THE KANSAS CITY STAR

DIRTY GRAIN

A soiled image for U.S. grain trade

America's fabled amber waves of grain are under attack.

Not because of prices, government farm policies or foreign embargoes. This battle is over quality.

America may produce enough grain to feed the world, but is it good enough?

Foreign customers claim they are getting "dirty grain" from the United States—too dirty, too wet or too infested with insects. The evidence shows they're beginning to shop elsewhere.

"We have become the supplier of last resort," says U.S. Rep. Neal Smith, Iowa Democrat. "Quality is the primary reason."

In a two-month study, *The Kansas City Star* found three principal obstacles to America continuing as the world's grain supplier of choice:

- A struggling federal regulatory agency with no authority to control quality or make things right for foreign buyers with valid complaints.

- U.S. standards so loose they allow exporters to sell insect-ridden grain that could not be milled into flour for sale in the United States, to add dust and chaff back into cleaned grain, and to ship wheat with more than twice the impurities permitted by America's chief competitors.

- Divisions among farmers themselves: those who want to sell the best and those who exploit standards in order to survive.

Some farmers fear U.S. agriculture, still the leading grain seller to the world, may be falling by the wayside, victim to the same foreign challenge that rocked the U.S. auto industry. If so, Kansas and Missouri farmers may be the hardest hit.

Market share slides

with reputation

In February, two huge freighters plowed through the Yellow Sea to China, each carrying a million bushels of soybeans and the hopes of the struggling American farmers who grew them.

These were the first U.S. soybeans exported since 1983 to China—itself a big soybean producer—a sale so significant that the New York shipper boasted he was "selling coals to Newscastle."

He sold political disaster instead. Pouring from the ships came a stinking black river of wet, molding soybeans that Chinese millers refused to accept. In Beijing, an official of the American Soybean Association cabled for help: "Urgent need for high-level intervention . . . . No question damage is extensive."

U.S. Department of Agriculture officials studied the contract and checked it against federal standards, then responded: The beans were fine.

The fierce outcry that followed marked only the latest round in a debate over grain quality that has splintered ties between the U.S. agriculture industry and foreign customers. More than ever before, foreign countries are passing up American grain in favor of less expensive, cleaner and more consistent exports aggressively marketed by Canada, Australia and other major producers.

Few have felt the slump more than Kansas farmers,

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> *President of Ceroilfood Inc.*
> *China's national import-export agency*

the nation's most productive wheat growers, or Missouri soybean farmers, the fourth most productive.

In a brutal buyer's market, their products—and America's reputation as the breadbasket for the world—are being outclassed.

"Frankly speaking, U.S. grain quality is not good," says Yuan Xiangzhong, president of Ceroilfood Inc., China's national import-export agency.

American farmers agree: "The United States exports the dirtiest wheat in the world," says Ervain Friehe, a Nebraska wheat farmer and vice chairman of U.S. Wheat Associates, a national growers' group.

Foreign grain buyers filed 71 formal complaints about quality last year, more than three times the total in 1984. Soviet officials protest that as many as three of every four shipments of American corn and wheat arrive damaged by weevils and must undergo costly fumigation. A government importer representing Japan, America's largest grain customer, complains that only those purchases involving U.S. wheat failed to live up to contract specifications in its last marketing year.

For their part, the huge exporting companies that sell the majority of American grain on slim profit margins dismiss complaints as ploys designed to drive down prices. But farmers, buyers and industry experts say too often those same companies are exploiting lax American grain standards and selling low-quality, "dirty grain" to foreign customers.

The effects of this dissatisfaction, no matter the reason, may be catastrophic. American grain sales, which five years ago made up half of U.S. agricultural exports, have been cut in half, from $21.9 billion in 1981 to $10.2 billion last year. In May that drop led the U.S. to run a monthly farm-trade deficit for the first time in 15 years. Overall, the slump has cost Americans $16.3 billion in agricultural exports.

In the Chinese soybean fiasco, the shipper claims it

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compensated the Chinese to save its reputation. "The less said about it now the better," grumbles K.H. Schlunk, president of A.C. Toepfer Inc. of New York.

But the losses to American agriculture are expected to continue.

"If the United States cannot stand behind its products," says Venezuelan trade expert Lloyd Luckett, "it will lose a customer."

Foreign buyers learning to beware

In a classroom at Kansas State University earlier this year, 26 eager foreign buyers attended a crash course on buying American grain.

The lesson: Expect the worst.

"You shouldn't have to come to America to see what's actually getting loaded," Robert Drynan, executive director of the California Wheat Commission, tells them. "But if you don't look out for yourself, who will?"

Speaking to Central and South American representatives in both Spanish and English, Mr. Drynan teaches them to avoid purchasing bad wheat by inspecting cargoes before they're shipped. And he urges them to overcome loose U.S. grain standards by insisting on more stringent contracts.

"You are now in a good position to start changing the terms of trade," he says. "You have the leverage now."

Since 1981 U.S. wheat exports alone have dropped 45 percent. In the last five years wheat farmers, who historically have grown more than half of their crops for export, have watched wheat exports slide to 38 percent of U.S. production and have seen prices cut by half.

Exporters maintain that the primary reasons for the nation's disastrous export slump are domestic farm policies that have overpriced U.S. grain, trade restrictions that have scared away the Soviet Union and other top customers, production increases by America's biggest competitors and global recession.

Not bad quality.

"We keep hearing about dirty grain. I don't like that term," says Arvid Hawk, manager of grain handling for Minneapolis-based Cargill Inc., the world's largest grain exporter. "You'll only find material (in grain shipments) that is inherently found there."

