

Statement of Kenneth A. Dallmier, Ph.D.

President and Chief Operating Officer

Clarkson Grain Company, Inc.

United States Senate Committee on Agriculture, Nutrition, and Forestry
Impact of Imported Organic Grain into the US Food and Feed Supply Chain

With Perspectives for the 2018 Farm Bill

July 13, 2017

Good morning Chairman Roberts, Ranking Member Stabenow, and members of the Committee. Thank you for the opportunity to appear before you to discuss the impact of imported organic grain into the US food and feed supply chain. I am Ken Dallmier, the President and Chief Operating Officer of Clarkson Grain Company, Inc. of Cerro Gordo, Illinois. Clarkson Grain specializes in developing identity preserved supply chains for some of the most respected consumer brands with the most exacting specifications of organic and non-GMO grain crops. We are members of the National Grain and Feed Association (NGFA) and the Organic Trade Association (OTA), where we serve on the OTAs newly formed Global Supply Chain Integrity Task Force. I will review the situation we face in using Third-World supply systems and offer five suggestions for concrete actions this Committee can take to mitigate the risks highlighted in the May 12, 2017 Washington Post article¹. The views and proposals I express are those of Clarkson Grain.

Sales of organic products in the United States represent a nearly \$50 billion industry with double-digit growth in each of the last five years. The organic industry supports over 24,000 farmers representing all 50 states. It creates jobs with over 60% of organic businesses with more than five employees forecasting full-time employment growth in 2017.² Organic farms are 35% more profitable than the average farm and can achieve 2x to 3x higher gross receipts.³ The USDA Organic label is highly trusted with over 82% of households across the U.S. purchasing some organic products.⁴

Demand for organic feed grains has increased with growing demand for organic poultry and dairy products. In 2016, over 50% of the organic corn and over 70%

¹ Whoriskey, P. "The labels said 'organic.' But these massive imports of corn and soybeans weren't." Washington Post. 12 May 2017.

² The Organic Trade Association. *2017 Organic Industry Survey*.

³ Crowder, David W. and John P. Reganold (2015). *Financial Competitiveness of Organic Agriculture on a Global Scale*. *Proceedings of the National Academy of Sciences*, 112(24), 7611-7616.

⁴ Nielsen. *UPC Scan Data of 100,000 Households*. 2016.

of the organic soybeans used in the United States were imported⁵, representing 1,000,000 acres and \$410 million in lost revenue alone.⁶

What sets the organic grain trade apart from the non-organic is the process of certifying and identity preserving a crop to comply with the USDA Organic seal based upon the methods of production⁷ and is not conducive to chemical test verification. Third-party certifying companies accredited by the USDA conduct process and documentation audits of growers, aggregators, shippers, and end-users. The USDA organic program is voluntary and therefore relies upon the good-faith representation of all members of the supply chain. Low global commodity prices, international conflict zones, a process-based certification system and lack of enforcement authority have contributed to the fraudulent shipments of organic grain from southeastern Europe through Turkey, as reported in the Washington Post.

For the organic trade, we propose a five-point program to reduce the recurrence of this type of fraud. Under the current political environment, we recognize that increased costs and increased regulation are to be avoided. We do not anticipate a significant impact to either with this proposal. The proposal concentrates effort in elevated risk areas, assigns accountability to the gate-keepers at those points, increases the traceability of the crop throughout the supply chain and utilizes existing government programs and proposals to increase the domestic supply of organic feed grain.

1. Utilize existing domestic programs to support the expansion of domestic organic grain supply.
 - a. Instruct the USDA to finalize the USDA Certified Transitional seal with associated process verification programs (PVP). In 2015, Clarkson Grain Co., Inc. designed and submitted a PVP aligned with the requirements to transition land into organic production. The USDA is currently studying the implementation of a USDA Certified Transitional seal to provide customer confidence in the process of bringing land into organic production. Innovative brands such as Kashi developed a private PVP verified by Quality Assurance International (QAI), to provide improved market access to those producers “in transition”. This demonstrates that a USDA Certified Transitional label would resonate with consumers and provide expanded markets for US crops.

