

FEDERAL RESERVE BOARD

WASHINGTON

X-7293

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 16, 1932.

Dear Sir:

For your further information in connection with the grading and inspection work now conducted by the Bureau of Agricultural Economics of the United States Department of Agriculture, you will find inclosed a copy of a letter dated November 15 from Mr. Nils A. Olsen, Chief of the Bureau of Agricultural Economics, in which he sets forth a clear and concise description of this service. You will also find attached a copy of the inclosure transmitted with his letter showing the inspection markets where this service is conducted. On the reverse side of this list of inspection markets you will find a brief announcement by the bureau regarding the service with respect to canned fruits and vegetables.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO CHAIRMEN AND GOVERNORS OF ALL F. R. BANKS.

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UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
Washington, D. C.

November 15, 1932.

Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Morrill:

Following your conversation the other day with Mr. Wells A. Sherman of this Bureau, it is my understanding that you desire a brief statement of the grading and inspection work now conducted by this Bureau. The legal authority for conducting work of the kind described to you by Mr. Sherman is found in the annual agricultural appropriation Act reading as follows:

"For enabling the Secretary of Agriculture, independently and in cooperation with other branches of the Government, State agencies, purchasing and consuming organizations, boards of trade, chambers of commerce, or other associations of business men or trade organizations, and persons or corporations engaged in the production, transportation, marketing, and distribution of farm and food products, whether operating in one or more jurisdictions, to investigate and certify to shippers and other interested parties the class, quality, and/or condition of cotton, tobacco, fruits and vegetables whether raw, dried, or canned, poultry, butter, hay, and other perishable farm products when offered for interstate shipment or when received at such important central markets as the Secretary of Agriculture may from time to time designate, or at points which may be conveniently reached therefrom, under such rules and regulations as he may prescribe, including payment of such fees as will be reasonable and as nearly as may be cover the cost for the service rendered: Provided, That certificates issued by the authorized agents of the Department shall be received in all courts of the United States as prima facie evidence of the truth of the statements therein contained."

In providing such a service it is necessary to develop official grades or standards of the various products in order that the grade and condition may be accurately reflected in the official certificate of grade. The chief advantages of the development of such standards may be considered briefly in two groups:

(1) The advantages of a common language between buyer and seller and other financially interested parties, like banks, that are interested in loaning money on agricultural products covered by warehouse receipts, and

(2) The advantages of actually separating the various products into different grades of market quality.

The following paragraphs indicate the extent to which grades have been formulated for the principal commodity groups and whether certification service is available.

(1) Raw fruits and vegetables and related products: Grades have been established for practically all of the important fresh fruits and fresh vegetables and an extensive official inspection service is available both at shipping points and important receiving markets.

(2) Canned fruits and vegetables and related products. The grading service on these commodities has only recently been organized and standards have been formulated for several of these products. Certification service is gradually being developed.

(3) Grades have been established and official certification carried on for butter, cheese, eggs, and dressed poultry. The inspection of dressed poultry for condition and wholesomeness is also conducted at a number of poultry canning plants. Likewise all of the carlot receipts of live poultry are inspected for health and crop condition in the city of New York

(4) Hay, beans, soybeans, rice and broomcorn. Grades have been formulated for these products and considerable certification work performed.

(5) Meats. Grades have been established for beef, lamb, mutton, veal and pork and a certification service is available in a number of the important markets.

(6) Livestock. Grades have been formulated for cattle and hogs and sheep but thus far the Bureau has not undertaken to grade and certify the grade of live animals.

(7) Tobacco. Grades have been established for all of the important types of tobacco and a grading service is conducted both at the time tobacco is sold by growers on auction floors and at tobacco prizeeries.

(8) Wool. Limited grades, based on diameter of fiber only, have been formulated for wool but thus far the Bureau has not developed a certification service for this commodity.

(9) Hides. Tentative grades have been formulated for hides but no certification service has yet been developed.

The grading service on the commodities just mentioned is performed only upon request and the availability of the service depends upon the extent to which it has been developed. The scope of the service varies with the different commodities.

The standardization and inspection work conducted for cotton and grain is carried on under specific Acts of Congress such as the United States Cotton Standards Act, and the United States Grain Standards Act. The use of the official grades established for cotton and grain is mandatory in transactions made on the basis of grade. The use of grades for all other commodities is permissive. You are familiar, of course, as I believe all of the members of the Federal Reserve Board are, with the United States warehouse Act and the standardization provision contained therein which requires that the grade of all fungible products stored in Federally licensed warehouses must be shown upon the warehouse receipt but may, at the request of the depositor, be omitted on receipts issued for non-fungible products.

The location of offices performing inspection and grading services is such as to bring them into close proximity with the most important producing areas and with the important receiving markets of the country. A few copies of the list of offices grading fruits and vegetables are enclosed.

Official inspection, grading, and certification may be requested by any party financially interested in a given lot of farm products, including shippers, common carriers, public warehousemen, brokers, bankers, and receivers.

The certificates are useful:

- (1) As supporting evidence of quality in making deliveries.
- (2) As official evidence of condition and quality to enable bankers to correctly appraise paper offered them as collateral.
- (3) To assure receivers and bankers of the compliance or non-compliance of products for which there may be legal minimum requirements of quality when moved in interstate commerce. For example the Federal Food and Drugs Act now requires certain canned products below U. S. Standard to bear certain legends on labels.
- (4) Transportation companies use the certificates of grade and condition in settlement of claims.

Official certificates of grade are widely used on staple products which of necessity must remain at warehouses for indefinite periods while awaiting marketing. Many producers of such products are obliged to borrow heavily in order to finance their operations and naturally resort to pledging their warehoused stocks as collateral. Thus the interest of financial institutions and discounting and rediscounting agencies is readily apparent. Quite a number of these institutions find it to their advantage to fortify themselves with official assurance of the character of the merchandise on which they are asked to advance money in addition to the claims of the borrower.

A certificate of grade covering canned fruits and vegetables for example covers at least four salient points:

(1) The size and precise location of the lot graded, if the samples have been officially drawn.

(2) How the samples were drawn and by whom.

(3) An accurate determination of the condition of the lot. By condition we refer not only to the condition of the product but to the condition of the glass or tin container in which preserved and the type of package in which packed.

(4) The statement of grade based upon standards or grades approved for the purpose by this Bureau.

It has been the earnest endeavor of this Bureau in developing the various grades to have in mind the needs of the interested parties. In such commodities as canned fruits and vegetables we have been particularly careful to embody those factors in the grades which make possible their proper evaluation. The interests of the lending agencies are being served, we feel, in our efforts to give as accurate a picture as possible of the condition as well as the grade of stored merchandise.

Very truly yours,

(S) Nils A. Olsen
Chief of Bureau.

Enclosures.