

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

*Embassy Suites  
Kansas City, Missouri  
May 4-5, 2004*

**WELCOME**

Thomas Bressner, Chairperson, welcomed everyone to the meeting. Bressner stated the purpose of the meeting was to provide the Grain Inspection, Packers and Stockyards Administration (GIPSA) with advice and that participation was encouraged. Bressner reminded the Committee of the requirement to elect a Vice-Chairperson at the end of the meeting; the Vice Chairperson automatically succeeds as Chairperson.

**ACCEPTANCE OF MEETING MINUTES FROM NOVEMBER 4-5, 2003**

The Committee approved the minutes from November 4-5, 2003, meeting as written.

**REVIEW AND ACCEPTANCE OF MAY 4-5, 2004, MEETING AGENDA**

The Committee approved the agenda as written.

Bressner introduced Donna Reifschneider, Administrator, GIPSA.

**MEETING ATTENDEES**

**Committee Members**

David Ayers, Champaign Danville Grain Inspection  
Thomas Bressner, Assumption Cooperative Grain Company  
Paul Coppin, Reynolds United Coop  
Angela Dee, Dee Farm Partnership/Dee River Ranch, Inc.  
Warren Duffy, Archer Daniels Midland  
Patricia Dumoulin, Farmer-Retired College Professor  
Arvid Hawk, Cargill, Inc.  
John Oades, U.S. Wheat Associates  
Cassie Eigenmann Pierson, Dickey-john Corporation  
Mary Schuler, Schuler Lands, Inc.  
Jon Setterdahl, Farmers Cooperative Company  
Robert Smigelski, The Andersons, Inc.

**Committee Alternates**

Larry Kitchen, State of Missouri Department of Agriculture  
W. Arvid Lyons, Lewis Clark Terminal

## **GIPSA**

Donna Reifschneider, Administrator, GIPSA  
David Shipman, Deputy Administrator, Federal Grain Inspection Service (FGIS)  
Steven Tanner, Technical Services Division (TSD)  
Sharon Lathrop, Office of Director (TSD)  
Richard Pierce, Inspection Systems Engineering Branch, (TSD)  
Donald Kendall, Office of Director (TSD)  
Michael Eustrom, Board of Appeals and Review, (TSD)  
Marsha Schwartz, Office of Director (TSD)  
Rangan Chinnaswamy, Analytical, Reference and Testing Branch, (TSD)  
Bob Krouse, Compliance Division  
Neil Porter, Compliance Division  
David Orr, Field Management Division (FMD)  
Diane Palecek, Kansas City Field Office, (FMD)  
John Sharpe, Data and Information Analysis Branch, (FMD)  
Beth Hayden, Data and Information Analysis Branch, (FMD)  
Pat McClusky, Policies and Procedures Branch, (FMD)

## **Other Attendees**

Kevin Bredthauer, Central Iowa Grain Inspection, Inc.  
Les Malone, Retired GIPSA employee  
Randy Deike, State of Washington  
Ira Hobbs, USDA, Deputy Chief Information Officer  
Stuart Kieffer, USDA, Office of Chief Information Officer (OCIO)  
Kathleen Rundle, USDA, OCIO, National Information Technical Center (NITC)  
Patricia Jackson, Vicam  
Jamey Kline, Missouri Corn Growers Association  
Chet Boruff, Novecta  
Gary Clark, Missouri Dept. of Agriculture  
Tom Dahl, Sioux City Inspection  
Ted Hoelck, Hastings Grain Inspection  
Nadine Hoelck, Hastings Grain Inspection  
Tom Meyer, Kansas Grain Inspection  
Mark Fulmer, Lincoln Inspection  
Floyd Dowell, USDA, Agricultural Research Service (ARS)  
William Hawks, USDA, Under Secretary, Marketing and Regulatory Programs  
Edward Sikora, Auburn University  
Tom Slife, Foss

## OPENING REMARKS

Donna Reifschneider opened the meeting by welcoming members and thanking them for their attendance. She outlined agenda highlights, including remarks by USDA Under Secretary Bill Hawks. Reifschneider introduced USDA Deputy Chief Information Officer Ira Hobbs.

## USDA INFORMATION TECHNOLOGY

Hobbs discussed Information Technology (IT) from the USDA corporate perspective. GIPSA's aggressive enterprise architecture initiative is one piece of USDA's system architecture. USDA's overall goal, based on the President's Management Agenda, is to provide a responsive, secure, and easily accessible e-government system for all citizens. Information that citizens need must be readily available from one portal, not from the responsible agencies. Each quarter, the Department assesses its performance on achieving this goal using baseline measures developed in 2002.

USDA is modernizing its various internal IT programs with the goal of building a function one time for use by all agencies that require it. By collaborating and consolidating, USDA can maximize the commonalities of USDA program IT needs, reduce costs, and increase the knowledge base available in the Department for troubleshooting. All IT products undergo a certification process to ensure private, personnel, and confidential information is safe and secure. USDA is currently certifying 525 systems. By establishing plans and goals for each upgrade, USDA will minimize scope creep and cost escalation. Each project has key milestones to allow assessment by the Office of Inspector General during its annual IT reviews.

## STATUS OF NOVEMBER 2003 RESOLUTIONS

Reifschneider reported on GIPSA's many actions to address the Committee's resolutions from the November 2003 meeting. Specific text of the 11 resolutions can be found in the November 2003 minutes, below is a summary of GIPSA activities related to each.

**Resolution 1, Outreach:** In 2003, GIPSA expanded outreach in Asia and Mexico, met with 31 visiting trade teams from 16 countries, made 25 trips to 16 different countries, performed 17 technical consultative services for international customers, and expanded the multimedia educational material available. In 2004, GIPSA provided technical leadership on the Biosafety Protocol leading to the trilateral arrangement between the United States, Canada, and Mexico; helped set up five inspection labs in the Mexican interior; provided training to Mexican grain cooperatives on U.S. standards and inspection methods; worked on grade quality standards for the Iraqi reconstruction effort; and maintained collaborative reference sample exchange programs with international customers.

