

MINUTES OF THE MEETING
AGRICULTURE, LIVESTOCK & IRRIGATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 7, 1987

The Orientation meeting of the Agriculture, Livestock & Irrigation Committee was called to order by Chairman Rep. Duane W. Compton on January 7, 1987, at 1:00 p.m. in Room 317 of the State Capitol. Tom Gomez, researcher was present.

ROLL CALL: All members were present with the exception of Rep. Paul Rapp-Svrcek who was excused due to illness.

The Chairman made the following rules:

The sponsor will present his bill, proponents will speak, then opponents, then questions from the committee after which the sponsor will make his closing statement.

Statements from the committee will be heard in Executive Session.

The hearing on that bill will be closed and no further questions may be asked. Action will be taken if possible, and there is time. All questions will go through the chair.

Witnesses will not be allowed to talk back and forth.

The committee hearing will start on time. A quorum will be necessary.

A second to all motions will be required - a motion can die because of lack of a second.

Tom Gomez, researcher for the committee, asked that a bill be coordinated with him for accuracy and constitutionality in advance of amendment in order to be meshed properly and legally.

Committee members introduced themselves, and gave a brief statement of their occupations and interests.

Committee members will be marked absent if the chairman or secretary is not given notification of absence.

CONSIDERATION OF HOUSE BILL NO. 40: Rep. William Glaser, District 98, sponsor, introduced HB 40 at the request of the Interim Agricultural Subcommittee on agricultural problems. It is a bill establishing a 100% Montana limited blended grain marketing program administered by the Montana

Department of Agriculture. It is a voluntary marketing program whereby individuals and organizations can deliver the quality of grain a buyer has agreed to buy. It could provide a guaranteed quality through containerizing, quality testing, and guarantees that a specific quality of grain would be delivered to a buyer. It would establish a "Montana identified quality product". See exhibit #1 for a more detailed purpose of HB 40.

Rep. Glaser said the key is locating participants by the state or by the parties involved interested in preventing the adulteration of grain as it moves through the buying process. It is not a program to force producers to sell grain under a particular program - it is voluntary. You cannot preempt federal grain standards.

PROPOSERS: Rep. Gay Holliday, District 31, member of the Interim Subcommittee on Agricultural Problems, read a statement prepared by that committee. The Interim Subcommittee on Agricultural Problems requested HB 40 be introduced and recommends the bill. See exhibit #2.

Terry Carmody, working for Terry Murphy, Montana Farmers Union, relayed the Farmers Union supports HB 40 and that "Quality will sell".

Meg Nelson, on behalf of the Northern Plains Resource Council, reported that Northern Plains believes it is appropriate for Montana to establish standards more stringent than the USDA standards and guarantee the quality and identity of delivered shipments. Such legislation would discourage current adulteration of Montana grain, thus allowing buyers to buy with confidence. This could be a useful mechanism for marketing seed grain and organic grain. Recommended the committee research the feasibility of containerizing grain in order to absolutely ensure the quality of the grain; and to increase penalties for tampering with the grain.

OPPOSERS: Charles Anderson, consultant of Cargill, Great Falls, agrees with the theory of HB 40 in pushing Montana wheat is a good one, but this bill is unnecessary and impractical. Domestic millers are presently getting unadulterated Montana wheat which is what they want. Amarillo, Texas, has about the same elevation as Montana, and they produce a good quality of wheat. Their freight to all of California is less than ours and California millers will buy it if it is the right quality and price.

When it comes to the export market, it is impractical because of cargo size. Ships cannot save space for Montana wheat specifically. Export cargoes are made up three or

four ~~separate~~ cargoes of 1-1-1/2 million bushels, totalling 5-1/2 million bushels per ship. A trainload of wheat is about 175,000 bushels, and it is impractical to wait for large enough supplies to make up 1-1-1/2 million bushel cargoes.

A typical weeks' demand from Japan, our biggest importer, is four or five cargoes of various grades of wheat. Question of where they are going to put a smaller shipment of Montana grain arises while they wait for the rest of the required 1 million bushel cargo. It is impractical to segregate and store a small quantity for export.

Ross H. Fitzgerald, representing the Montana Grain Growers Association, commended Rep. Glaser's efforts because of agricultural depression. Two or three years ago, the quality condition was addressed nationally. Standards have been tightened up and dockage problem has been addressed, the moisture problem, and the shipload departmentalized separation problems. Montana will benefit more than most states because of higher quality and cleaner grain than many states; however, there is comparable quality in two or three other states as far as wheat is concerned. When you establish a whole bureaucracy to handle the marketing function of Montana grain, optionally or not, there is a great liability problem that exists. North Dakota and Missouri have four stories of liability: lack of expertise, lack of establishment of credibility in foreign countries, adds confusion to the already existing entities overseas, and competitors. There will be a cost to preserve identity of a limited blended grain in Montana. The market will allow that to happen provided there is a customer for that commodity. This can be handled through the tender process that exists today; however, the demand and price have to be there.