⁵ Demko, I., Dinterman, R., Marez, M., and Jaenicke, E.C. 2017. U.S. Organic Trade from 2011 to 2016. Report to the Organic Trade Association, Washington, D.C., May 2017.

⁶ Demko, I., Dinterman, R., Marez, M., and Jaenicke, E.C. 2017. U.S. Organic Trade from 2011 to 2016. Report to the Organic Trade Association, Washington, D.C., May 2017.

⁷ USDA-AMS. “Organic Certification and Accreditation.” www.ams.usda.gov/services/organic-certification

- b. Encourage scalable farming operations to incorporate organic production into their business plans. For organic producers, crop loan infrastructure, crop disaster insurance and producer revenue insurance should recognize the established Risk Management Agency's (RMA) organic crop price rather than the standard commodity price, a practice similar to existing crops for seed.
 - c. Utilize and expand upon programs such as the Soil Health and Income Protection Program (SHIPP), Conservation Stewardship Program (CSP), and Environmental Quality Incentives Program (EQUIP) to provide income stability to producers during the volatile transition years to certified organic production.
 - d. Continue the National Organic Certification Cost Share program which provides each farm operation up to \$750 per year to help defray the annual costs of organic certification.
 - e. Finally, utilize the competitive Federal research grant system to promote field research and extension programs – not only at Land Grant Universities, but also at state and community colleges that have proven to be the vanguard of education in organic production. Public-Private partnerships with organizations such as The Rodale Institute, Midwest Organic and Sustainable Education Service (MOSES), the Organic Farming Research Foundation (OFRF), The Organic Center and others have demonstrated remarkable success in organic farming outreach.
2. Restrict embarkation ports for organic grain destined for the US to no more than two per country. The USDA-NOP staff numbers less than forty employees with fewer than ten responsible for enforcement.⁸ Given the overwhelming amount of area to cover, and the number of smallholdings producing grain for importation to the US as organic and the incentives to fraudulently declare grain as organic for financial gain, it is unreasonable to accept that grain being imported into the US as organic has been adequately validated. In regions of high fraud risk, the Committee should direct USDA-NOP enforcement staff to conduct a final audit and approve or reject those shipments before they are loaded onto a vessel for shipment to the US. Likewise, when a shipment of organic grain is received at a US port that is not originated from an approved and staffed embarkation port, it is automatically suspect and should not be allowed for import unless and until adequate documentation is provided.
3. Utilize mass-balance supply rules for the entire crop in a region or country. An electronic clearing house is needed that collects data on projected yields (based upon crop yield models utilizing remote sensing, weather data, soil productivity and ground truth inspection) for each organic certificate outside

⁸ USDA-AMS. "National Organic Program Staff Directory | Revised 6/15/2017". [www.ams.usda.gov/sites/default/files/NOP_Contacts\[1\].pdf](http://www.ams.usda.gov/sites/default/files/NOP_Contacts[1].pdf)

of US jurisdiction and tracks shipment volumes for each certificate. Once the volume estimate is reached, certifiers and NOP inspectors should be notified that no additional crops can be attributed to that certificate. Further, certifiers should work together to ensure one-field/one-certifier compliance.