Bill Allen, general manager of Union Equity Cooperative Exchange, an Enid, Okla.-based farmers cooperative that buys most of the Kansas wheat crop, says current quality complaints are based on "half-truths and innuendoes."

"I am not aware of any U.S. wheat sales and deliveries having been made that were not in total compliance with the contract," Mr. Allen says.

But critics say foreign buyers have been misled by contracts based on confusing, and often conflicting, U.S. grain standards. In today's market the slightest problem might be enough to drive away top customers.

"Until we tighten those standards down, I don't think we're going to solve the problem at all," says Dan McGuire, director of the Nebraska Wheat Board. "The cleanliness factor is every bit as important as price."

Grain standards in the United States generally are looser than those of its chief competitors. In practice, they allow for roughly 7.5 percent of unwanted grains and foreign material in each cargo of its best-selling grade of wheat. Canadian standards, on the other hand, allow for less than 4 percent of that material, and Canadian exporters routinely ship less than 2 percent, according to statistics provided by the Canadian Grain Commission.

The percentages may seem small, but they can translate into huge expenses for the customer. Last

year, according to Agriculture Department records and a study by the Nebraska Wheat Board, U.S. exporters shipped an average of 5.7 percent unwanted grains and foreign matter in every cargo of hard red winter wheat, the type grown in Kansas. Most contracts require the importer to pay for that foreign material as if it were real wheat, in addition to paying the higher contract price for the thousands of bushels of cheaper types of wheat that often are mixed in.

That means unwanted grain and other materials cost foreign buyers more than $162,000, based on 1985 prices, in every 1 million-bushel ship, or as much as $168 million for all 1985 wheat exports, the Nebraska Wheat Board estimates.

And that still doesn't include the costs to a foreign

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> *Indonesian miller*

miller of transporting the grain or cleaning it—if he has the technology to do so. Even then, soft wheat mixed in with hard kernels might gum up his equipment, and bread made from the flour may go stale more quickly or not rise as high.

After having thrown away millions of dollars each year, buyers argue that quality now is a primary selling point. During a break outside their classroom at K-State, four of the foreign grain millers are anxious to complain.

"I have a big problem with soybeans from the United States. It's garbage," says Ibnu Subroto, an Indonesian miller. M.A. Sattar, regional controller for Bangladesh's Ministry of Food, claims that more than 50 percent of his country's wheat purchases don't meet contract specifications.

His colleague, Abdur Rouf, sums up the grievances: "Quality is a problem with all the countries here."

No supervision for grain quality

In October 1985 William Davis, agriculture counselor at the U.S. Embassy in Tokyo, sent an urgent report to his bosses at the Foreign Agriculture Service, the Agriculture Department agency that processes foreign grain-quality complaints.

Mr. Davis warned that a history of low-quality imports of U.S. grain, high prices and increased competition from other countries were seriously eroding America's trade volume with Japan, not only its largest but its most loyal grain customer.

To the Japanese, he wrote, "the U.S. attitude toward the above problems, particularly quality, is the totally unresponsive one of sitting *Agura O Kaite Iru* . . . arrogant and certainly uncaring."

The warning strikes directly at the appeals process for disgruntled foreign grain buyers. Unlike other grain producers such as Canada, where a state trading agency controls grain from sowing to marketing, the United States sets up programs to promote trade but leaves the selling to private grain exporters.

The agency that oversees exports, the Federal Grain Inspection Service, doesn't involve itself in quality disputes, administrator Kenneth Gilles explains.

Instead the agency acts mainly as a "neutral third party," drawing up grain standards based on industry consensus and making sure that exporters load no less than what foreign buyers ask for, based on those standards.

Angry buyers say that is clearly not enough. U.S. exporters typically shunt aside direct quality complaints, they say, arguing that all shipments have been approved by the Federal Grain Inspection Service. Thus

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the importer has no choice but to appeal to that agency for help.

Those appeals are overwhelmingly rejected. Only one of the 71 quality complaints officially filed last year by foreign buyers was considered valid, Mr. Gilles says. The other complaints were "misunderstandings," he says, often based on data from foreign grain-testing machines that differed from those operated by U.S. inspectors. Some of the foreign tests were stricter than those performed in the United States, he acknowledges.

Even if a grievance is valid, though, it may be filed in vain. Under current guidelines, the grain inspection service cannot force an exporting company to compensate a buyer or even negotiate a settlement.

A copy of those guidelines obtained by *The Kansas City Star* shows attaches are instructed to keep a hands-off approach in disputes between buyers and U.S. exporters and to avoid telling a buyer who believes he was cheated that the appeals process will satisfy him. "It probably will not," the guidelines state.

According to a study by the General Accounting Office, the investigations unit of Congress, such instructions explain why angry customers often don't bother filing formal appeals. It also causes the agency to doubt claims by the grain inspection service that fewer than 2 percent of U.S. exports are questioned by buyers. Importers agree, saying they most often try to work out problems with the exporter, suffer the bad shipments or buy from someone else.

More and more, they are doing the latter. America's share of worldwide wheat exports dropped from 48 percent to 30 percent over the last five years, from 48.3 million metric tons to 26.4 million tons, as sales of each of its major competitors increased. Australia's share of the world wheat market, for example, jumped to 18 percent from 11 percent between 1981 and 1985.

"If our customers hear there's some Australian wheat, they go crazy," says Mr. Rouf of Bangladesh. "With Australian wheat, we are happy."

Canada's share of the world wheat market rose to 20 percent from 17 percent. "Quality is worth bucks," says Sandy Hoyes, assistant manager in Vancouver, British Columbia, for the Canadian Wheat Board, the government grain seller. "Foreign buyers will pay a premium for it."