Rather than spending money where no true solid signed contract exists, he suggested that a better niche in our hard red spring wheat market would be to put that money into spring wheat breeders so that Montana can attain a greater quality product at a more efficient production price. That is added value and they feel that is where the monies and effort would be better spent than trying to establish a whole new network of marketing.

Lorna Frank, representing Montana Farm Bureau, supports the previous testimony of the Montana grain growers.

QUESTIONS (OR DISCUSSION) ON HOUSE BILL NO. 40: Rep. Patterson asked Mr. Anderson if Cargill pays a premium for Montana wheat, and he said "yes". Cargill already has separate bins for holding Montana wheat, but not enough bin space for cargo requirements for export purposes, especially

when no change or adulteration can be made until the end of the process. Foreign buyers buy by cargo amounts. An average cargo is 1-1-1/2 million bushels with two or three cargoes in a ship. Cannot hold a 175,000 bushel trainload separately indefinitely waiting for the rest of the required amount of bushels for a cargo of similar grain. it is physically impossible.

Mr. Fitzgerald told Rep. Cody that over two or three years time there were detailed studies on problems of grain guidelines and standards that would be export competitive and yet be palatable to the U.S. grain producers. They came to agreement on standardizing moisture content at 12% determining consistent protein, dockage reported in .1% increments, cargo consistency between holds on a ship. These standards are being implemented at the present time. It will take time to reclaim the market.

Mr. Anderson said complaints from foreign countries are purely market oriented. Canada does not ship wheat with dockage. Buyers do not want to pay for wheat without dockage. With no dockage, the price will be 25 cents to 50 cents higher per bushel. Japan buys cargoes off southern California or off the gulf - they are not tied to Montana.

Rep. Cody asked why Canadian market does not have the problems the U.S. market has. Mr. Anderson said the matter of dockage is pretty serious. Canada cleans its grain at a terminal. At Prince Rupert their new terminal has dozens and dozens of bins to hold literally every car and then has to clean it which decreases their efficiency, but then they have all the dockage out on the west coast where they can sell it for feeding purposes. Although processing may be expensive, if Canada wants to sell some grain, their price may be above or under Cargill's. It is a market factor that determines whether or not you are going to have dockage or a clean product. Wheat can be shipped without dockage if they want to pay for it. Farmer ends up paying the cost.

Rep. Ellison questioned how a 1-1-1/2 million bushel cargo would be accumulated on the coast. Rep. Glaser explained that the bill allows different points of origin to provide a minimum blend making it possible for a number of producers through elevators or co-ops to accumulate large quantities of grain. But are not always talking about large quantities of grain. He recommends reading "Merchants of Grain" as an absolute must. This book gives an eye-opening understanding of grain merchandizing for the last hundred years. Large or small quantities of grain can be moved through the system, whether it is going to a foreign or domestic buyer. The problem is a lack of integrity in our unique grain sales. The whole export system is a subsidized system from nation

to nation, which is very complex. Everybody is helping everybody else in their own nations. It is a welfare program.

Rep. Koehnke asked about adding dockage. Is there concrete evidence? Mr. Fitzgerald advised it is a fact that bits and pieces of grain and other material that comes into the elevator in a proper fashion is in fact, mixed with the grain to bring it to the quality that the customer requests. But HB 40 deals with a unique quality grain. Inspectors take samples every two or three years from one of his fields in order to set their machines. They get about 20 of these samples which are sent to the 13 grading places. In Idaho, at the barges, there is a big pipe that runs water into it. They do take broken kernels, etc. and mix them to get a particular quality. They do mix. Annual report from Congress for 1985, from the Department of Agriculture, reads, "The quality of U.S. grain has come under increased scrutiny and concerns by foreign buyers, exporters, producers, others of the grain industry, the media and the public at large. The public perception of U.S. grain is that the quality is poor compared to other countries". Congress recently passed a bill changing grain standards next July; and has directed grain standards people to come back about March with recommendations to change the Grain Standards Act. But state of Montana has no control over the Grain Standard Act. HB 40 indicates that U.S. standards cannot be preempted. It is not a simple issue and we are just dealing with a marketing tool to be used under certain circumstances.

Rep. Giacometto asked Mr. Fitzgerald how HB 40 would specifically hurt Montana grain growers. Mr. Fitzgerald said this bill would not hurt Montana grain growers; he was addressing the most efficient use of time, effort and money. Sometimes Montana's wheat crop is not all that unique. You cannot isolate Montana wheat from the rest of the world without more uniqueness of product. Price would be there if Montana's wheat had some specific quality that would really define it as unique based on end use criteria and market development. He would rather see efforts go toward a more unique product development and concentrate our efforts through the established agencies overseas that they already support through checkoff funds. Montana must have uniqueness for export. Otherwise, emphasize utilization of more higher quality wheat, better diets overseas, etc. Those types of approaches. We are not using money in the right spot.

