

**SUMMARY OF MEETING
GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
GRAIN INSPECTION ADVISORY COMMITTEE**

*Hotel Washington
Washington, D.C.*

November 3-4, 1998



Mr. James Baker, Administrator, Grain Inspection, Packers and Stockyards Administration (GIPSA) opened the meeting at 8:00 a.m. Mr. Baker thanked the members of the committee for their time and advice which he highly regards. He also provided a few brief remarks regarding the Agency's financial status and the grain market. This past year, the slow down in domestic movements of grain combined with decreased international demand for U.S. grain resulted in fewer grain inspections and less revenue for the Agency. More specifically, the Agency saw a 20 percent decline in grain inspection in Fiscal Year 1998 as compared to 1996. Through increased efficiencies, detailing of GIPSA employees to the USDA's Animal and Plant Health Inspection Service, and supplemental funding of \$1.5 million from Congress, GIPSA, however, was able to avoid furloughs and reductions in force. For Fiscal Year 1999, Mr. Baker is more optimistic about the economic outlook for grain. In October, export inspections were up over last October, and the domestic usage of grain is picking up. Mr. Baker's goal for GIPSA is to have a steady year in 1999. In conclusion, Mr. Baker stated: "Our success lies in how we respond to the future . . . not in the past."

Attendees included:

	<u>Name</u>	<u>Affiliation</u>
Committee Members	Harold Reese, Chairperson	Export Elevator (NAEGA)
	Wilbur Benroth	Producer
	Gary Gilbert	Other
	Thomas Bressner	Domestic Elevator
	Bert Farrish	Export Elevator
	Edgar Hicks	Other
	Bruce Lovdahl	Producer
	Alfred Parks	Academia
	Bob Smigelski	Export Elevator (NGFA)
	Dwight Wise	Producer
	Robert Gore	Inspection Agency (WA State)
	Robert Williams	Producer
	Israel Lopez	Export Elevator
Ronald Mitzel	Processor/Miller	

GIPSA	Jim Baker	Office of the Administrator
	LeRoy Baker	Moscow Field Office
	Moheb Bashandi	Field Management Division
	Tess Butler	Office of the Deputy Administrator, FGIS
	Cleve Ellis	National Council of Federal Grain Inspection Locals
	John Giler	Field Management Division
	Karen Guagliardo	Compliance Division
	Jan Hart	Compliance Division
	Ray Hart	Field Management Division
	Tom Hearon	Compliance Division
	Larry McDonald	Technical Services Division
	Dick Pforr	Field Management Division
	Marianne Plaus	Office of the Deputy Administrator, FGIS
	Neil Porter	Compliance Division
	Dave Shipman	Office of the Deputy Administrator, FGIS
	Phil Spinelli	Economic/Statistical Support
Steve Tanner	Technical Services Division	
Other Attendees (represents those attendees who signed the sign-in sheet)	Daniel Amstutz	North American Export Grain Association
	David Botwinik	Pavia & Harcourt
	Lin Hoffman	USDA, Economic Research Service
	Tom O'Connor	National Grain and Feed Association
	Doug Palmer	Reuters
	Bob Peterson	National Grain Trade Council
	Gerry Rector	USDA, World Agriculture Outlook Board
	Peter Riley	USDA, Economic Research Service
	JJ Weiland	National Grain Trade Council
	Paul Weller	American Association of Grain Inspection and Weighing Agencies

WELCOME AND OPENING REMARKS

Mr. James Baker introduced Mr. Mike Dunn, Under Secretary for the Department's Marketing and Regulatory Programs (MRP). MRP consists of the three sister agencies, GIPSA, the Agricultural Marketing Service (AMS), and the Animal and Plant Health Inspection Service (APHIS). MRP works to ensure a productive and competitive global marketplace for U.S. agricultural products.

Mr. Dunn welcomed the members of the committee to Washington, D.C., and provided a few brief remarks. As stated by Mr. Dunn, the MRP Agencies, GIPSA, AMS, and APHIS, are focused on:

- Protecting the integrity of agricultural transactions (“the deal”);

- Protecting the health and well-being of U.S. agriculture; and
- Ensuring that all have equal access to the marketplace.