Partly because of the problems, foreign ownership of U.S. grain elevators is increasing, led by the Japanese, who have complained about grain quality for years. According to studies by the General Accounting Office and Oklahoma State University, Japanese interests have snapped up more than two dozen American grain elevators since 1970 and from 20 percent to 30 per of the U.S. grain export market, a share exceeding billion.

"You can assuredly say that the Japanese market increase has come at the expense of the biggest U.S. firms," says David Henneberry, an assistant professor of international trade at Oklahoma State.

Japanese businesses such as Zen-Noh Unico, a farmer's cooperative that owns a Louisiana terminal, is riding out the American export slump by shipping mostly to Japan, by paying employees less than their American competitors and by slashing overhead.

Eddie Kochi, a vice president of Zen-noh Unico America Corp., says U.S. exporters and bureaucrats hoping to rebuild market share can study the Japanese automobile industry for help.

The rules are simple, Mr. Kochi says. Price. Service. Quality.

Japanese automobile makers respond to the claims of buyers as soon as possible, he says. Then he asks a pointed question.

"Who has the responsibility for the quality of U.S. grain?"

Tight controls help sell Canadian wheat

Prince Rupert, British Columbia—In 1912, Canadian rail baron Charles Hays left England with dreams of building an international harbor in this Canadian Pacific island hamlet to rival the great trading ports of the United States. He had the plans, he had a list of shareholders—and he had a berth on the Titanic.

Today Mr. Hays' dream is being revived by an aggressive Canadian push into world grain markets. Three weeks ago island citizens dedicated a statue of Mr. Hays downtown, but last year they unveiled something more disquieting to U.S. grain traders: a showcase $275 million grain terminal built to ship a larger share of Canadian wheat to Asia. Asian nations traditionally have been America's biggest grain customers.

The buyer's market for grain already has led Canada, historically a friendly competitor with the United States, to hawk its grain with a passion worldwide, offering former customers of the United States a cleaner product at a lower price.

The highly automated terminal sweetens the offer. It is not only more convenient to Canadian farmers but also about two days closer by ship to the Orient than other Canadian and U.S. ports. That means both Canadian growers and foreign buyers can save thousands of dollars in shipping fees.

What's more, the terminal's operator claims the computer-driven elevator cleans grain faster and more efficiently than any other in the world.

"We would be a threat to any terminal on the West Coast," says Charlie Paul, who manages the terminal for Prince Rupert Grain Ltd. "They can't ignore us."

U.S. exporters know that only too well. In the last five years, China has drastically chopped American wheat purchases from 63 percent of its total imports to 10 percent today, according to trade statistics furnished by U.S. Wheat Associates, a national producers' group. At the same time, Canada's share of the Chinese market has doubled to its current total of 40 percent.

Ironically, Canadian wheat exports are cleaner than American grain because they start out dirtier. Because of growing conditions and reaping techniques, agriculture experts say, Canadian wheat usually contains a lot of chaff, dirt and weeds and must be run through massive grain cleaners at each port terminal—cleaners

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many U.S. exporters profess they don't need.

The thorough scrubbing, coupled with tough Canadian grain standards, ultimately results in wheat cleaner than U.S. exports. Canadian standards allow from one-half to three-fourths the foreign material, or dirt, allowed in U.S. wheat shipments. No. 3 Canadian wheat, for instance, may contain less unmillable material than No. 2 American wheat. And Canada's harsh winters greatly reduce the chance of the grain being infested and damaged by insects, a major problem with U.S. exports.

"We like to think Canadian wheat's the best in the world," says Len Seguin, a deputy director of the Canadian Grain Commission, the government grain inspection agency.

Mr. Seguin's agency makes sure it stays that way. Unlike their U.S. counterparts, Canadian inspectors rigidly control grain quality. In the United States, farmers grow many varieties of wheat hybrids; in Canada, each variety must undergo six years of tests before being graded and licensed for sale. Before grain is exported each year, Canadian inspectors prepare samples of the various grades of grain to be sold, then send them to inspectors and buyers around the world so everyone knows exactly what to expect.

American grain exports, on the other hand, can vary widely from shipment to shipment.

The grain itself is owned by the Canadian Wheat Board, a government corporation, not by private traders as in the United States. Firms such as Cargill Inc., which are allowed to run port elevators and act as agents for the government, make their money through commissions and by cleaning and storing the grain.

"They don't own the grain, so there's no incentive for them to manipulate stocks," says John Fast, chief inspector of the Canadian Grain Commission's Pacific region.

Yet problems remain. Canada's climate, for instance allows wheat farming on only one-third the land which U.S. farmers plant in wheat, and it is suitable mainly for three types of wheat, compared with the five types found south of the border.

Canada's government-run marketing system also can hamper sales. Wheat Board directors, charged with making sure all elevators receive a fair share of business, so far have been reluctant to send customers away from the old elevators in Vancouver to th newer, more efficient Price Rupert terminal.

"In Canada, the grain business is 70 percent politics," bemoans Prince Rupert's Mr. Paul.

Still, Prince Rupert executives say they hope to change that. If they are successful the port may become Canada's biggest threat ever to U.S. dominance in the Asian markets. They say the terminal already can unload railcars and load ships faster than rival elevators in Vancouver and is so automated that it runs on less energy and one-third the manpower of its major competitors.

Faced with such abilities, some grain industry experts in Canada predict Prince Rupert will rank as one of the country's premier export points within 10 years. The terminal expects to ship 10 percent of Canada's total wheat crop during the next year, a harvest expected by producer and trade groups to be Canada's largest ever. At 716.5 million bushels, total exports would still be one-fourth less than the U.S. total, yet some Canadian officials claim they could ship more if the market becomes available.

If so, Prince Rupert is ready, vows Michael Thompson, the company's chief executive officer.