Rep. Campbell asked Mr. Anderson about adulterating wheat. Mr. Anderson said dealing with domestic millers is a matter of trust. He preferred to sell to millers rather than

elevators. For 15 years, as a grain merchant, he sold mostly to millers. The principle of the thing is to give them what they want. Most mills prefer country run wheat to wheat that they would buy out of a terminal because they know what they are going to get and they know what district it is coming from. They know what they want and will pay the price. If there were all the trouble about quality that this gentleman indicates, trust would not exist. Cargill has no trouble supplying what the millers want and if they are given what they want, they are happy; otherwise, they will turn a shipment down. It is a matter of trust, and basically, Montana wheat is accepted all over the north and south coasts. However, price enters into this.

Rep. Jenkins reminded that HB 40 talks about export wheat. Is export wheat treated differently than domestic wheat? A few years ago foreign material was allowed as dockage. Is that correct? Mr. Anderson said that any Cargill person adding water would be fired. The only thing that is added is, possibly, dockage. If a contract allows for a certain percent dockage, if an elevator has any dockage material, dockage will be added to bring an order up to say 1/2% dockage just as they might add some protein to bring up the protein content. Dockage is an integral part of a wheat kernel, or it is a weed seed which is a natural ingredient when you cut wheat.

Rep. Jenkins asked what can be considered dockage if you are allowed up to the 1/2%? Mr. Anderson said it is primarily weed seeds. Foreign material is a little different. That is the stuff that is left in the wheat after it goes over a cleaner that removes the dockage. Foreign material is a grading factor. They grade the wheat and then allow 1% of foreign material. Dockage in Montana is what is received from most anything. Most country elevators do not have cleaners.

Rep. Jenkins asked what grade Japan usually buys. Mr. Anderson thought it was maybe #2 or better. Depends on the customer. You would be allowed to put enough foreign material into a higher quality product to lower it to what a contract calls for under the grading standards. It does not always happen - usually can find some grain that will mix and make the required product. That is not objectionable to the buyer because he knows he will get what grade he contracted for, and this is legal.

Rep. Glaser left a copy of the Annual Report to Congress, 1985. Exhibit #3. Have not been talking about what is involved in HB 40. Grain that was not all that clean used to be distributed. HB 40 does not intend to ask Cargill to pull this tool out. This bill could be used as a tool for

the provision of a Montana Grain Standard that would enable Montana producers to provide a certified quality of grain to buyers who would desire the high quality of Montana's grains. Governor Schwinden could use it as a tool for selling high quality wheat to Japan.

HB 40 requires a fiscal note.

ADJOURNMENT: There being no further business to come before the committee, the hearing was adjourned at 1:50 p.m.



Rep. Duane W. Compton, Chairman

STATEMENT OF INTENT

HB BILL NO. 40

A statement of intent is required for this bill because it grants the department of agriculture authority to adopt rules for the administration of a 100% Montana limited blended grain marketing program. The rules adopted by the department should supplement and interpret the provisions of this bill. In addition, the rules should govern the inspection and certification of grain under the program.

In adopting its rules, the department of agriculture should consider the following:

- (1) The legislature intends that the department of agriculture establish a program to assist producers, agricultural cooperatives, and commodity dealers in marketing quality-preserved Montana grain in both foreign and domestic markets.

- (6) The department or its designee should inspect and certify all grain described or marketed as 100% Montana limited blended grain to ensure that it meets the requirements for such grain under section 4.
- (7) The department should not require any grading or inspection of grain that conflicts with the United States Grain Standards Act.
- (8) All grain bought and sold in Montana, including 100% Montana limited blended grain, should be graded and inspected in accordance with official federal standards for such grain unless the federal grain inspection service waives the requirement for official federal inspection as provided for in 7 U.S.C. 77.
- (9) The department should appoint personnel to investigate grain marketing and handling practices and to enforce all relevant state laws and regulations.
- (10) The legislature expressly intends that the department of agriculture enter into agreements with other state governments to ensure that 100%

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BILL SUMMARY

(House Bill No. 40)

Prepared for the House Agriculture,
Livestock, and Irrigation Committee

By Tom Gomez, Staff Researcher
Montana Legislative Council

January 7, 1987

House Bill No. 40 is a bill to establish a "100% Montana limited blended grain" marketing program in the Montana Department of Agriculture. The program is a voluntary marketing program to assist individual farmers, agricultural cooperatives, and commodity dealers in the transportation, handling, and marketing of quality-preserved Montana grain.