As the globalization of world agricultural trade becomes even more pronounced, Mr. Dunn emphasized the need for MRP to help maintain the integrity of agricultural trade. Mr. Dunn provided several examples of how the MRP Agencies working in tandem and with other Federal Agencies quickly responded to the Karnal bunt, grain transportation, and Mexican trade situations while helping to ensure the “integrity of the deal to the benefit of U.S. agriculture.”

Mr. Dunn also encouraged the members of the committee to make sure that the technologies that they and their business partners depend upon are ready for the Year 2000 date change. The Federal Government is doing all that it can to ensure that it will be unaffected by the Year 2000 conversion. It is incumbent, however, upon each business to make sure that it is ready for the Year 2000.

ACCEPTANCE OF MEETING MINUTES FROM MAY 13-14, 1998

The Chairman, Mr. Harold Reese made a motion for ratification of the minutes from the May 13-14, 1998, meeting. The motion was seconded, and the committee approved the minutes as written.

REVIEW AND ACCEPTANCE OF AGENDA

In reviewing the agenda, Mr. Harold Reese noted the addition of Mr. Gary Gilbert’s presentation on the wheat standards on the afternoon of November 3. The committee approved the agenda (agenda attached).

BIOTECHNOLOGY IMPLICATIONS FOR GRAIN MARKETS

Mr. Peter Riley, USDA’s Economic Research Service, provided an overview of biotechnological implications for grain markets. Mr. Riley began his presentation with the sentiment that biotechnological advancements are occurring at an ever increasing rate of change. While the agricultural sector recognizes the value of biotechnology toward feeding the world’s populace, the path toward achieving that vision isn’t clear. With that in mind, Mr. Riley provided an excellent overview of biotechnology or what he termed “the new crop technology” (presentation overheads attached as well as an article provided by Mr. Riley).

PROJECTED IMPACT OF BIOTECHNOLOGY ON GRAIN MARKETS

Mr. Daniel Amstutz, President and CEO of the North American Export Grain Association (NAEGA), discussed the impact of biotechnology on grain markets. In opening, Mr. Amstutz stated that seed companies and biotechnology firms have been more aggressive in developing genetically modified organisms (GMOs) than in educating international markets and garnering world-wide market support for them. A lack of understanding about long-term benefits of GMOs has resulted in minimal demand for them outside of certain segments of the agricultural community.

What is needed to foster support and demand for GMOs? Domestic and international consumers must recognize that the ultimate long-term benefit of GMOs is that they may increase crop yields and contribute to combating world hunger. To date, GMOs have mostly benefited the farmer in the U.S. -- a benefit not readily apparent to or of much importance to the rest of the world market. Mr. Amstutz encourages seed companies to educate international consumers about the long-term benefit of GMOs and to promote their approval in each country to which the U.S. exports. Front-end approval will go a long ways toward facilitating the world trade of GMOs.

Gaining approval of GMOs in the EU, which has been one of the most vocal opponents of GMOs to date, will be an arduous task. While the United States has a large yet efficient food safety network, which includes the Food and Drug Administration, the Environmental Protection Agency, and the U.S. Department of Agriculture, no such coordinated effort exists within the European Union. The end result is that each new GMO must be approved in each of the 15 member countries -- a time consuming task. Mr. Amstutz likened what we are now seeing with GMOs to the beef hormone issue which began 15 years ago and continues to this day.

To further acceptance of GMOs in the EU and worldwide, NAEGA has proposed the formation of a trilateral commission with the principle players being the EU, Japan, and the United States. The commission, which would be comprised of acknowledged experts from the biotechnology arena, would be charged with objectively testing GMOs for safety. To date, NAEGA has not gained acceptance for its proposal. In Mr. Amstutz' opinion, the lack of acceptance is due to the unwillingness of each country to cede its sovereignty to such a commission. Mr. Amstutz would like to see countries consider the long-term benefit of increased worldwide market competitiveness -- true market competitiveness . Furthermore, Mr. Amstutz encourages those who may not agree/approve of the NAEGA proposal to come forth with their own proposals.