"We have the potential of becoming very powerful."

Traders feel ebb in high-stakes market

New Orleans—The abandoned Public Grain Elevator crumbles beside the Mississippi River. Pigeons dart through broken windows, scattering feathers and droppings inside the workhouse. Wharf rats pick through dusty bins for stray kernels of corn.

Here is the silent rebuke to the very private and ailing American grain trade. It's a fiercely competitive business, scattered with hundreds of private firms and cooperatives but ruled by the "Five Sisters," a handful of family-owned conglomerates that count among them the nation's largest private company.

Big or small, grain traders across the country have closed down elevators or laid off workers. Some are turning to other countries and other markets. Four of the 11 export terminals lining the lower Mississippi are shuttered or partly idled because of a one-third slump in sales, a shocking trend for a region that ships most of America's corn and soybeans.

Houston, the nation's largest wheat-shipping port, is reeling under a 50 percent slash in wheat exports.

"Nobody's optimistic about a great surge in sales anytime soon," says Port of Houston spokesman Ann Bordelon.

The power of the top five exporters was at its apex in the early 1970s. It was these private companies, not the U.S. government, that negotiated sales of $1 billion to the Soviet Union. Those exports eventually depleted domestic grain reserves and sent food prices soaring.

When a Senate subcommittee in turn began investigating the grain companies' role in foreign policy, senators were rudely surprised. "No one knows how they operate, what their profits are, what they pay in taxes and what effect they have on our foreign policy—or much of anything else about them," Sen. Frank Church, Idaho Democrat, said then.

Not much has changed. Because they have no public stockholders, New York-based Continental Grain Co. and Minneapolis-based Cargill Inc., acknowledged to be the world's largest grain trader, have almost no obligation to disclose financial or operational information. The rest of America's Five Sisters aren't "American" at all, according to industry analysts. Bunge & Born Corp., which owns a large grain elevator in Kansas City, Kan., is based in Argentina; Louis Dreyfus & Co. is headquartered in Paris; and Andre & Co. is a Swiss firm.

The drastic sales slump has torn a small hole in the veil behind which Cargill and others have operated. In the past year Cargill has had to disclose bits of information about its operations as it turned for the first time to public markets to borrow money.

One of the facts revealed: Cargill posted net income

of almost $258 million on $32 billion in sales during its 1985 business year, a profit margin of less than 1 percent.

That kind of money comes from operations across borders and from sales throughout the world. Almost like migrant farm workers, the largest grain traders follow the harvest from country to country, not dealing exclusively in U.S. grain. That means they may actually cost American farmers business by selling Australian, Argentinian or Canadian grain.

Indeed, Cargill has even tried to import foreign wheat and soybeans to the United States as part of some trades, backing down after an outcry from farmers.

The exporter defends the practice as necessary to keep customers around the world adequately supplied, and states an allegiance to U.S. farmers.

"We have our major investment in the grain industry in this country," says Cargill spokesman Greg Lauser.

But this investment, in such property as grain elevators and rail cars, carries small risk because the major five companies trade grain, not grow it. So despite the market, they do business whether U.S. farmers suffer from rock-bottom prices in years of surplus or consumers pay more for food when grain is scarce.

Some industry analysts wonder how long the Five Sisters or their lesser rivals, such as Union Equity Cooperative Exchange in Enid, Okla., can hold on in a disastrous market.

If their grip is loosened, more of America's major terminals may follow the lead of the ghostly wreck crumbling away in New Orleans.

"These years have been very tough and they're operating on very low profit margins," says David Henneberry, an agricultural economist with Oklahoma State University who recently completed a study on grain exporters. "It wouldn't surprise me to see one of the big ones actually fail."

Grain quality:

Standards of confusion

Reserve, La.—Cargill Inc.'s Terre Haute grain terminal sprawls across nearly a square mile of southeast Louisiana plantation land hard by the Mississippi River, a mechanical, state-of-the-art octopus that gobbles and disgorges thousands of farm harvests every year.

Car-size buckets chomp away at barges of corn, then scoop the grain up to a system of belts, bins and gantries that will clean it, store it and, in the end, stow it in ocean freighters. One such ship, the Taiwan-bound New Diamond, is slowly filling with 1.3 million bushels of Cargill corn that, as terminal superintendent James Johnson points out, is about the finest America has to offer.

But that's a problem. The corn is too clean.

Although the foreign buyer would welcome it, the corn pouring into the New Diamond is too good for Cargill's ledger books. So up in Terre Haute's control room an operator flips a switch: "I'll back off the cleaners a bit," he says. Then, like a man watering down his favorite Scotch for uninvited guests, he pumps tons of extra dust, chaff and cracked kernels into the ship, all to be sold at full corn prices.

Ultimately more than 36,000 bushels of the unwanted material ships off to Taiwan in a shipment a hair's breadth away from the worst the contract allows.

> **"U.S. grain standards should be changed even if no one in the world has ever complained about them."**
>
> *Lowell Hill*
> *University of Illinois professor*

In the grain industry this is called "blending," a euphemism for adding—or not removing—dirt and inferior kernels to boost profits. Exporters say blending merely allows them to give buyers what they've paid for, and they point out that it's entirely legal under federal standards.

But many grain-producer groups call it unethical, even immoral, and charge that it's ruining their reputation and costing them millions of dollars in overseas business. And blending is just one of dozens of controversial rules and practices that foreign buyers say make American grain exports the worst in the world.

Grain exported from the United States is typically dirtier, wetter and more infested with insects than the exports of America's chief competitors. Protesting U.S. farmers say they are the ones who suffer when foreign producers increasingly look elsewhere to buy their grain.