**Resolution 2, End-Use Testing:** GIPSA is developing tests to differentiate wheat

quality based on end-use functional qualities; working with the United Soybean Board to improve reference methods and develop rapid tests for enhanced quality attributes; and working with breeders and technology companies to evaluate the need for quality measures for future corn quality attributes. The focus remains on developing rapid tests that promote multi-functional equipment.

**Resolution 3, Biotech:** GIPSA currently provides validation of test kit performance, a voluntary proficiency program for laboratories, and voluntary testing services using rapid test kits. Future plans include working with the National Institute of Standards and Technology (NIST) to develop standard reference materials and measurement units, and working with internationally recognized organizations to develop and validate testing methods.

**Resolutions 4 and 10, ANN:** Budget constraints delayed progress on this initiative for a year. A *Federal Register* notice announcing GIPSA's intent to implement the artificial neural network (ANN) calibration for wheat protein on May 1, 2005, is in clearance. GIPSA's website will include comprehensive results of the Agency's field- and lab-based evaluations and other ANN-related information.

**Resolution 5, Web-Based System:** Budget constraints have slowed progress on development of the web-based system designed to improve operational efficiency and accuracy, and enhance customer service.

**Resolution 6, Soybean Standards:** GIPSA has discussed the proposed changes to test weight (TW) in soybeans with industry and other stakeholders. Based on these talks and reviews of available data, GIPSA will likely propose removing TW as a grading factor and making it an informational test.

**Resolution 7, SKCS:** GIPSA is using the Single Kernel Characterization System (SKCS) at export locations to monitor shipments and troubleshoot wheat class for questionable samples. GIPSA also is working with the Agricultural Research Service (ARS) and the Wheat Marketing Center to fine tune the calibrations for soft wheat types.

**Resolution 8, Roundup Ready Wheat:** GIPSA continues to issue the letterhead statement that there are no transgenic wheat varieties for sale or in commercial production in the United States. Monsanto agreed to the three conditions that will permit GIPSA to continue to issue the letterhead statement after Roundup Ready wheat has completed the government regulatory process but has not yet been commercialized.

**Resolution 9, Alveograph:** GIPSA added alveograph tests to the GIPSA/ARS end-use functionality testing project at a cost of \$13,000.

**Resolution 11, Pilot:** Funding constraints for needed IT enhancements have delayed progress on the Minnesota pilot. In addition, the State is experimenting with direct outsourcing and cooperative agreements to address service concerns. There is no final decision on the study at this time.

## **FGIS ISSUES UPDATE**

David Shipman, Deputy Administrator, briefed the Committee on (1) the 2004 status of funds, (2) the 2005 budget request, (3) fees, (4) future priorities, and (5) improvements to the official inspection system.

### **FY 2004 Financial Status:**

For the first half of FY 2004 (Oct 03 – Mar 04), GIPSA revenues exceeded expenses for trust fund programs by \$64,710. The overall unobligated trust fund balance was approximately \$4 million.

The financial performance of the largest trust fund program, export inspection and weighing services was better than expected with a net positive margin of \$657,753. The outlook for the remaining 6-months of the fiscal year is expected to be marginal as exports decline. Efforts are currently underway to reduce all variable costs and a final decision on a fee adjustment is expected in the near future.

Significant losses were incurred in Program 530, Supervision of Official Agencies. These losses are a direct result of a new policy on the distribution of headquarter support costs among the various trust fund programs. Direct costs have remained constant; while the portion of headquarters support costs charged to this program have increased substantially.

Overall, we expect the cost of the six trust fund programs in FY 2004 to exceed revenue by approximately \$1 million resulting in a reduction of the trust fund reserve to \$3 million at the end of FY 2004.

### **FY 2005 Budget Request:**

GIPSA's overall fiscal year 2005 budget request to Congress is \$44 million for appropriated funding (\$19.9 million FGIS and \$24.1 million for Packers and Stockyards –P&S). This represents an \$8.5 million increase over FY 2004 (\$3.1 million for FGIS and \$5.3 million for P&S). The FGIS increase includes: -- \$500,000 to expand technical assistance for international outreach, \$2.4 million to support the IT enterprise architecture, and \$250,000 for pay raises. Preliminary meetings with Congressional staffers indicated that GIPSA may receive some but not all of the increases requested. New user fees of \$5.8 million for grain standardization activities are included in the President's budget request. If Congress authorizes the new user fees, GIPSA will shift 29 percent of the FGIS budget request to user fees.

### **Fee Adjustment;**

On November 19, 2003, GIPSA published in the *Federal Register* a proposed to increase

inspection and weighing fees. The comment period closed January 20, 2004. The final rule is in clearance. The proposal called for a 20 percent increase in base contract rates and a 40 percent increase in non-contract fees; eliminating some short-term contracts; establishing regional administrative fees; increasing supervision fees for vessels inspected by delegated States; and increasing both unit fees and scale testing fees. GIPSA anticipates the final rule will be published during the week of May 10, 2004.

GIPSA is evaluating the official agency user fee program (530 account), for which fees were last adjusted in 1985 (lowered). Due to program efficiencies, the retained earnings in this account remained constant from 1985 to 2003. However, the new overhead cost allocation formula increased the 530 account share of overhead. GIPSA wants to establish a logical fee structure that still allows the official system to be competitive. GIPSA is considering several options, including an across-the-board increase of current fees; an increase in unit fees based on volume of grain inspected; and a flat percentage of official agency revenue. Shipman asked for the Committee's comments on the options and their potential impacts.

#### **Future Direction and System Improvements:**

GIPSA's priorities for the future are to (1) expand international outreach, (2) ensure the official grain standards remain relevant, (3) improve the ability of the U.S. grain inspection system to provide end-use quality testing, and (4) enhance customer service through the official inspection system.