While gaining approval of GMOs worldwide will be difficult, Mr. Amstutz believes that two subissues, labeling and grading, are really non-issues. NAEGA has never opposed the concept of labeling of grain shipments and would accept a label that stated, may contain GMOs. With regard to grain grading, Mr. Amstutz does not foresee a need to change the U.S. Standards for Grain as new GMOs are developed. Since GMOs and non-GMOs should theoretically grade the

same, there should not be a need to revise the grading standards. The common language created by the U.S. Standards for Grain facilitates the trade of bulk grain. In Mr. Amstutz words, the bulk grain business is not going away. The need for the standards in their current format will continue.

In conclusion, Mr. Amstutz stated that the world community will eventually accept GMOs, but he cannot predict how long it will take. While the future of GMOs is bright, he is concerned about the interim.

GIPSA/FGIS FINANCIAL UPDATE

Mr. Dave Shipman, Deputy Administrator GIPSA's FGIS, provided an overview of GIPSA/FGIS' financial status (presentation overheads attached). During his presentation, Mr. Shipman stressed the following points:

- The trust account currently has a balance of approximately \$4 million (Note: the attached account figures are revised). Ideally, the Agency likes to maintain a reserve of \$8-9 million.
- In Fiscal Year 1998, the inspection and weighing program (accounts for the largest portion of the trust account) lost approximately \$1.2 million. Most of that loss was due to a diminished demand for U.S. grain as a result of the Asian financial situation, the strength of the U.S. dollar, and a number of other factors working in tandem.
- While GIPSA/FGIS has reduced inspection and weighing costs during Fiscal Years 1995-1998, overall revenues failed to cover costs. In Fiscal Year 1999, foregoing any unforeseen, major economic downturns, GIPSA projects revenue and costs at approximately \$22.5 million each.
- GIPSA/FGIS' appropriations for Fiscal Years 1998 and 1999 are identical. As a result, any cost increases due to pay raises must be absorbed by the Agency.
- To adequately cover Federally mandated pay raises, FGIS projects the following fee adjustments for Fiscal Year 1999:

Grain Inspection

- +3.6% hourly and unit rates (proposed 10/2/98)
- +1.2% administrative tonnage

Rice Inspection

- +3.6% hourly and unit rates (forthcoming)

OUTLOOK FOR GRAIN EXPORTS

Mr. Gerry Rector of the USDA's World Agriculture Outlook Board provided an overview of and outlook for U.S. grain exports (presentation overheads attached). During and immediately following Mr. Rector's presentation, the following key points were raised:

- In February, the USDA will release a 5-year baseline for the major grains and oilseeds.
- The outlook for grain exports to China is less optimistic than this time last year.
- International demand is stronger for higher protein wheats. Soft Red Winter wheat is not in demand.
- South Korea is the most critical country in Asia for U.S. corn exports. China, which will likely produce a very large corn crop in 1998/99, will compete with the U.S. for a share of the export market to South Korea.
- Perhaps the biggest success story in the world corn market over the past several years has been Argentina. In the 1998/99 crop year, however, projections indicate a lower crop and exports.

WHEAT STANDARDS

Mr. Gary Gilbert, committee member and Assistant Administrator of the Kansas Wheat Commission, gave a presentation titled, "Cleaner Grain Revisited." At the start of his presentation, Mr. Gilbert referred to work done by Dr. Steven Eckhoff on this topic (article titled *Principles and Benefits of Cleaning Wheat* attached). In summary, Mr. Gilbert expressed his concern that the official dockage procedure in wheat does not adequately mimic the cleaning process used at those grain facilities equipped with cleaners. Grain cleaners typically remove more non-wheat material as well as some percentage of wheat kernels and pieces of wheat kernels in the cleaning process. Because of this discrepancy, Mr. Gilbert feels that the U.S. Standards for Wheat may actually serve as a disincentive to cleaning. In his opinion, the standards should either be neutral or serve to promote grain cleaning. Mr. Gilbert also recognizes that how the market prices wheat (as well as dockage and shrunken and broken kernels) strongly affects the level of grain cleaning throughout the system. Although this issue has been around for years and has been studied, Mr. Gilbert feels strongly that the timing is right to revisit the U.S. Standards for Wheat and marketing practices with regard to dockage.