A review by *The Kansas City Star* of federal grain standards, together with a look at some of the most common practices among domestic exporters, suggests that orders for U.S. grain often can be bum deals, geared more toward profiting the seller than supplying the buyer with a top-quality product.

Lax standards

One grain-quality specialist, Lowell Hill, a professor of grain marketing at the University of Illinois, pronounces American grain standards riddled with nonsense. "U.S. grain standards should be changed even if no one in the world has ever complained about them," he says.

America's grain standards generally have failed to keep up with rapid changes in milling technology, exporting methods and plant genetics, Mr. Hill and

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other critics say. They believe that has resulted in a hodgepodge of rules that mislead or misinform foreign buyers. Even "grain standards" is a misnomer: Soybeans, which are legumes, are covered in the standards but rice, a grain, is not.

U.S. grain standards were created in 1916 as common references for buyers and sellers. Although developed for domestic use, today the standards are referred to mostly by foreign customers, who typically pay for cargoes sight unseen and thus need guidelines to judge what they're getting.

American millers, who are closer to the grain supply, don't have to rely on the standards. They can more easily refuse delivery on inadequate shipments, and their marketplace clout ensures suppliers will provide the quality they want.

But foreign buyers are more dependent on those standards, which they say often leaves them unable to judge the value of their purchase. Unlike the guidelines of Canada and other competitors, America's standards ignore certain quality factors vital to bakers and processers, such as the oil content of soybeans.

They're also misleading. Based on certain testing methods, federal inspectors typically understate the amount of water in grain by about 1 percent, a difference that may promote spoilage during long voyages. "Our reference method for moisture is not correct," William Shuey, an official with the grain inspection service who is in charge of monitoring foreign complaints, says bluntly.

The amount of insects in a grain shipment also can be understated. According to a study by the General Accounting Office, the congressional investigations agency, insects detected during grain loading aren't mentioned on inspection certificates—or to the buyer—unless they exceed certain levels. But those levels are higher than the contamination limits set by the Food and Drug Administration, the congressional auditors pointed out. That means that some of the exported grain would be ruled unfit to eat and could be impounded if made into flour in this country.

Other lax standards are more apparent. A foreign miller who buys No. 2 hard spring wheat from Canada, for instance, will receive no more than 0.75 percent dirt and dust in that shipment. A similarly priced No. 2 shipment from the United States, however, might be spiked with 1 percent unwanted material.

Moreover, every shipment of wheat also contains another category of dirt unique to the United States called "dockage." Unlike most foreign material—minute impurities that usually aren't separated from the grain—dockage is debris that is separated but later returned to the grain. This trash, which often totals 0.5 percent to 1.5 percent of the shipment and which must be cleaned out at the buyer's expense, isn't counted with the other defects, so it often comes as a rude surprise to unsophisticated buyers.

Exporters usually discount the dockage amount from their bill but round down the amount to the nearest half-percent. That means that in a large shipment, a buyer still can get stuck with several thousand unexpected, and unusuable, bushels on which he has to pay freight charges.

Even if foreign buyers write their contracts to specifically plan around those problems, they still may not receive high-quality grain. The vast majority of shipments are split among several buyers. Under current loading plans, large amounts of grain—perhaps 20 percent or so—that are below what the contract calls for can be dumped into a ship's hold as long as the average cargo meets the contract standards.

These pockets of inferior grain aren't mentioned to foreign buyers, thus the unlucky miller who gets stuck with one ends up paying for a much higher quality grain that he actually receives.

Officials of the Federal Grain Inspection Service, in charge of reviewing U.S. grain standards, defend the system as reflecting industry consensus. "Generally the rule of the majority prevails," says inspection service Administrator Kenneth Gilles. (This week, Mr. Gilles becomes assistant secretary of the U.S. Department of Agriculture for marketing and inspection services.)

But farmers and others say it's time for another vote. As early as 1977, a poll by Mr. Hill, the University of Illinois professor, showed 55 percent of farmers surveyed in six states favored tightening at least some of the standards.

"I think the standards are almost counterproductive," says Adrian Polansky of Belleville, Kan., a wheat farmer and chairman of U.S. Wheat Associates, a national producer group.

Because grading methods allow so much waste material in grain, Mr. Polansky says, "there's a lot less desire on my part to bring in the cleanest wheat that I can to the elevator." But that only exacerbates customer dissatisfaction, he admits, and costs farmers business in the end.

"It's in our best interests to make some changes," he says.

The General Accounting Office agrees. In a report released in May, the agency listed several recommendations it has suggested over 10 years of scrutiny improve the quality of U.S. grain exports. None o .se has been implemented, it noted.

Blending

Historians agree that the sale of grain has been more vital to civilization than the trading of any other commodity, including oil. Grain quality has been so important that in the 13th century London ordinances forbade merchants from blending moldy corn with good kernels.

Unlike in Canada, where government restrictions make blending infrequent, it has become an art in the United States. Domestic elevators such as Cargill's Terre Haute terminal in Louisiana can use the practice to give them an extra advantage in a buyer's market, when shaving pennies per bushel might mean the difference between profit and loss.

"Any time a sale is made today, the pressure is there to make a margin where one may be nonexistent," says James Guinn, technical director for the St. Louis-based American Soybean Association.

Blending takes many forms. In Houston, a terminal owned by Union Equity Cooperative Exchange, a large exporter of Kansas hard red winter wheat, routinely buys barge-loads of cheaper soft wheat for blending, according to federal inspecters. Foreign millers protest that soft wheat mixed with hard can gum up their equipment and affect flour quality. But Union Equity officials defend the practice, arguing that standards allow it.

"You don't want to give away grain that sells more than what the contract specifies," says Irvi.. Clubine, vice president of business development.