In the customer service area, GIPSA intends to (1) develop web-based information enterprise architecture, (2) promote an environment to minimize government intervention and encourage official agencies to respond to market signals, (3) develop new services to meet the evolving needs of the market, (4) bring new or improved technology to the inspection system, and (5) improve quality and reduce costs of oversight.

First, a web-based information enterprise architecture is expected to both improve efficiency and accuracy and enhance customer service. Current IT programs do not interchange data, requiring multiple data entry. The enterprise architecture will allow various systems to communicate and provide a portal to access the information.

To promote an environment that minimizes government intervention and encourages official agencies to respond to market signals and continuously improve customer service, GIPSA will revise requirements to permit frontline service providers to better serve customers while maintaining system integrity and accuracy, continue the exception programs, conduct additional pilot programs when opportunity exists, and expand opportunities for providers to enter the official system. The pilot study to evaluate the impact of allowing multiple official agencies to operate in a single geographic area is delayed due to the need for enhanced information technology and funding restraints. In addition, the study site is improving service through direct outsourcing and cooperative agreements

Third, GIPSA plans to develop new services, such as Process Verification, to serve the evolving needs of the market. The Process Verification Program will offer USDA verification of an organization's Quality Management System through GIPSA audits based on ISO 9001 requirements. Organizations can then market their process/product as "USDA Process Verified".

GIPSA also plans to bring new or improved technology to the inspection system. Key efforts in this area include wheat end use functionality and barley protein measurements. GIPSA's goal is to harness technology to help differentiate those qualities of value to the marketplace.

Finally, GIPSA will improve the quality and reduce the cost of oversight by enhancing the availability of quality control and assurance data through web-based information enterprise architecture, centralize monitoring and standardization activities, and establish a network of inspectors to provide local oversight of official agencies.

## **REAUTHORIZATION**

Neil Porter, Director, Compliance Division, summarized the status of Congressional reauthorization of the U.S. Grain Standards Act. The Grain Standards Act was initially passed in 1916 and was revised several times before FGIS' creation in 1976. Certain provisions of the statute expire every few years. The last reauthorization was September 30, 2000. On September 30, 2005, the following authorities expire:

- 7 USC 79(j)(4): Authority to collect fees for providing official inspection services, and for supervising the official inspection services performed by official agencies.
- 7 USC 79a(1)(3): Authority to collect fees for providing original weighing services, and for supervising the official weighing services performed by official agencies.
- 7 USC 79d: Total administrative and supervisory costs shall not exceed 30 percent.
- 7 USC 87h: Authority for GIPSA to receive appropriations for standardization and compliance activities.
- 7 USC 87j(e): Authority to establish and maintain a Grain Inspection Advisory Committee.

The reauthorization process culminates in an extension of the statute's expiring authorities for a specified time period, generally 5 years. It also provides the opportunity to make program changes. In 2000, the reauthorization legislation included program changes to increase flexibility in official testing equipment, expand contracting authority, and allow some flexibility in providing official services in the domestic grain market. While GIPSA is not planning to request any program changes, potential issues that could be raised during the upcoming reauthorization include (1) more flexibility in obtaining official services in the domestic market, and (2) increased outsourcing of inspection services at export facilities. Specifically, the exclusive geographic boundaries for official agencies and the prohibition of official agencies grading of at export locations are expected to be raised.

Today, 56 designated State and private agencies provide inspection and weighing services in exclusive geographic boundaries. These entities' designations expire every 3 years. There are exceptions and pilot programs that allow for some boundary flexibility.

There are two opposing viewpoints concerning the possible elimination of geographic boundaries: 1) the grain industry would benefit from increased competition and 2) the integrity of the official inspection program would be jeopardized. While the exception programs have provided some data showing increased customer satisfaction without a loss of program integrity, GIPSA will not have sufficient concrete data at the time of reauthorization to address this issue.

GIPSA and seven delegated States service the export market. The grain industry remains concerned about the cost of Federal inspectors providing direct service. During the reauthorization process, industry discussions are anticipated on the potential for official services to be provided by private entities at export with GIPSA oversight.

The reauthorization timeline is:

Nov 2003 to June 2004	Discuss with stakeholders
June-July 2004	Draft Legislation
December 2004	Obtain USDA clearance
January 2005	Obtain OMB clearance
February 2005	Submit to Congress
March B June 2005	Congressional Hearings (can be extensive)
September 2005	Enact Legislation

## **OFFICIAL AND UNOFFICIAL INSPECTIONS**

Porter reported that according to the regulations under the U.S. Grain Standards Act, official agencies are prohibited from performing both official and unofficial inspection services. Several official agencies claim this prohibition prevents them from competing with entities providing unofficial services. While the Official Commercial Inspection Service (OCIS) allows agencies to customize official service, OCIS certificates are blue in color and do not comply with certain industry trading rules. To address this issue, GIPSA will work with the National Grain and Feed Association to review the current trading rules as they relate to OCIS.

## **PROCESSED COMMODITY TESTING**

Steven Tanner, Director, Technical Services Division (TSD), discussed GIPSA's intent to discontinue offering processed commodity testing services on September 30, 2004.

Today, GIPSA carries out processed commodity testing services primarily on

consignments shipped overseas for U.S. AID programs. GIPSA also provides some testing for the school lunch programs and Department of Defense programs. Since the late 1930s, these products required Federal testing when purchased on government contract. The tests provided under this program are common laboratory tests that assess quality and fitness for consumption. This user-fee program operates under the authority of the Agricultural Marketing Act.

The Farm Services Agency (FSA) purchases most of the commodities tested by GIPSA. In 2000, FSA implemented a Total Quality Systems Audit (TQSA) program to reduce costs. The TQSA is based on ISO principles of audits and allows private labs to provide testing services. Since implementation of TQSA, GIPSA's processed commodities testing program has experienced a dramatic decline in work. In an effort to maintain the core program under a much reduced workload, GIPSA streamlined program functions to cover basic core services and increased fees by 100 percent. GIPSA recognized that such a dramatic fee increase could potential result in a further decline in services, but believed maintaining core program capabilities was important to the overall integrity of the US food procurement process.