During discussion of Mr. Gilbert's presentation, the following points were made:

- The National Grain and Feed Association conducted an intensive study on grain dust explosions. For further information, contact:

Attention: Mr. Tom O'Connor
 National Grain and Feed Association
 1201 New York Avenue, NE, Suite 830
 Washington, DC 20005

- Several committee members voiced the opinion that the grades and standards should describe the quality of the product whereas the marketing system should determine its monetary value. In their opinion, the U.S. Standards for Wheat are

adequate in this regard and should not be changed.

REAUTHORIZATION

Mr. Dave Shipman, Deputy Administrator GIPSA's FGIS, provided an overview of FGIS' reauthorization. Every 4-7 years, specific sections of the United States Grain Standards Act come before Congress for renewal or reauthorization. On September 30, 2000, the following authorities expire:

- Collect and invest official agency supervision fees for inspection (7 USC 79 (j)(4));
- Collect original weighing service fees; collect official agency weighing supervision fees (7 USC 79a (1)(3));
- 40% cap for total administration and supervisory costs (7 USC 79 (d)); and
- Advisory Committee authority (7 USC 87 (h)).

In preparation for the reauthorization, FGIS will proceed according to the following schedule:

- Develop agency position -- March 1999
- Departmental clearance -- June 1999
- Legislative proposal to OMB -- August 1999
- Legislative proposal to Congress -- October 1999
- Hearings -- Spring 2000
- Legislation -- October 2000

As given above, only four specific sections of the U.S. Grain Standards Act are up for reauthorization. Nonetheless, other issues will likely be raised, such as Federal versus private export inspection and geographic restrictions on designated agencies. Teams of FGIS employees are thoroughly assessing both of these issues and will report back to the Agency's senior management by January 15, 1999.

GEOGRAPHIC RESTRICTIONS ON DESIGNATED AGENCIES

Mr. Neil Porter, Director GIPSA's Compliance Division, and Mr. Bob Gore, committee member, Assistant Director of Laboratory Services for the Washington Department of Agriculture, and representative of the American Association of Grain Inspection and Weighing Agencies (AAGIWA), provided updates on the issue of geographic restrictions on designated agencies. This topic was discussed at the May 1998 meeting of the committee and continues to be a topic of keen interest among the members. By way of background, Mr. Porter explained that one of GIPSA's functions in administering and enforcing the United States Grain Standards Act (USGSA) is to designate qualified State and private agencies (collectively referred to as official

agencies) to inspect and weigh grain at interior locations. Currently, domestic inspection and weighing services are provided by 62 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions.

In reviewing the designation process in 1993, the General Accounting Office found what it considered to be substantial fee discrepancies between official agencies and identified industry concerns that there was a need for more competition between the agencies. In the past and in accordance with the USGSA, GIPSA assigned to each official agency an exclusive geographic territory -- a territory in which no other official agency could provide official services. In drafting the Agency's reauthorization legislation in 1993, Congress incorporated the following language into the USGSA; "The Administrator may conduct pilot programs to allow more than one official agency to carry out inspections within a single geographic area . . ."

In accordance with the Agency's reauthorization legislation, GIPSA implemented two pilot programs during FY 96 and one in FY 98 to provide the agency with information on the effect of allowing more than one designated agency to inspect or weigh grain in a single area. To date, the number of inspections performed under the pilot programs has steadily increased but, in comparison to the total number of inspections performed by the official system, has been minimal. Some perceive that the pilot programs have improved service delivery (i.e., served a wake up call to the OAs to improve customer satisfaction), spurred cooperation among official agencies, and have not jeopardized the integrity of the official system. In some locations, business has increased slightly, whereas some State agencies have lost some business.

Where does the Agency go next with regard to the designation process? On October 1, 1998, GIPSA published a Notice in the *Federal Register* extending the current pilot programs to

September 30, 2000. This date was chosen because September 30 is the deadline for reauthorization, and this issue is closely linked with the reauthorization process.