During recent bad harvests, blending allowed farm-

ers a way of selling below-average crops, he says, while giving buyers more of a selection.

Nothing is added to grain that doesn't belong there, he says.

Farmers disagree. They say grain can be cleaned or adulterated long before it reaches the export terminal and the federal grain inspectors. Besides, they say, blending only helps the minority of farmers who need to sell poor-quality crops.

Soybean farmer Dennis Jones in Tennessee says his local grain elevator routinely scoops up the muck that falls from trucks hauling in area harvests, then throws it back into the grain.

"They'd throw rusty cars in grain if they could get away with it," says Mr. Jones, one of 2,000 farmers who sent letters to *Farm Journal* magazine urging tighter grain standards. "It's unethical to sell this junk. It's costing farmers exports."

One of the most common, and risky, blending practices involves not dirt but water. At export terminals in the Great Lakes and Louisiana, very wet corn and soybeans are commonly added to drier grain by exporters rather than going through the more costly and time-consuming drying process.

Like a bad apple hidden in a barrel, the wet grain is impossible to see and greatly increases the chances of the whole shipment arriving spoiled.

If high-moisture grain is added to low-moisture grain, "the high moisture is going to mold and probably take the low with it," says William Hawkins, a marketing specialist in the Kansas City-based standards division of the grain inspection service.

Last December, dock hands in the Soviet port of Odessa at first refused to unload part of a shipment of corn from New York-based Continental Grain Co. because the corn had spoiled en route.

"The corn was clearly out of condition and was quite embarrassing to see," says Ervain Friehe, vice chairman of U.S. Wheat Associates who was at the dock that day as part of a U.S. grain-quality task force sent to check export quality.

Continental Vice President Max Spencer remembered the event differently. "We saw nothing while we were there," he said.

Continental officials later recalled the problem as "a minor and isolated case," a company spokeman said. "The Russians made a claim and we adjusted for that."

Minor, perhaps, but certainly not isolated, according to Soviet grain buyers. "Moisture has always been our biggest problem," says Alexander Ivlev, a New York representative for Exportkhleb, the Soviet grain importer. "Several companies have such problems."

FGIS

Unlike other regulatory agencies, the Federal Grain Inspection Service was formed in 1976 primarily to aid the sale of American grain exports—not to protect consumers, or buyers, from receiving bad grain.

Such a mandate leaves some farmers and foreign buyers doubting the agency's objectivity, but agency officials rebut that. "We really try to be a neutral third party," says Mr. Gilles, the administrator.

Still, agency employees often view their role more narrowly than Mr. Gilles. "The idea of the grain standards is to help grain dealers merchandise their grain," says Conrad Herndon, an inspection service supervisor whose Lutcher, La., office handles 30 percent of all grain exports. "We're all in the same business."

Right now, that business is in a disastrous slump, and the resulting drop in export inspections has battered the

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agency. Since 1980, the grain inspection service has laid off more than 1,000 employees—more than half its staff—leaving a staff of 714. Mr. Herndon has cut his staff in Louisiana by one-third, but if exports continue to decrease, he predicts, "they're going to cut the staffs down to the bare bones."

Lee Roberts, a supervisor in Pasadena, Texas, says inspections now take longer at his office because of the layoffs. He describes his remaining crew of employees as "weak, lame and limited"—veteran, formerly desk-bound workers who are being forced back into the field for such rigorous inspections as crawling atop box cars and punching 12-foot-long test poles into grain.

Mr. Gilles dismisses claims that performance is suffering. "I think we've got a viable organization," he says. But he admits: "We are down to levels where it's hard to make further cuts."

Already the agency does much less than its original charter envisioned. In 1980 Congress eliminated mandatory weighing of grain in certain instances, in effect leaving a large portion of the grain marketed within the United States uninspected. Now the Reagan administration, in an attempt to boost private initiative, has proposed that the Federal Grain Inspection Service exist entirely on user fees, an idea both exporters and the agency resist.

Presently taxpayers pay about $6.5 million, or 15 percent, of the agency's $43 million budget, mainly for operations deemed important to America's credibility in the grain export market. Those operations include a marketing division that researches standards, a compliance division that investigates corruption within the agency, and an international monitoring division that reviews foreign complaints.

If exporters balk at paying for those extra services, agency officials worry, they may in turn have to cut back on such tasks as researching changes in the grain standards, the very thing critics are demanding now.

And officials of the grain inspection agency agree that some of those standards should be changed.

"If I want to buy U.S. or Canadian wheat at the same class and grade level, and one of them is anywhere from one to three percent cleaner, which am I going to buy?" Mr. Shuey asks. "We've just got to face the facts of life."

A question also of inspectors' purity

Pasadena, Texas—Even if U.S. grain standards are tightened to the satisfaction of their harshest critics, they still will be only as good as the group that preserves them, the Federal Grain Inspection Service. And events here show it doesn't always do its job.

Two years ago, a little-publicized government investigation by the Department of Agriculture alleged that nearly one in three grain inspectors working the waterfront of this Houston suburb accepted bribes—including cash and liquor—from ship captains and companies that were supposed to clean cargo holds. In return, the inspectors approved the loading of wheat into holds that often were smelly, flaked with rust or infested with weevils.

According to Department of Agriculture officials and depositions taken during the investigation, 13 federal inspectors accepted gratuities ranging from a beer and whiskey to $4,500 in cash. Three inspectors, for instance, threw a Superbowl Sunday celebration in January 1984 after ordering the captain of one ship to hand over $200, six bottles of liquor and two cases of beer.

Those involved in the scam were later fired or released, say Agriculture Department officials. Yet the case is similar to dozens of scandals that have tainted the grain trade for years.