Unfortunately, efforts to contain costs and adjust fees are insufficient to maintain program operations. GIPSA's termination of this service will eliminate select analytical expertise in the Agency. U.S. food programs will have to reliance on private laboratories to address quality concerns.

As a business decision, GIPSA plans to discontinue offering commodity testing services on September 30, 2004. GIPSA has informally discussed this intent with the FSA and will formally notify them, our field offices, and processed commodities manufacturers in June 2004. A *Federal Register* noticed will be issued in July 2004. To address subsequent service requests, GIPSA field offices will refer applicants to alternative private labs.

## **WHEAT END-USE FUNCTIONALITY**

Dr. Rangan Chinnaswamy, Chemist, TSD, briefed the Committee on wheat end-use functionality research. Chinnaswamy indicated that the United States must be able to measure the value of wheat to maintain its competitive edge in world markets. The end-use functionality project will to facilitate marketing by providing rapid testing methods to differentiate functional qualities that meet specific end-use needs.

Based on farinograph stability results for the period February 2002 to July 2003, obtained from US Wheat Associates, there is a lot of variability in the quality of wheat shipped. Ideally, this variability should be within five percent, providing a consistent product to the customer.

The many diverse products made from wheat require different end-use quality. With the exception of noodles (rice), all wheat products require gluten. In assessing what quality

factors need to be assessed, GIPSA found gluten strength to be the key. This unique protein has two major fractions, glutenin and gliadin. Glutenin is the most important fraction. Up to 90 percent of quality is the consistency of gluten; the other 10 percent is related to starch.

GIPSA's current objectives are to establish a reference lab, develop a broad sample collection that encompasses the full range of functional properties, investigate existing methods to assess gluten strength, develop tools for wheat protein characterization in conjunction with a varietal ID program, and foster and support outside research efforts.

GIPSA is also working to standardize variability in test methods, and refine and standardize methods.

Potential Rapid test methods include Near Infrared Transmittance (NIRT), Glutomatic, Auto Sodium Dodecyl Sulfate Sedimentation (Auto SDS), Micro Sodium Dodecyl Sulfate Sedimentation (micro SDS), Solvent Retention Capacity (SRC), and Insoluble Polymeric Protein (IPP). The NIRT appears to be a superior method, and is both rapid and inexpensive. Wet gluten covers the whole quality spectrum. Based on the 1998-2001 data, a NIRT calibration could be established fairly easily. The insoluble PP is relating most to end-use but is not an easy test method to do. GIPSA is working with Perten on research to explore this possibility. In addition, GIPSA is currently collaborating with ARS-Grain Marketing and Production Research Center, ARS-Western Wheat Quality Laboratory, Nabisco, and the University of Idaho on the potential rapid test methods.

Dr. Floyd Dowell, USDA, Agricultural Research Service, Grain Marketing and Production Research Center, elaborated on the collaboration with GIPSA. A sample set was selected to represent the quality of HRW and HRS grain and tested through the entire process -- whole grain to baked bread. This comprehensive study includes whole kernel characteristics, flour quality, dough quality, and bread making quality.

The huge project of testing and collecting the data on the representative sample set is primarily complete. Data analysis is beginning. The objective is to identify quantitative and qualitative tests that predict end-use traits and functionality and develop rapid tests to measure these attributes.

The projected results of the study are the characterization of the test set, prediction of all traits and functionality by NIR, including a comparison of NIR instruments, study of the inter-relationship of all traits and functionality, and a study of the synergy of combining multiple measurements for predicting functionality. Preliminary review shows good correlation between test weight, DHV, protein, and gluten. These correlations increase for flour, possibly because the sample is more representative.

Dowell indicated additional analyses are planned to combine multiple attributes to improve quality predictions, examine the effects of blends on quality, and to identify technology gaps for measuring intrinsic traits that are essential to address emerging

market needs.

## **BARLEY PROTEIN**

Pat McCluskey, Market Analysis and Standards Branch, Field Management Division, discussed the potential benefits of GIPSA providing an official barley protein service.

Three-fourths of barley grown in the United States goes into the food, malt, and industrial market segments, with the majority going into malt. Buyers want consistent grain quality without varietal mixing. Variety information is of interest to maltsters since two-row and six-row barley malt differently. Protein content is important as it relates to good yeast; too much produces cloudy beer with a bitter flavor. The preferred level is 11 to 13 percent, dry basis.

Most maltsters contract directly with farmers with no discounts; grain is either accepted or rejected. Rejected malting barley outlets are merchandizing, feed barley markets, or USDA Risk Management Agency (RMA). The price difference between feed barley and malting barley is significant.

There is currently no official protein determination for barley. The market uses multiple methods on non-standardized instruments. There is no industry consensus on the best method for determining protein. The National Barley Growers Association supports the use of Artificial Neural Network (ANN) technology. The American Malting Barley Association is opposed to GIPSA offering official barley protein testing.

GIPSA began investigating barley protein measurement in the 1980s using NIR. In the late 1990s, GIPSA investigated protein measurement using the whole grain NIRT instruments using Partial Least Squares (PLS). From 2000 to the present, GIPSA has been investigating using an ANN calibration for barley protein. In 2002, GIPSA field tested an ANN calibration at seven specified service points. Based on the results of the field test, use of the ANN calibration reduced testing variability.

Official barley protein testing would benefit the market by offering a fair, impartial, transparent third party testing service; standardized testing in the market and the official system; and use of a national quality control process to ensure accurate and consistent results. In addition, GIPSA can offer the testing with little additional costs to the official system.

## **SOYBEAN PROJECTS**

McCluskey also discussed GIPSA's involvement in several soybean projects: the possible removal of test weight (TW) as a grading factor in soybeans; and the United Soybean Board's (USB) soybean quality traits analytical standards program, select yield and quality initiative, analytical measurements and standards working group, and foreign material in soybean market channels initiative.

