policies announced by the other Federal regulators. I intend to ask nominees to the new Farm Credit Administration Board whether they will endorse this approach at their confirmation hearing.

o Farm Credit System Reform -- The farm credit bill enacted in December put in place a structure for helping the Farm Credit System work out of its present difficulties. Unfortunately, selection of the three FCA Board members has been delayed -- I believe the White House is to decide on the Democrat member today (Friday). Meanwhile, the Capital Corporation (to be established in Kansas City) has no direction from its regulator. As a result, there is great confusion and a lack of central direction between Washington and the System's 12 Districts, and between the District offices and their member institutions in the field.

o Resistance to System Reform -- Some FCS Districts are resisting efforts to pool their resources and reform the System, hoping that delay will trigger the Federal assistance provided for in last December's farm credit bill. These opponents may be responsible for blocking the bipartisan farm credit resolution, and may be willing to hold up confirmation of the FCA Board as a further delaying tactic.

AGRICULTURAL TRADE

o Export Situation -- U.S. farm exports are down 50% since 1981: from $43.5 to $28 billion. Wheat exports have been cut in half: from 1.8 billion bushels to 900 million bushels. The net farm trade balance is down from a positive $20 billion to only $7 billion.

o Lyng Letter -- I wrote Secretary Lyng several weeks ago urging the Administration to find more effective ways to expand U.S. farm exports. I indicated that, while I would not oppose across-the-board export subsidies, they disrupt trade and make our goods cheaper to foreign consumers at our expense. I asked the USDA to set annual export targets for the volume or value of U.S. farm products to introduce some element of government responsibility and accountability.

o EEC Trade Dispute -- The Administration is prepared to retaliate if the EEC goes forward with restrictions on imports of U.S. wheat, grain sorghum and soybean products by Spain and Portugal, valued at $1 billion. Limits on imports of various EEC farm products would mirror the EEC actions. The Senate passed a strongly worded resolution fully backing the Administration's tough stand on this issue.

o Canadian Free Trade Agreement -- Last week, the Senate Finance Committee nearly scuttled the Administration's plans for negotiating a free trade agreement with Canada. While some timber state Senators were concerned about the agreement being too open-ended, the real problem is frustration in Congress with the Administration's refusal to participate in writing new trade legislation. Protectionism is still a hot issue in a number of industries, including textiles, shoes, and steel.

o Value of the Dollar -- The current and continuing decline in the value of the dollar against other major currencies has had little impact to date on U.S. farm exports. Many of our competitors' currencies have not appreciated nearly as much as the Japanese Yen or British Pound. Several countiees have indexed their currencies to fluctuations in the dollar, so the recent decline has had no effect on trade at all.

o Grain Quality Issue -- Kansas farmers and elevator operators are very concerned over the poor quality reputation of U.S. grain overseas. Senator Andrews began Subcommittee hearings on grain export standards yesterday (Thursday). Exporters claim they are not the only ones blending to the tolerances in the standards by adding back dust and foreign matter. We need to find a way to tighten standards which will not be passed back to farmers in the form of lower prices.

April 24, 1986

BUDGET TALKING POINTS

o On April 21, the Senate kicked-off debate on the fiscal 1987 budget resolution. As usual, it took us a while to start moving on amendments. Once we did get going, the trend was not necessarily a good one -- we started adding money back for programs like education, ($300 MILLION) and offsetting the cost, which we have to do under Gramm-Rudman, by increasing taxes. The budget resolution was already in trouble on the Republican side because the $74.3 billion revenue increase it contemplates was far higher than the President and many Republicans were willing to accept. The Senate also voted overwhelmingly (83-14) against an amendment to eliminate more than 40 federal programs, as the President requested in his budget.

o What happens from here is uncertain. There are some in the administration who are urging us to re-estimate the budget numbers to reflect changes in economic conditions. I'm not sure how much we'd actually gain from this exercise. As a matter of fact, there are some, like Budget Chairman Domenici, who claim the deficit estimates will not improve and could actually worsen the deficit picture. Interest ratess have fallen, but the original projection for economic growth is higher than what the final numbers will show. And with lower oil prices, which have reduced receipts from windfall profits taxes and receipts for offshore oil sales, the revenue base is down considerably.