Like oil, grain usually is shipped in huge quantities and thus lends itself to tampering or theft if it is not adequately supervised. Until recently, no such supervision existed. In the 1970s, a federal investigation uncovered industry-wide scams ranging from exporters who were shortweighing and misgrading grain to private inspection firms run by the companies they were supposed to regulate.

The corruption eventually led to more than $1 million in fines, more than 100 indictments and the formation of the Federal Grain Inspection Service, an agency of the Agriculture Department charged with restoring the system's credibility in the eyes of foreign buyers.

"Bribes down here just became part of the system," recalls Neil Heusel, a New Orleans lawyer who helped lead the grain-industry investigations while an assistant U.S. attorney a decade ago. With the agency's formation, he says, the major grain scandals that threatened to destroy customer confidence are becoming a thing of the past. Indeed, a sting operation just two months ago in Pasadena failed to turn up another case of bribery.

But Mr. Heusel and other industry observers note that the pressures that lead to corruption have not gone away. Because of the current export slump, the attorney says, some shippers may be even more anxious to bribe inspectors to pass unfit ships rather than pay up to $10,000 a day in dock charges while the ships are being cleaned. And inspectors may be more inclined to ask for the bribes for just that reason.

"The temptation is still the same," he says.

Frustrated farmers battle for quality

Lindsborg, Kan.—Farmer Donald Turnquist glides his combine down a wheat-covered hill, his wife and son sweeping along beside him in combines of their own. Together they work long past dark, cutting, unloading and storing thousands of bushels of wheat that perhaps no one will buy.

Mr. Turnquist, chairman of the Kansas Wheat Commission, lays principal blame for that uncertainty on a drastic slump in American grain exports. The slump, he says, is partly the result of federal grain standards that allow U.S. grain merchants to transform the best of his harvest into the dirtiest wheat exports in the world.

"Those standards need to be tightened up," he says. "If the industry doesn't want to do it, I imagine Congress is where we'll have to go."

His anger and that of farmers like him is thrashing a problem farmers believe they should—and can—do something about.

"If a foreign buyer says he doesn't like the quality of U.S. corn, that's eventually going to get back to me," says Marion Hartman, an Ohio corn grower and a vice president of the National Corn Growers Association.

Already the nation's farmers are being heard and are achieving small successes. Meanwhile, in big ways, their lucrative foreign markets are slipping away.

The farmers' top priority is to change a set of federal

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grain standards that have stood mostly unquestioned for 70 years. The list of national organizations joining this grassroots crusade is extensive. Besides Mr. Hartman's corn group, both U.S. Wheat Associates and the National Association of Wheat Growers have passed resolutions recommending sweeping changes in federal standards.

"I think Kansas farmers are desperate," says Bo Koch, a spokesman for the Kansas Wheat Commiss... "They want to see a change."

A recent survey of Nebraska farmers by the Nebraska Wheat Board showed that more than half of those polled believed American grain was dirtier than the exports of other countries and 84 percent wanted tighter grain quality standards. North Dakota farmer Charles Ottem, president of the National Barley Growers Association, points to poor quality as one reason for a decline of more than 80 percent in barley exports over the last three years.

This year the Kansas Farm Bureau is pressing Congress and the Federal Grain Inspection Service to outlaw such common exporter practices as adding dust and other material back into cleaned grain. "Criminal penalties for violations should be swiftly and surely administered," the group recommends.

But changing the standards won't be easy. In Kansas and elsewhere, disputes have already erupted among farmers themselves. Some successful farmers say they aren't particularly hurt by lax standards, and marginal farmers exploit the rules when they can. Some even claim standards aren't loose enough.

Randall Bird, owner of the vast Triple R Farms near Sublette, Kan., blames the nation's farm policy, not grain standards, for slumping exports.

Quality complaints merely reflect buyers trying to get a better price, he says. "I think that's a bunch of bull."

Other farmers claim they need lax standards to

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their grain. Huey Womack, a Jonesville, La., soybean farmer and implement dealer, says struggling farmers have slashed their purchases of herbicides and insecticides at his store in recent months. The resulting corn and soybeans, although weedier and more bug-infested, still can be sold to exporters, yet farmers know that it's not the clean grain foreign buyers are demanding.

"They're cutting corners on chemicals, they're cutting corners on fertilizer, they're cutting corners on time across the field with their equipment," Mr. Womack says. "I'm doing it myself."

In southern Louisiana, Raymond Schexnayder recalls that nearly three-fourths of his soybean crop was still in the fields when rains hit last year, drenching his beans and cutting their worth by 60 cents a bushel. Still, he was able to sell the damaged beans to local exporters, who blended them with good beans from the Midwest and sold the lot at full price to foreign buyers.

"My goodness, those people saved us," he says.

A director of the St. Louis-based American Soybean Association, Mr. Schexnayder realizes that some farmers in the association, especially up north where rains aren't so threatening, have moved to halt such blending.

They're either unrealistic or hypocrites, he says. "I bet every one of these farmers who does the complaining does as much blending as he can possibly do. I know I do."

Industry in conflict

Indeed, some farmers can choose to break the law rather than pass up the possibility of bigger profit. They can add water to their grain to swell it—"rewetting," they call it—which is against the law because the Food and Drug Administration considers it adulterating.

Exporters, on the other hand, effectively and legally do the same thing by mixing in batches of heavier, wetter grain with dry grain. The practice boosts the shipments' weight, and thus profits, but also can cause the whole shipment to spoil.

Illegal or not, farmers are rewetting their grain with the help of experts. Two years ago, *Successful Farming* magazine published "A Rewetting Primer" touting the practice. In one case study, the article showed how adding water to a 500-bushel truckload of corn could boost the cargo by an extra 21 bushels, or $30 to $40 at current prices.