Based on the Committee's recommendations and resolution from the last meeting,

GIPSA solicited feedback from the American Soybean Association, the USB, the National Oilseed Processors Association, individual handlers, and the RMA on TW in the standards. Most supported removing TW as a grade determining factor from soybeans. GIPSA is evaluating the benefits of converting TW from a grade factor to an official factor offered on all certificates for grade or upon request. A proposed rule should be published during the summer of 2004.

For the USB projects, GIPSA is primarily functioning as a technical advisor and has provided some sample collection and analysis assistance. The projects are funded by the USB's checkoff program.

GIPSA is a technical advisor for the Soybean Quality Traits Analytical Standards Program of USB's Better Bean Initiative. The program is creating uniform standardized methods for measuring soybean quality traits, such as protein, oil, and fatty acid and amino acid profiles. GIPSA also is one of the core reference laboratories for this project.

For the Better Bean's Select Yield and Quality Initiative, GIPSA is helping USB establish a baseline for protein and oil levels by providing data on inspected soybean samples. The project will demonstrate the potential for composition increase without yield loss for growers, illustrate the benefits of including composition in pricing policies for processors, and reinforce the need to incorporate quality consideration into the germplasm selection process for seed companies.

GIPSA is a technical advisor for the Better Bean Initiative's Analytical Measurements and Standards Working Group. The group is assessing the ability to objectively and consistently identify the intrinsic qualities of the soybean, and the current standards in soybean measurement, and determining steps needed to accelerate and accomplish these tasks.

A fourth USB project, which is not part of the Better Bean Initiative, is the Foreign Material (FM) in Soybean Market Channels project. The project is analyzing the level and composition of FM at various stages in the soybean market channel, specifically looking for cost-effective efficiencies to reduce FM. GIPSA is providing samples for analysis.

## **INTERNATIONAL ISSUES**

Shipman updated the Committee on FGIS international outreach activities. FGIS, through its Office of International Affairs, facilitates resolution of trade barriers and disruptions, investigates quality/weight discrepancies, helps USDA Cooperators with market development projects, and conducts educational programs. Current outreach efforts include assigning collateral duty officers abroad, working with Mexico on grain trade issues, and aiding in the reconstruction of Iraq.

GIPSA established temporary, regional Collateral Duty Officer (CDO) positions in 2002

to provide more consistent contact with importers. The initial assignment in Southeast Asia in 2002 involved four major projects in seven countries. A second assignment to Southeast Asia in January 2003 was cut short due to SARS and security concerns. In April 2003, in conjunction with Foreign Agricultural Service (FAS) and the U.S. Grains Council, GIPSA established a CDO position to harmonize sampling and procedures with Mexico. These assignments, which generally last 3 to 4 months, have been very productive and garnered praise from our international customers. A CDO is preparing to depart for Asia in June 2004.

GIPSA's efforts to harmonize trade with Mexico have included helping the U.S. Grains Council set up five grain inspection labs and train Mexican inspectors in the interior, conducting a 5-day training session on corn, sorghum, and canola at large Mexican grain cooperatives for 18 inspectors, training Mexican producers at the request of ASERCA, and translating GIPSA handbooks into Spanish. GIPSA's Mexico outreach efforts have resulted in fewer importer complaints about the accuracy of official inspection certificates, and fewer grain importer associations demanding destination labs, destination grades, and arbitration panels. Future plans include helping the U.S. Grains Council train inspectors and grain buyers for five additional Mexican grain companies, surveying the original five labs' mycotoxin methodologies, conducting sample exchanges on damaged kernels (total), monitoring a corn shipment with a U.S. Grains Council laboratory, and pursuing GIPSA's proposal for a joint Consultative Grain Industry Group (CGIG) to address border issues and future training.

To aid in the reconstruction of Iraq, in February 2004, GIPSA and other USDA agencies met with the Iraq Grain Board in Jordan about future commodity sales. GIPSA played a major role in revising wheat purchase specifications and proposed establishing a central inspection lab in Baghdad. GIPSA is working with FAS to schedule a training session for Iraqi graders at an inspection lab in Egypt.

GIPSA is addressing other international issues including China's policies and regulations regarding biotech event approvals, and soybean disease, weed seeds, and foreign material; Egyptian weed seeds complaints; and implementation of the Biosafety Protocol (BSP).

The BSP is a multilateral environmental agreement enacted in September 2003 that established requirements for transboundary movements of living modified organisms (LMOs). GIPSA was instrumental in developing the North American trilateral agreement of October 2003, an implementation agreement signed by the United States, Canada, and Mexico. This agreement is a template for all countries to follow in addressing the BSP requirements.

The BSP's first "Meeting of the Parties" was held in February 2004. Trade interests' and exporting nations' views were largely ignored; and the Parties criticized the North American trilateral agreement. At the meeting, Parties were urged to require documents listing each event that may be in each shipment. Final decisions are to be made at the second meeting in June 2005, with no specific interim guidelines established. It is

possible that all 94 parties may implement the Protocol differently or impose onerous requirements.

GIPSA will continue to participate in the interagency process led by the State Department, expand the trilateral agreement beyond North America, monitor Parties' implementation policies, and, in preparation for the second Meeting of the Parties, provide input at technical meetings and workshops emphasizing a practical approach to implementing the Protocol.

## **MARKETING VALUE-ENHANCED GRAINS AND OILSEEDS**

Chet Boruff, Novecta, and Jamey Cline, Missouri Corn Growers Association, gave a joint presentation on marketing value-enhanced grain and the potential benefits of GIPSA's Process Verification Program.

Agriculture is changing due to the introduction of biotechnology, consumer demands, integration of the food system that may limit access to markets and open price discovery, and tighter operating margins that force producers to get larger or find other sources of income. Producers want to diversify to improve their competitive status. To add value to crops, growers are producing value-enhanced crops such as high-oil corn, making investments in processing systems that add value to crops, striving for higher quality and consistency, and using information and technology to insure conformity and purity delivered to customers.