As introduced, House Bill No. 40 contains the following main provisions:

- Establishes requirements for grain described or marketed as 100% Montana limited blended grain, including the following:
 - (1) the grain must be produced and harvested in Montana;
 - (2) the grain must not be blended or intermingled with grain of a different type, contrasting origin, or lower quality;
 - (3) no dockage, water, or foreign material may be added or knowingly introduced to the grain;
 - (4) no blending of grain with similar grain of a different moisture content is permitted if the difference in moisture contents is more than 1%; and
 - (5) the grain must meet any other specifications for quality, such as for protein content, as may be agreed between the buyer and the producer.

- Requires the Montana Department of Agriculture to:
 - (1) locate grain elevators, warehouses, and other handling facilities that will provide buyers 100% Montana limited blended grain;
 - (2) arrange with shippers to move and transport grain from elevators, or other storage facilities, to port facilities in a manner so that the quality and identity of grain is preserved; and
 - (3) solicit and promote purchases of 100% Montana limited blended grain in both foreign and domestic markets.

- Directs the Montana Department of Agriculture to inspect and certify grain to ensure that any grain described or marketed as 100% Montana limited blended grain is of the type, origin, and quality required for such grain.
- Grants the Montana Department of Agriculture authority to investigate grain marketing and handling practices to ensure that grain properly meets the requirements of 100% Montana limited blended grain.
- Provides the Montana Department of Agriculture reasonable and necessary access to all buildings, yards, storage facilities, containers, railroad cars, motor carriers, and any other facilities in which grain is kept, stored, handled, or transported.
- Allows the Montana Department of Agriculture to enter into agreements with governmental agencies in other states for the purpose of specifying cooperation to ensure the quality of 100% Montana limited blended grain shipped in interstate or foreign commerce.
- Provides that any grain meeting the requirements for 100% Montana limited blended grain may be marketed and identified with a "Grown in Montana" trademark logo.
- Imposes penalties for any person, firm, or corporation that knowingly sells or offers for sale any grain described or marketed as 100% Montana limited blended grain that does not meet the requirements for such grain.
- Clarifies that nothing in HB 40 may be construed to violate the provisions of the United States Grain Standards Act.
- Grants the Montana Department of Agriculture authority to adopt rules for the administration of the act.

EXHIBIT # 3
DATE 1/7/87
110-2-110-1

NOTE CONCERNING HB 40

House Bill No. 40 is a bill requested by the Joint Interim Subcommittee on Agricultural Problems, which was formed by the 1985 Legislature to study the economic and financial problems of agriculture in Montana.

The Joint Interim Subcommittee on Agricultural Problems recommends passage of House Bill No. 40. The Subcommittee approves this bill with only one member of the committee dissenting.

In the course of the past 16 months, which included public hearings in Great Falls, Helena, Kalispell, and Billings, the Subcommittee received testimony demonstrating the need for House Bill No. 40. Specifically, the Subcommittee heard a research report indicating that the Federal Grain Standards permit the blending of grain with dockage, water, and foreign material, and that this practice has led to complaints of foreign buyers that the quality and condition of grain shipped from Montana is not comparable to grain sold by foreign nations. The Subcommittee also heard testimony from farmers, agricultural organizations, and individuals who have argued that there is a need for state action to preserve the identity and quality of Montana grain. The Subcommittee agrees with proponents of House Bill No. 40, and correspondingly recommends the bill to the 50th Legislature.

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EXHIBIT #1
DATE 1/7/87
HB 40 Rep. Hooser

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Livestock, and Irrigation Committee

By Tom Gomez, Staff Researcher
Montana Legislative Council

January 7, 1987

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EXHIBIT # 2

DATE 1/7/87

HB 40 - ^{Rep} W. Glaser

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VISITORS' REGISTER

Ag. Livestock & Dairy COMMITTEE

BILL NO. HB 40

DATE Jan. 7, 1987

SPONSOR Rep. Glaser

NAME (please print)	RESIDENCE AND/OR REPRESENTING	SUPPORT	OPPOSE
<u>Ferry Ormsby</u>	<u>Mont Farmers Union</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<u>Lorne Frank</u>	<u>Mont. Farm Bureau</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>ROSS H. FITZGERALD</u>	<u>MT GRAIN Growers Ass'n</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>C. Anderson</u>	<u>Council Great Falls M</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>May Nelson</u>	<u>Northern Plains Resource Council</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<u>KEITH KELLY</u>	<u>MT DEPT. OF AGR</u>	<input type="checkbox"/>	<input type="checkbox"/>

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FOR
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.



United States
Department of
Agriculture

Federal Grain
Inspection
Service



Annual Report to Congress, 1985

EXHIBIT # 2
DATE 1/7/87
HB # Rep. Glaeser
Blaser