Mr. Porter then proceeded to present three options while emphasizing that the "middle ground" options discussed were not all inclusive. These options are as follows:

- Eliminate boundaries between official agencies;
- Maintain exclusive areas;
- Pursue the middle ground by:
 - Adopting current pilots;
 - Developing additional criteria, other than existing pilots, to allow more than one OA to provide services in a geographic area. One way to accomplish this would be to go through the rule making process; and
 - Exempting States from any changes.

Mr. Porter then discussed the potential consequences of eliminating boundaries. Mr. Porter further emphasized that these were just potential consequences and that he didn't have all the answers:

- No Boundary Scenario
 - Increased official inspection
 - Fewer Agencies (especially State agencies)
 - More mobile and onsite labs
 - Less paperwork
 - No Federal fee approval necessary (competition will regulate fees)

GIPSA has not adopted a position with regard to the designation process. The Agency has, however, established a team to assess how the Agency would oversee a system without boundaries while preserving the integrity of the official system. The team will present its assessment to the Agency's senior management team by January 15, 1999.

Immediately following Mr. Porter's presentation, Mr. Bob Gore, speaking on behalf of AAGIWA, offered the following points:

- AAGIWA is currently formulating recommendations regarding this issue.
- The pilot programs **and** changing market trends have resulted in increased competition among the OAs resulting in better customer service.
- If boundaries are eliminated between the official agencies, Mr. Gore feels that a number of unofficial agencies will apply for official designation.
- Many producers and others within the marketing system do not understand the difference between OAs and unofficial agencies. Mr. Gore recommends that both GIPSA and AAGIWA reach out to educate the marketplace about the official system.

COMMERCIAL INSPECTION STANDARDIZATION SERVICES

Mr. Steven Tanner, Director GIPSA's Technical Services Division, provided an overview of potential commercial inspection standardization services. In summary, Mr. Tanner's presentation focused on whether the Agency should provide information and various services to the commercial market that previously were restricted to the official system only. For example, should FGIS train grain industry inspectors? Should FGIS provide quality control services to commercial in-house grain inspection laboratories? Should FGIS checktest and standardize commercial equipment used by in-house inspectors or even unofficial laboratories? The possible services vary widely but have the common goal of improving the commercial sector's ability to measure accurately and consistently grain quality when compared to official inspection. GIPSA's challenge will be to improve the technical capability of the commercial market while maintaining the fundamental structure of the official system. GIPSA has formed a cross-divisional team charged with preparing an objective and thorough assessment of providing standardization services to the commercial market. A draft copy of the team's assessment is due to the Agency's

senior management by January 15, 1999.

WEDNESDAY, NOVEMBER 4, 1998

OFFICIAL AGENCY COMPUTER NETWORK

Mr. Dave Orr, Director GIPSA's Field Management Division, provided an update on the official agency (OA) computer network. The OA telecommunications network, which is currently being pilot tested by several official agencies, will enhance communication within the official grain inspection and weighing system by allowing electronic mail, bulletin board functions, and bi-weekly data sharing between the official agencies and GIPSA through the Internet. Official agencies are required to use local service providers to allow them to access an Intranet or FTP file server provided by GIPSA for e-mail, bulletin board, and file transfer functions. The FTP file server has been successfully installed and is currently being used in a pilot. The electronic mail and bulletin board systems will be implemented in the second quarter of Fiscal Year 1999. The electronic mail system will be set up such that mail to and from the official agencies will reside on the same FGIS file server, guaranteeing instant delivery.

BARLEY PROTEIN

Mr. John Giler, Chief GIPSA's Standards and Procedures Branch, provided an update on barley protein testing. At present, GIPSA is engaged with several maltsters in a barley protein study. GIPSA is receiving barley samples from the maltsters for testing at its Technical Services Division. By the start of the new year, the Agency will have analyzed the results and will be in a better position to set a course of action. At this time, however, the initial data comparisons are favorable and the Agency anticipates that it will implement its barley protein testing service on June 1, 1999.