Delivering high quality grain and oilseeds requires a partnership of producers, handlers, agribusinesses, commodity organizations, and the USDA. Quality Assurance Systems need to start with the producer for documentation to be completely traceable. There are varying levels of traceability that are determined by customer needs and influenced by cost. Documentation may be in many forms. Some producers are ISO 9001 registered. They are looking for a return on the investment, but the U.S. market has not yet reached that point. Establishing quality assurance systems is an offensive strategy for maintaining the value of specialty products in the marketplace. There are challenges related to providing documentation of traceability to the customers.

GIPSA's Process Verification Program (PVP) benefits the marketplace by providing for consistency of grain, quality of differentiated product, operational efficiencies, third-party oversight and seal of approval, and safety and security compliance. The USDA name has value in certain markets. Challenges to PVP are the pre-existence of proprietary identity-preserved (IP) systems that meet minimum requirements, the uncertainty of the value of the PVP in the marketplace, fees associated with registration, paperwork requirements, and possible exposure to additional liabilities.

Moving from IP to quality assurance can bring a higher quality to the system, but implementing an ISO-9001-based quality system is a learning process. Since competitors could also be "USDA Process Verified" producers are uncertain whether the effort will

produce a competitive advantage in the marketplace. In addition, the costs of registration and audit fees may be a factor, as will the balance between the quantity of paperwork required versus the reward for operating under the PVP. Last, there may be some concern that “process verified” may imply claims of quality and consistency, thereby increasing liability.

The Missouri Corn Growers Association’s (MCGA) mission is to help prepare producers to work with the grain industry to become Process Verified, to consistently meet quality specifications and performance requirements of the grain industry, and to work with the industry to deliver consistently high value corn traits that measurably improve the customer’s business. To achieve this mission, MCGA has developed a product called ”TSolutions“ that provides access to an IP corn trait traceability system. The components of ”TSolutions“ are an electronic data collection system, producer planting through harvest protocols, producer classroom and combine training, and research hybrid trials to further identify best trait values for the grain industry.

Novecta represents both the Illinois and Iowa Corn Growers Associations. Novecta’s mission is to prepare and position growers to benefit from markets that value quality. To achieve its mission, Novecta provides grower training and certification, documentation services, assistance in developing QA Systems, auditing services, and distance learning through the Novecta Learning System.

Corn growers must identify end-users and markets that recognize the value of Process Verification, identify and prepare pilot products for audits and registration, develop of guidelines and training materials, establish a database to manage information, and promote quality-assured grains and oilseeds in both domestic and export markets. Over the next year, corn growers will continue their educational efforts to inform grain industry customers about the value of PVP registration. Challenges and opportunities exist. Working together, Illinois, Iowa and Missouri Corn Growers can move forward in a focused and unified strategy.

#### **REMARKS BY UNDER SECRETARY HAWKS**

William Hawks, Under Secretary, Marketing and Regulatory Programs, thanked the Committee for their efforts, which are crucial to determining GIPSA’s direction and issues that need to be addressed. Hawks also thanked the USDA employees for the excellent job they do. Working together works.

Hawks briefed the Committee on several issues being addressed by Marketing and Regulatory Programs agencies. He reported that a cow in Texas was suspected of having BSE last week. The media is presenting this as a case of BSE, which is incorrect. Hawks indicated that field employees need clear direction on testing requirements

He also discussed soybean rust. Because the pathogen is airborne and has a wide range of host plants, the risk of it reaching the U.S. is high. He indicated the United States has done a good job of preventing the human introduction of soybean rust into the country. APHIS had developed a strategic plan focusing on protection, detection, response, and recovery. APHIS issued a document outlining scientific evidence on risks associated with the introduction of soybean rust into the United States with imported soybean grain, seed, and meal. Evidence indicates that soybean seed and meal pose extremely low risks of introducing the disease since the rust spores only survive on green, leafy tissue. The document is on APHIS' website. APHIS officials recently visited U.S. soybean elevators and South American grain elevators and processing facilities to examine how storage, loading, and shipping of export-quality soybeans are handled in the two countries.

Hawks closed by again thanking the Committee and GIPSA for their work, and reminding all that working together, we can make a difference.

## **BIOTECH TESTING**

Steven Tanner, Director, Technical Services Division, responded to a Committee request with an ad hoc presentation on the status of biotech testing in the United States. Tanner indicated there is a lot of activity in this area, including the international activities of the Office of International Affairs. He focused on GIPSA's technical programs.

More than 100 laboratories, 75 from outside the United States, are taking part in GIPSA's voluntary Proficiency Program. Participants include both government and independent labs. Since the start of this program in 2002, both the U.S. and international labs have improved their ability to qualitatively detect GMOs. Some labs dropped out and stopped offering the service based on their poor results. GIPSA recently added quantitative testing to the program. For trade, labs must be able to quantify the biotech levels in a lot at 0.5, 0.9, and 1 percent levels. However, the variability in testing is so large at those levels it is risky to perform. GIPSA is working with international groups and life science companies to improve methodology.

The variability of testing methods is due in part to the lack of internationally recognized reference materials. Without reliable methodology, trade is impaired. Life science companies are asking GIPSA to provide reference materials. GIPSA is working with the National Institute of Standards and Technology (NIST) to establish reference materials. GIPSA is seeking funding to proceed with the collaboration with NIST on developing these essential materials.

GIPSA also is working with an International Organization for Standardization (ISO) team to develop sampling methods, and protein and DNA-based methodology. In addition, GIPSA is actively involved with Codex method development. The methods under review by Codex have not been validated, which the United States is requiring to ensure sound science.