o From my perspective the resolution approved by the Budget Committee leaves something to be desired. First, I believe that the defense spending authority for next year is too low. And second, that the increase in revenues -- close to $75 billion over three years -- is much too high. I'm not alone in this thinking. Just before Congress adjourned for the Easter recess, I received a letter signed by 24 Republican senators expressing the same concerns.

o But I understand the problem Senator Domenici faced in getting a resolution out of the committee -- the delicate balance between enough for defense, but not too much; enough cuts in domestic programs, but not too much; and enough revenues to meet the $144 billion deficit figure in Gramm-Rudman-Hollings.

o I'd like to see us come up with a strong-bipartisan vote on a budget. And I've made a commitment to try to work with House Republicans and keep them informed on what direction we're heading. And of course, we've met with the administration, and will continue to do so. Their counsel and support, while not mandatory as it relates to the budget resolution since the President does not sign it, will be crucial in the eventual implementation of the budget.

o But it's not going to be easy. I hope that as we get into the debate, all members will begin to understand how difficult it is to meet the Gramm-Rudman deficit target and fully fund all the programs we hold near and dear.

o We may have to go through a lot of votes and debate and start all over again before it's finished. But failing to set out a spending and tax guideline for Congress to follow would make everything we do in the coming months that much more difficult.

o We've got some tough choices ahead. The Senate's shown it's willingness to make them in the past. And I'm sure it will again. It would be nice, however, to have some company.

BUDGET DETAILS

o The total deficit reduction in the resolution is $38.8 billion in fiscal 1987; $58.9 billion in 1988; and $74.4 billion in 1989.

o The Committee's budget resolution contains $18.7 billion in additional revenues in fiscal 1987 and a total of $74.3 billion from fiscal 1987-89. Revenue effects from spending measures assumed in the budget, such as retirement reforms and the sale of CONRAIL, plus revenue from reconciliation would account for $6.1 billion, $22.3 billion over three years. And the president's budget contained $5.9 billion in FY 87 revenue increases, $21.6 over three years.

o Defense spending under the resolution would call for $295.1 billion in FY 87 budget authority and $280 billion in outlays. The President requested $320.4 billion in budget authority, outlays, $282.2 billion. According to the Budget Committee, the amounts included in the resolution allows for 2.8 % growth in budget authority from the FY 86 post-sequester budget authority level. In FY 1988 and 1989 there would be a 1% real growth rate.

o The budget resolution would reduce non-defense spending in FY 87 by $17.3 billion in outlays, and by more than $70 billion from FY 87-89, mostly through freezes and reductions. However, $2.3 billion in additional FY 87 spending would be allocated for critical programs such as embassy security, space shuttle construction, a farm credit initiative ($400 million over 3 years), IRS, Head Start and key education programs.

Social Security, military and civil service pensions and all other indexed programs would receive a cost-of-living adjustment. All civilian and military personnel would receive a 3% pay raise.

o Agriculture: The budget resolution assumes the enactment of the tobacco price support program contained in reconciliation with projected reduced budget authority and outlays of $100 million in fiscal 1987 and $600 million over three years; It assumes $ 300 million in savings over three years from enactment of the 1985 farm bill; and it increases budget authority by $150 million in each of the next three years and $130 million in fiscal 1987 for farm credit programs.

IMPLICATIONS OF FAILURE TO MEET DEADLINES

o Missing the April 15 deadline makes it even more questionable that the reconciliation process necessary to achieve savings would be completed by June 15.

o Missing the April 15 deadline further complicates and delay tax-reform legislation this year, since a major issue of revenue increases or neutrality in tax reform would remain an open issue.

o Procedurally, the failure to adopt a resolution by April 15 means that appropriation bill mark-ups could proceed with no general blueprint for FY 1987 spending.

o Assuming no resolution is adopted by May 15, then House appropriation bills would likely proceed to be reported, passed, and sent to the Senate. No point of order (Section 303) would lie against such bills in the House, but would lie in the Senate. The Senate could waive the point-of-order by a majority vote, voting on a resolution by the SBC. It is not clear that the SBC would be able to report such a resolution and such a resolution would likely be objected to by Minority Leader Byrd if it were reported using a poll.

o For those who argue that we should sit back and do nothing because the healthy economy will take care of the deficit, that just isn't so. Even if the very optimistic economic projections are realized, we won't meet the $144 billion Gramm-Rudman deficit target. And those who argue that we can reach the target merely by trimming appropriations accounts are also wrong. It will take more -- changes in entitlement benfit programs, and maybe even some revenue increases.