AFLATOXIN

Mr. John Giler, Chief GIPSA's Standards and Procedures Branch, provided an update on the past year's aflatoxin situation. In 1998, much of the southern United States, from Texas through Georgia, endured a very serious drought. The corn crop was especially hard hit, and aflatoxin levels were, in some samples, as high as 4,000 parts per billion. In an effort to facilitate the marketing of aflatoxin-infected corn, GIPSA met with the Food and Drug Administration (FDA) and the USDA's Farm Service Agency, to inform them of the situations and conditions observed in the corn market. The FDA responded quickly and entertained requests to blend contaminated grains for the feed market. FDA was receptive to these requests and established reasonable guidelines to address the use of contaminated corn on a State-by State basis. Also, several of the affected States responded by providing free aflatoxin testing through the State food and feed safety regulatory authorities. Serious market crisis was avoided as the entire market [GIPSA, FDA, USDA, and the industry] addressed the issue in a constructive way.

MOISTURE METER

Mr. Dick Pforr, Chief GIPSA's Weighing and Equipment Branch, provided a brief update on the moisture meter implementation (presentation handout attached). As indicated by Mr. Pforr, implementation of the new meter has been relatively smooth. The key points of his presentation are as follows:

- All instruments in the official systems are checked back to the GIPSA standard meter at the Technical Center in Kansas City, Missouri.
- GIPSA has rewritten the Moisture Handbook which should be published within 60 days.
- GIPSA will soon send a letter to all Official Agencies regarding our policy regarding onsite laboratories, purchasing of equipment for official use, and ownership of official equipment.
- May 1999 is the tentative transition date for barley, oats, rough rice, sorghum, and all wheat.

INSPECTION AUTOMATION

Mr. Dick Pforr, Chief GIPSA's Weighing and Equipment Branch, provided an update on the export grain inspection automation project (presentation handout attached). The Agency's Automated Sampling and Inspection System Team (ASIST) is working on developing an automated sampling, inspection, and reporting system concept for export elevators. In development of the automated system, the team is focusing on objective grading factors and is using only existing, approved devices. The team's ultimate goal is to improve the frequency of reporting test results from every 30 to 45 minutes to every 5 to 10 minutes for automated factors. Due to the project's extreme complexity, the project completion date of October 31, 1998, will be revised accordingly.

RESOLUTIONS OF THE GRAIN INSPECTION ADVISORY COMMITTEE

November 3-4, 1998

1. Reauthorization:

MOTION: Be it resolved that the Advisory Committee supports the reauthorization process and schedule as presented to the committee. Furthermore, the Advisory Committee encourages GIPSA to schedule meetings to seek input from interested parties as to the future role of GIPSA/FGIS as it relates to reauthorization.

The motion was seconded and passed.

2. Financial Matters:

MOTION: Be it resolved that the Advisory Committee supports the efforts made toward financial stability. In order to meet the financial challenges of the future, GIPSA/FGIS is to continue its efforts toward increased efficiency, increased revenue generating activities, and continuing control/reduction of costs of operation while maintaining the integrity of the official system.

The motion was seconded and passed.

RECOGNITION OF DEPARTING MEMBERS

Mr. James Baker, GIPSA Administrator, recognized those advisory committee members whose term expires in December 1998. The departing members are as follows:

- Edgar Hicks Omaha, Nebraska
- Bruce Lovdahl McGregor, North Dakota
- Alfred Parks Prairie View, Texas
- Harold Reese Destrehan, Louisiana
- Dwight Wise Fremont, Ohio

Although not present at this meeting, the term of service of six alternate committee members will also terminate. The alternate members are as follows:

- John Anderson Waterville, Washington
- Brian Butz Not at a U.S. Mailing Address
- Gerrit Cuperus Stillwater, Oklahoma
- Joyce Hershey Cochranville, Pennsylvania
- Paul Hughes Blytheville, Arkansas
- Steven Oman Findlay, Ohio

ADMINISTRATION MATTERS/NEXT MEETING

The Administrator proposed that the next meeting be held sometime between the end of March to the beginning of April 1999 in Kansas City, Missouri. The committee agreed.