## GENERAL DISCUSSIONS

**USDA Information Technology:** David Ayers asked how GIPSA is progressing. Ira Hobbs indicated the Department is pleased with GIPSA's cooperation and the Agency is doing well. Arvid Hawks asked if there would be one security plan for every elevator considering homeland security. Hobbs indicated that the Federal government is trying to coordinate its efforts. Additional consideration needs to be given to State and local governments. Bob Smigelski asked how adaptable the architecture plans were to reorganizations or new administrations. Hobbs indicated the architecture focused on functionality. Smigelski then asked about the process for eliminating positions if automated systems require fewer people. Hobbs indicated that instead of eliminating positions, it is possible people may be redirected to increase the organization's effectiveness. There will be a retooling of the workforce to ensure people have the skills needed.

**Mexico Outreach:** David Ayers suggested that GIPSA consider another option in its outreach efforts with Mexico. Instead of working with Mexican grain facilities, GIPSA should emphasize official agencies more and deal more with buyers. Reifschneider indicated the current efforts have obtained good results. Shipman said that GIPSA was open to increasing official agencies' involvement in the process. Tom Bressner asked the role of the five Mexican inspection labs; Jon Setterdahl asked their location. Shipman indicated Mexican labs served the domestic and import market in the interior. Mexican facilities formerly had no capacity for measuring quality. Today, they have a better understanding of quality measurements, which is lessening the number of complaints. John Oades indicated that Mexican flour millers are very complimentary of GIPSA's efforts to standardize the approach between the two countries.

Both Smigelski and Oades indicated they like GIPSA's approach. David Ayers indicated there is a loss of official business at origin. Official agencies can not compete with unofficial firms that offer complete packages, including unofficial inspection, to facilitate the movement of grain across the border. Shipman indicated that official agencies have to be viable businesses to ensure the official inspection system will be available. Shipman asked if official agencies have the same ability to add the requested additional services.

**Reauthorization:** David Ayers requested information on the current administrative and supervision costs levels of GIPSA. Porter indicated it was under the 30 percent ceiling at about 27 to 28 percent.

Arvid Hawk expressed concern that every administration has proposed converting standardization funds to user fees, which would add an additional 20 percent to fees. This further aggravates the competition concern. Tom Bressner indicated that since the standards benefit everyone, as shown by the mission statement, that export should not have to fund their development. There was a general discussion concerning the possibility of the Committee sending a letter to the Senate Agricultural Committee before

the reauthorization hearings. Arvid Hawk indicated his organization would also address this issue. Shipman indicated that it might be more appropriate for the Committee to write to the Secretary. He said he would research the appropriate course of action and advise the Chairperson. Reauthorization is the subject of Resolution 13.

**Official and Unofficial Inspections:** There was a general discussion on the value of eliminating official agencies' boundaries to capitalize on the benefits of competition versus the potential for jeopardizing the integrity of the official system. The Committee was split on the issue of eliminating exclusive territories. Robert Smigelski recommended that GIPSA examine the standards for official agencies and retool them to meet the changing environment. Specifically, he suggested that GIPSA examine territory sizes and financial requirements before replacing or consolidating agencies. The requirements of the official agencies need to be current for today's needs and positioned to meet future needs.

Arvid Hawk asked why official agencies are not allowed to offer both official and unofficial services. Porter indicated the regulation was established in the 1980s when system integrity was an issue, and that it may be time to review the stipulation. Shipman indicated the OCIS system was designed to give agencies flexibility to negotiate on some issues that can increase variability so long as results were not biased. Official Agency regulations are the subject of Resolution 9.

Members also had a general discussion on the potential to privatize export inspection activities. Members voiced concern about international customers recognizing the integrity of private inspection results, and the potential cost savings of reducing Federal employees. The level of GIPSA supervision required was discussed, with some indication that GIPSA should provide 100 percent oversight. Ensuring the integrity of the official system was a prime concern. Privatizing export inspection is the subject of Resolution 10.

**Barley Protein:** There was a general discussion on how the current marketplace functions, and the different calibrations and instruments in use. Most barley is contract grown. A national calibration would be useful for situations when barley lots and insurance are rejected by the Risk Management Agency. Barley Protein is the subject of Resolution 1.

**Asian Soybean Rust:** Angela Dee requested information on plans to keep Asian Soybean Rust out of the United States. Shipman responded that GIPSA is not directly involved, APHIS is the responsible USDA agency.

**Overseas Collateral Duty Officers:** Jon Oades complimented GIPSA on the overseas collateral duty positions and indicated longer-term assignments should be considered. Oades suggested that 2-year contracts, such as those used by FAS, allow incumbents to really learn the area and people. Shipman indicated GIPSA is starting to evaluate the program and would consider this advice. Collateral Duty Officers are the subject of

#### Resolution 4.

**Biosafety Protocol:** There was a general discussion on the Biosafety Protocol and its impact on U.S. elevators. Arvid Hawk indicated his company plans to include "may contain" language on invoices to meet the purpose of the Protocol. He noted that Philippine regulations are already requiring something different. Shipman indicated GIPSA will work with the State Department and FAS to attempt to influence the final outcome in the Philippines.

**Process Verification Process:** There was a general discussion on the ISO 9001 standards and their relationship to the Process Verification Program. The Committee discussed whether it would be advantageous for companies to obtain full ISO 9001 registration for international marketing purposes or if the USDA Verified label would be enough. The Committee also suggested that GIPSA investigate the value of becoming a registrar. John Sharpe indicated GIPSA could partner with a registrar to provide that service. John Oades indicated that overseas interest in ISO 9001 registration makes it worthy of GIPSA's consideration. Arvid Hawk indicated his organization continually receives requests for written procedures. Hawk also suggested PVP and ISO be included on the next agenda. Hawk also suggested that GIPSA invite Dr. Charles Hurburgh to brief the Committee on his work with country elevators, and APHIS to speak on phytosanitary issues and their agency's role in the grain industry. ISO 9001 registration is the subject of Resolution 3.

**Processed Commodities Testing:** John Setterdahl recommended that GIPSA discontinue the processed commodities testing program, to be reevaluated if FSA ever discontinues their internal quality assurance program. FSA should fund the program if they require GIPSA services in the future.