As a strategy to keep some semblance of tax reform alive, it might be reasonable for the Committee now to start with the corporate and individual minimum taxes. If there is a consensus on anything, there is a consensus that there is a perception problem which could be addressed by expanding the minimum tax.

Also, if Congressman Matsui's response last weekend to the President's radio address is any indication, Senators will have to refute the argument that they let tax reform die because they were more interested in special interest tax breaks than tax reform. Expanding the minimum tax could be a reasonable response.

Then, if the President wanted more rate reduction, he could make his position clear to the Committee.

Attachment

Friday

12:00 p.m. 1:00 p.m.

Joyce
ASAP

MEMORANDUM

April 23, 1986

TO: MARK SCANLON/JOYCE

From: Judy

Re: Speech for Kansas Grain & Feed Dealers Association
Friday, April 25 Wichita. Ks. Ramada Broadview.

Per earlier information furnished to John Gordley, Senator Dole needs a speech for the above referenced event.

They would like the Senator to discuss the recently passed farm legislation as well as other important issues such as trade protectionism and budget reduction legislation.

FRIDAY, APRIL 25, 1986

9:00 a.m. - 5:00 p.m. GREAT BEND - 3I SHOW

Great Bend

BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 24, 1986

M E M O R A N D U M

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: POSSIBLE OIL STATE MEMBERS' INITIATIVE

The attached sheets reflect where the members' staffs believe there may be a consensus on a possible legislative initiative. We are still waiting for Joint Tax estimates. I have impressed upon them that the estimates have to be given high priority, both on CBO assumptions and on more realistic assumptions for the price of oil over the next five years.

You will notice that the attachment still includes an oil import fee and a marginal production credit as additional options. Senator Kassebaum's staff has insisted on including the oil import fee. Senator Nickles' and Senator Boren's staffs have been insistent on the marginal production credit.

Atts.

April 24, 1986

POSSIBLE LEGISLATIVE INITIATIVE

NON-TAX ITEMS

1. Fuel Use Act

   Eliminate fuel use restrictions in Fuel Use Act. This would allow private parties to select fuel of choice. There are four bills in the Energy Committee, and the issue may be put on the Committee markup agenda shortly.

2. Strategic Petroleum Reserve

   Fill strategic petroleum reserve to 750 million barrels rather than stop at 500 million barrels. Reject Presidential deferral of $577.5 million already appropriated.

   Accelerate fill rate to the originally envisioned average annual daily fill rate of 300,000 barrels. Impose Elk Hills sanctions if the Administration fails to comply.

   Study feasibility of taking the rate even higher.

   (Should the cost be recouped by, e.g., a tariff of 20 or 50 cents per barrel?)

TAX ITEMS

1. Repeal the 50 Percent of Net Income Limitation

   Repeal of the limitation would allow percentage depletion deductions to offset more than 50 percent of the net income of eligible producing property. The change can be justified since net income has decreased, reducing the value of the deduction.

2. Repeal Proven Property Transfer Rule

   Repeal of the proven property transfer rule would allow independent producers to use the percentage depletion method for proven producing property purchased from an integrated major producer and, therefore, help keep marginal properties in production. It would also allow such property to be eligible for exemption from the Windfall Profit Tax.

3. Permit Expensing of Geological and Geophysical Costs

These costs of searching and testing for oil are capitalized under present law. However, they are ordinary and necessary costs of doing business which arguably should be deducted when incurred. If these costs were deductible, the cost of exploration would be reduced and paperwork would be reduced.

4. Repeal Windfall Profit Tax

Under realistic projections, the Windfall Profit Tax will raise no revenue over the next 5 years. Nevertheless, recordkeeping will cost oil producers substantial revenues. Repeal could provide real economic relief to producers without reducing Federal revenues.

Additional Tax Items

1. Repeal IDC Recapture Rule

Gain on sale of a producing property is characterized as ordinary income to the extent of any intangible drilling costs previously taken. Repeal of the recapture rule would increase the after-tax gain from sale or producing properties and could allow producers to sell less property to keep their operations afloat.