"If done right," the magazine encouraged, "rewetted grain is virtually impossible to detect."

All this industry debate makes changing the U.S. grain standards a painstakingly slow process, says Kenneth Gilles, administrator of the Federal Grain Inspection Service. (In August Mr. Gilles became an assistant secretary of the Department of Agriculture for marketing and inspection services.)

Under its guidelines, Mr. Gilles says, the agency is forced to seek industry direction before changing the federal standards, which often is impossible to do. He recalls a recent proposal to improve certain wheat standards that broke apart when Southern growers could not agree with Northern growers.

He says he thinks some changes in the standards would improve them. "We're working toward that goal, but we need to move slowly because we need to take along a large group of supporters to make these things work."

Right now the most powerful group of potential supporters, the huge exporting companies and cooperatives, are hardly budging. "I think standards are important, but you ought to keep them simple," says Arvid Hawk, manager of grain handling for Cargill Inc. "Before you make changes you should make sure they're thoroughly discussed and understood."

That often takes years. Lobbying by exporters has stalled or sabotaged a host of proposed changes in the standards, farmers and government officials say.

Rice, for instance, isn't included in grain standards because of intensive pressure years ago by rice exporters, who wanted their crop to be regulated under the less strict Agriculture Marketing Act. And the Federal

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Grain Inspection Service has been trying for more than five years to get exporters to approve a more accurate method of measuring "dockage," or dust, chaff and other unmillable material added to cleaned wheat before shipment.

"There are so many stalls," grouses Ervain Friehe, vice chairman of U.S. Wheat Associates, a producer group. "You get so far down the road that the trade hopes everyone will forget about it."

Attempts in Congress to tighten the grain standards also have been squashed consistently. U.S. Rep. Neal Smith, an Iowa Democrat, helped lead an investigation of grain industry corruption in the 1970s. He says he was denounced by industry officials when he pushed a bill to prohibit the blending of foreign material with cleaned grain at export elevators, a practice foreign buyers claim makes American wheat too dirty.

Exporter lobbyists, Mr. Smith says, convinced his colleagues to drop the bill to protect the blending practice.

Congress has been lethargic about changing any federal grain standards. Political fence-sitting delayed the initial passage of the U.S. grain standards for 26 years, from 1890 until 1916, according to grain historians. All grain-quality bills have failed during the last five years, including a proposal that was removed from the 1985 farm bill after aggressive industry lobbying.

In 1976 Congress created the Federal Grain Inspection Service to help regulate the industry, but it did so over the opposition of President Ford and several lawmakers who said the inspection service was an overreaction to an outbreak of bribery, fraud and overweighing scandals throughout the industry. Those scandals eventually led to more than $1 million in fines and 126 indictments against 14 grain handlers.

"The people who have written the laws have not been terribly well-informed on how the grain trade works," says Rep. Cooper Evans, an Iowa Democrat who is sponsoring legislation to tighten grain standards and has fought for reforms for more than 10 years. "I think the grain standards have been written for the benefit of the major grain companies."

He and others are trying to change that. In May, Mr. Evans introduced a bill to tighten grain standards and to give surplus government-owned commodities to farmers and exporters as an incentive to ship high-quality grain to commerical markets. Sen. Mark Andrews, the North Dakota Republican who is chairman of a Senate agriculture subcommittee, has proposed a bill in the Senate that takes up Mr. Smith's plan to outlaw the mixing of foreign material with clean grain at export.

Politicians throughout the nation's heartland, responding to the cries of their constitutents, have inserted the quality problem into their campaign speeches.

"We have to consider it a real issue for the future," says former Kansas Agriculture Secretary Harland Priddle, a candidate for lieutenant governor who has talked to Japanese buyers about the problem.

Moved to change

The tough talk is having an effect. Faced with the unexpected onslaught from Washington and their home states, exporters are beginning to grudgingly accept some long-advocated changes in the grain standards, albeit not graciously.

"The (quality issue) should not be on trial in the press, with all respect, nor in the halls of Congress, with all respect, because I think those two areas are lacking in the necessary expertise," says Bill Allen, general manager of Union Equity Cooperative Exchange, a Oklahoma cooperative that exports the greatest share of Kansas wheat. "I think the free marketplace has and will and should be the place to correct those problems."

He and Myron Laserson, president of the North American Export Grain Association, an exporter trade group, warn that any cost associated with tightening the standards ultimately will be borne by those least able to afford it—American farmers.

"Any changes in the grain standards will affect the whole system," Mr. Laserson, executive vice president of Continental Grain Co., told a congressional committee in a recent hearing on the subject.

Farmers and their representatives say they are willing to bear their share of the costs as part of their fight to clean grain and boost exports. "If we don't do it," says Dan McGuire, director of the Nebraska Wheat Board, "the farmer's going to continue to lose business, and we believe that's costing him more down the road than any short-term investment in tightening standards."

Citing the proposed bills in Congress, he and others believe that the farmers' forbearance is beginning to pay off.

There are other signs: Last month, in a move that surprised many industry observers, a committee of exporters, farmers and government officials agreed after six months of debate to recommend changing the way dockage is measured in grain, bowing to complaints by foreign buyers that current methods are misleading. The industry task force also is studying changes in the way grain protein and moisture are measured.

Those aren't sweeping changes. All must be approved by the Federal Grain Inspection Service, which could take a year or more. But they are certainly optimistic signs, says U.S. Rep. Dan Glickman of Kansas, a staunch supporter of tightening the standards.

"Ultimately the exporters can only win if there's grain to export," Mr. Glickman notes. "We're getting to the point where they're not doing that much anymore."