**Leadership:** John Oades thanked Under Secretary Hawks for taking the time to talk to the Committee. Oades also complimented FGIS' leadership, and especially David Shipman, and the Agency's responsiveness to the Committee. Committee members asked GIPSA to continue inviting the Secretary or Under Secretary to each meeting. Committee members expressed appreciation for the feedback on previous resolutions and requested GIPSA continue to include that on the agenda.

**Biotech Testing:** Jon Setterdahl asked if there was a limit on what a participating lab could do to promote its proficiency. Steve Tanner recommended asking participants about their record in the Proficiency Program because participation in the proficiency program is strictly voluntary. John Oades asked how the consistency within individual labs appeared in the Proficiency Program. Tanner indicated labs that can do it right are consistent at detecting the presence of events.

**DDG Grading:** Jon Setterdahl asked if industry has asked GIPSA for grading standards for Distillers Dried Grain (DDG) and whether GIPSA should explore the idea. Shipman responded that GIPSA has not been asked about standards, but that GIPSA would prepare a white paper on DDG marketing. DDG standards are the subject of Resolution 5.

**Computer Systems Architecture:** Angela Dee asked about GIPSA's progress on integrating its IT systems. Shipman indicated that the enterprise architecture plan is completed, but tight budgets may extend the build for 3 to 5 years. In 2005, GIPSA requested \$5 million for the project. If approved, the system could be done in 18 months, primarily by an outside contractor.

**Outsourcing Rice and Central Lab Updates:** David Ayers requested an update on both the outsourcing of the rice inspection program and the Central Lab. Shipman said that GIPSA hired a contractor to conduct a cost-benefit analysis (CBA) on the possibility of outsourcing the rice program based on the modified Office of Management and Budget (OMB) rules. The CBA will assess whether it could be cost effective to outsource the rice program and, if it is, the type of study required to outsource. GIPSA expects the contractor to complete the study in about 2 months. In response to a query about outsourcing from Patricia Dumoulin, Shipman said that under Presidential initiative, all of government must look at positions that could be considered commercial and determine if it is in the best interest of the government to outsource them.

Shipman then addressed the Central Lab question. He noted that GIPSA is responsible for overseeing the entire country. To accomplish this, GIPSA has historically maintained field offices throughout the United States, which creates a layering in affect adding variability in the system. At previous Committee meetings, GIPSA was advised to move to a central monitoring point, with all official points directly tied to that lab. GIPSA's move to centralization has been delayed because it is contingent on the integrated IT system

**Collaborative Soybean Projects:** Jon Setterdahl asked if GIPSA receives any funds from the United Soybean Board for its advisory role in the collaborative soybean projects. Shipman indicated that GIPSA funds its participation with the appropriated money received from Congress for methods development. Soybean projects are the subject of Resolution 6.

**Travel Expenses:** Angela Dee suggested GIPSA reconsider buying members' airline tickets at the government rate. Even if a meeting was canceled or changes had to be made, she felt that overall there would be a significant cost savings to GIPSA.

## RESOLUTIONS

1. As a means of providing a more accurate and consistent method of evaluating barley protein levels, the Committee recommends GIPSA adopt a protein testing protocol for barley using artificial neural networks (ANN technology).
2. For all the reasons enumerated in our last resolutions on the MN pilot program, the Committee encourages GIPSA continue with the pilot program.

3. The Advisory Committee recommends that FGIS explore the merits and cost of completing ISO registration. The Committee further recommends that FGIS explore the merits and income potential for becoming an ISO registrar for the grains and oilseeds industry.
4. The Advisory Committee compliments the use of Collateral Duty Officers for temporary overseas assignments to help customers better understand FGIS inspection and weighing. The Committee recommends that FGIS explore ways to significantly extend collateral duty assignments beyond the current 3-4 month periods.
5. The Advisory Committee recommends that GIPSA explore ethanol industry and end users needs for DDG marketing standards.
6. The Advisory Committee recommends that GIPSA continue its advisory role to the USB in the Better Bean Initiative.
7. The Advisory Committee recommends that GIPSA continue outreach efforts with foreign trading partners specifically Mexico and Asia in resolving trade barriers and disruptions. The Committee further recommends expanding the scope of outreach efforts.
8. The Advisory Committee recommends that GIPSA discontinue processed grain product testing, providing that FSA continue their internal TQS audit program.
9. The Advisory Committee recommends GIPSA review and reassesses its policies and procedures relative to the establishment and qualifications for “Official Inspection Agency” status.
10. The Advisory Committee recommends GIPSA evaluate the benefits and methods of outsourcing the inspection services at export locations, with GIPSA oversight and without jeopardizing the program integrity.
11. The Advisory Committee asks that GIPSA establish a fact-finding mission to Brazil and Argentina with the express purpose of reviewing the components of their grain export inspection system. This will better enable us to understand our competition and aid us in the examination of our export inspection system to meet the needs of the future.
12. The Advisory Committee recognizes the efforts taken by the Illinois, Iowa, and Missouri Corn Growers Associations to promote the USDA, GIPSA AProcess Verified Program<sup>®</sup> and to develop markets for grains and oilseeds produced and handled under the voluntary quality assurance program. The Advisory Committee recommends GIPSA continue to support the existing Cooperative Working Agreement between USDA and the Associations and work closely with the Associations to facilitate the successful implementation of this program.

13. The Advisory Committee opposes the establishment of new user fees to cover the costs of standardization activities. These activities benefit all consumers, and therefore should be supported by appropriated funds.

### **ELECTION OF VICE CHAIR**

As discussed at the opening of the meeting, Bressner facilitated election of a Vice Chair for 2004. The Committee was presented with the list of the 10 members eligible for election. Bob Smigelski nominated Jon Setterdahl, John Oades seconded the nomination. Nominations were closed and, by unanimous vote, Jon Setterdahl was elected Vice Chairperson.

### **NEXT MEETING**

The next meeting of the Grain Inspection Advisory Committee will be held in early November 2004 at a place to be determined. The Committee recommended New Orleans if it is cost effective, with Kansas City as an alternative.

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