2. Marginal Production Tax Credit

A tax credit could be provided equal to the net operating loss from marginal production. The net operating income (loss) would be defined as gross revenues, less: lease operating expenses, state severance and property taxes, dry hole costs, depreciation, and allocation of overhead. The credit would be capped at $2 per barrel, carried back 10 years and forward 5 years, and count against Windfall Profit Taxes paid as well as regular and minimum income taxes. The provision would sunset at $20 per barrel.

(This could provide immediate relief. However, it might be difficult to gain sufficient support for the proposal, especially if relief is provided on a property-by-property basis.)

3. Oil Import Fee

Impose a one-year import fee pegged to a $15 or $18 per barrel support price.

Post 4-24-86

Debate Grows Over Quality Of U.S. Grain

By Ward Sinclair
Washington Post Staff Writer

Millions of tons of American grain, often billed by U.S. farmers as the best that money can buy, routinely goes to export markets laden with chaff, dirt, broken kernels and other unwanted junk—all perfectly legal under federal inspection standards.

But now, plummeting export sales and complaints by foreign buyers about the quality of U.S. grain have touched off intense debate in agricultural circles and provoked calls for tightening the standards.

The issue is not whether the standards are being met. In most cases they are, according to the Federal Grain Inspection Service (FGIS). Rather, the debate is over the adequacy of the standards and whether they are hindering farm exports, which this year are expected to drop to $28 billion, the lowest since a 1981 high of $44 billion.

"We are not price-competitive, but another factor is the quality image. We fall a little bit short on cleanliness," said Tom Mick, an official of U.S. Wheat Associates, a farmer-sponsored export promotion group. "We consider quality a major trading issue."

Added Jim Guinn, a quality specialist with the American Soybean Association: "It is a very important issue in the long run to help us retain the markets we have and to have the chance to expand."

The federal standards, which have changed little since 1917, allow specified amounts of moisture, unusable broken kernels and foreign material in export grain. Many say the rules have not kept up with changes in harvest, storage and shipping technology that often exacerbate the quality problem.

Despite efforts by grain-exporting firms to delay changes in the standards, the Senate and House agriculture committees plan hearings to review the quality issue and consider toughening the regulations.

"The problems have been with us [for] a long time," said Sen. Mark An[dr]ews (R-N.D.), who will chair Sen[at]e hearings that are to begin to[da]y. "If we are going to gain a rep[uta]tion as quality suppliers, we have [to c]lean up our act."

[A]ndrews has introduced a bill [tha]t would bar the addition of dust, grain-related materials or nongrain materials to export commodities. He said he is considering penalties for violators that would "put them in the slammer for a year or two."

Rep. Cooper Evans (R-Iowa), leader of a House effort to tighten standards, added: "Our quality is less than many of our competitors. How you address it is one of the problems."

Many experts agree that the problem begins on the farm, with shoddy harvest and storage practices, and that it builds on the way to export terminals. But the current system also has led to frequent charges that the powerful multinational export companies compound the problem by adding extraneous material until the grain just barely meets the standards.

Rep. Neal Smith (D-Iowa), thwarted in several attempts to tighten the inspection standards, said his observations at U.S. ports have convinced him that export grain is sometimes adulterated.

"It ought to be illegal—that's the point," Smith said. "The practice is hurting the reputation of our grain. The vast majority of the grain comes from the farm in good shape. The foreign material is added at the export point. The profits are huge for the companies—we're talking about millions of dollars [additional] per shipload from this."

Another critic, Chuck Frazier of the National Farmers Organization, said: "Most of the damage I have been able to find stemmed from local elevators and export terminals. Everybody believes he has a chance to add a little foreign material and water, and believe me, they do it. It happens all along the chain. We don't have adequate standards. They are set and dictated by the big companies."

"Exporters are pushing as close as they can to the tolerances, but exporters don't produce the grain," said Joseph Halow, executive director of the North American Grain Export Association, which represents trading firms. "Farmers admit they are putting stuff into the grain. They acknowledge that they are part of the problem," he said.

Halow said an industry task force expects to endorse some changes in standards that FGIS Administrator Kenneth A. Gilles is to propose soon. Gilles said the changes are intended to better inform buyers about quality, but not to reduce foreign materials in grain.

"From a quality standpoint, I would support the idea of no foreign materials in the grain," Gilles said. "But if you said there could be no foreign material or moisture, who wants to pay the bill? It would mean more inspectors, more inspections."

Gilles said FGIS has been unable to document farmers' charges of intentional adulteration of grain by rural elevators or exporters.