4. Increased transparency through the supply chain using physical tracking mechanisms that are robust to withstand grain transit while being easily removed from the grain stream at the final destination. A working system is being commercialized by Amber Ag (www.amber.ag) whereby a radio frequency transmitting puck about the size of a key-fob is inserted into the bag of grain at the field (or truck, container, etc.) which is readable throughout the supply chain to the end-user. Each puck has a unique identifier which could be registered with the USDA-NOP and traced. As the puck and grain move through the system, a block-chain system of trace and track is established. Once the puck reaches the end-user, it is easily removed from the grain stream due to size and weight. The puck could be reused or discarded. The advantage to a physical tracking system in conjunction with a process-based certification is that the chain of custody is rapidly verifiable throughout the supply chain using methods not easily counterfeited or copied. Validation of a shipment of grain from a region would be simple and accurate through existing technology used in large-scale merchandise inventory collection.
5. Personal and corporate accountability and responsibility must be introduced throughout the import supply chain.
 - a. The current USDA-NOP mandate is to monitor the process while it limits penalties to the revocation of the USDA Organic certificate. Such an environment of 3x revenue with little risk entices fraudulent activity in the best of circumstances. By imbedding USDA-NOP staff at specially designated ports, and making them accountable to US law and penalties related to corruption and fraud, the US consumer has a final guard at the loading gate. We recommend that this assignment be short-term to prevent long-standing relationships and patronage.
 - b. Shipping lines must be accountable for the validity of their cargo. Counterfeit cargo is governed by maritime law, and the Committee should investigate precedent by which fraudulent organic grain under a ship's manifest constitutes a violation of law with accompanying penalty.
 - c. Finally, end-users of fraudulent grain should face product recall liability when product does not meet the label requirements. Relying upon a process certification to show good-faith effort in meeting label requirements for organic feed is no longer good enough. The

Washington Post article exposed the risk to the USDA Organic Seal and the brand value of fraudulent grain imports. Enforcing labeling laws consistent with best commercial practices is required to ensure customer confidence in the US food supply chain.

More broadly, Congress has an opportunity in this next farm bill to continue to invest and grow the organic sector. By funding the USDA-National Organic Program consistent with the growth of the industry, investments in organic research, data collection and other existing programs such as the Market Access Program will help keep organic markets strong. We can provide more opportunities for U.S. farmers to tap into this growing market by improving access to land and capital, investment in infrastructure and targeted technical assistance. Specific actions that should be considered include:

- a) Require NOP provide an annual compliance report to Congress including domestic and overseas investigations and actions taken.
- b) Grant NOP authority to require increased documentation under specific areas of concern as well require expedited review of global certifying agents whose accreditation has been revoked by another country.
- c) Limit the application of operations excluded from certification under the Organic Foods Production Act (1990) §205.101 (b) including ports, importers, brokers, and on-line auctions.
- d) One-time funding of \$5 million for technology systems to modernize international trade tracking by moving away from paper documents to an electronic system. This would ensure access to full traceability for oversight without hindering trade. Furthermore, Congress should ensure USDA has access to available data by cross border documentation systems administered across other agencies including the U.S. Customs and Border Patrol (CPB)'s Automated Commercial Environment (ACE), and phytosanitary certificates.
- e) Establish mechanisms for collaborative investigations and enforcement by creating compliance Working Groups between governments under all organic equivalency arrangements and establishing Joint Compliance Working Groups between accredited certifying agents (ACAs), State Organic Programs and NOP, and recognize ACAs as agents of USDA able to share information regarding open investigations.

Again, thank you for allowing me to provide our perspective on this topic. I appreciate the interest of the Committee in the upcoming Farm Bill, and look forward to answering your questions.

Links to background, resources and relevant articles:

- **Washington Post article #1:** https://www.washingtonpost.com/business/economy/the-labels-said-organic-but-these-massive-imports-of-corn-and-soybeans-werent/2017/05/12/6d165984-2b76-11e7-a616-d7c8a68c1a66_story.html?utm_term=.c870b101bc24
- **Washington Post article #2:** https://www.washingtonpost.com/news/wonk/wp/2017/06/12/millions-of-pounds-of-apparently-fake-organic-grains-convince-the-food-industry-there-may-be-a-problem/?utm_term=.c3d1afd5cb2b
- **Politico article:** <http://www.politico.com/tipsheets/morning-agriculture/2017/06/12/organic-industry-forming-anti-fraud-task-force-220780>
- **Food Safety News article:** <http://www.foodsafetynews.com/2017/06/organic-trade-association-guards-against-food-fraud-schemes/#.WUB4s4VNc4Q>
- **NOP revocation letter to Beyaz:** [Beyaz Agro \(pdf\)](#)