

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

*Iberville Suites
New Orleans, Louisiana
November 16-17, 2004*

WELCOME

Thomas Bressner, Chairperson, welcomed everyone to the meeting. Bressner turned the meeting over to Donna Reifschneider, Administrator, GIPSA, who welcomed all and introduced Deputy Under Secretary Chuck Lambert who was on a short time frame. Reifschneider explained that Under Secretary Hawks was unable to attend as he was in China. Reifschneider explained that Lambert had worked with the National Cattle and Feed Association for about 20 years and joined USDA 2 years ago

OPENING REMARKS

Dr. Chuck Lambert explained that Under Secretary Bill Hawks was unable to attend as he was attending a Chinese regulatory symposium sharing how our regulatory process works and how USDA manages sanitary and phytosanitary issues.

Lambert stated that because he and his brother farmed wheat and sorghum that he appreciates and understands establishing and maintaining standards in the international global grain trade.

Lambert stated that in the most recent news, changes in the Presidential cabinet occurred involving the resignation of Secretary Ann Veneman, and other cabinet members who serve at the pleasure of the President.

Lambert also stated that the U.S. projected record 2004 farm income of more than \$9 billion which is larger than last year's.

In spite of the Avian Influenza and BSE issues this year, the U.S. has a record corn, soybean, cotton, and rice crops. Lambert shared ongoing issues in the Marketing and Regulatory Programs, which not only includes GIPSA but AMS and APHIS agencies as follows:

APHIS' discovery of soybean rust in Louisiana was announced recently. As reported by a research station in Baton Rouge, Louisiana, it is believed that an airborne fungus stirred up from the recent hurricanes caused the soybean rust problem in Louisiana. Further testing in

other Louisiana areas will be conducted to determine how wide it has spread. Treatment costs are high at \$25 per acre for next year's crop prevention of soybean rust.

On December 23, 2003, there was a BSE find in a State of Washington cow. As a result, the U.S. lost approximately 64 percent of export markets. To date, the U.S. has recovered some of those exports from foreign countries. The U.S. is still down about 41 percent prior to the BSE find. Avian Influenza (Low path AI) incidents were found in six States that also disrupted our trade with China and Japan. There is also a large concern of bird to human transfer of the disease. GIPSA and APHIS are working together on biotech issues to maintain trade in the international markets. As these new technologies evolve, they are met with varying degrees of resistance in some consumer circles to get the technologies adopted.

Congress passed the AMS Tobacco Division buyout legislation. There are no more government mandatory grading and inspection services for tobacco sales.

AMS' Country of Origin Labeling was passed in the 1995 Farm Bill. Congress delayed implementation for 2 years on all commodities, except fish. Fish is expected to be decided on in next year's reauthorization.

Mandatory price reporting for beef, pork, and lamb expired in October 2004. The Senate passed reauthorization for 1 year but the House did not. Issuing reports are currently done on a voluntary basis in anticipation of passing the mandatory reporting by the House in the next session.

GIPSA's Packers and Stockyards Programs received \$4.5 million appropriated money for the meat study.

AMS is working with China to adopt cotton grades and standards to facilitate trade.

WELCOME (continued)

Reifschneider continued the welcome and presented Certificates of Appreciation to the following Committee members and alternate whose terms to serve on the Grain Inspection Advisory Committee expired:

David Ayers, Champaign Danville Grain Inspection (member)
Lynn Clarkson, Clarkson Grain Company, Inc. (alternate)
Mary Schuler, Schuler Lands, Inc. (member)
Robert Smigelski, The Andersons, Inc. (member)
David Swinford, Dumas Co-op Elevators (member-did not attend)

ACCEPTANCE OF MEETING MINUTES FROM MAY 4-5, 2004

The Committee approved the minutes from the May 4-5, 2004, meeting as written.

REVIEW AND ACCEPTANCE OF NOVEMBER 16 & 17, 2004, MEETING AGENDA

The Committee approved the agenda as written.

MEETING ATTENDEES

Committee Members

David Ayers, Champaign Danville Grain Inspection
Thomas Bressner, Assumption Cooperative Grain Company
Angela Dee, Dee Farm Partnership/Dee River Ranch, Inc.
Warren Duffy, Archer Daniels Midland
Arvid Hawk, Cargill, Inc.
Cassie Eigenmann, Dickey-john Corporation
Ernest Potter, Ernest G. Potter, Ltd.
Mary Schuler, Schuler Lands, Inc.
Jon Setterdahl, Farmers Cooperative Company
Robert Smigelski, The Andersons, Inc.
Butch Meibergen, Johnston Enterprises, Inc.

Committee Alternates

Lynn Clarkson, Clarkson Grain Company, Inc.

GIPSA

Donna Reifschneider, Administrator, GIPSA
Chuck Smith, Technical Advisor to the Administrator, GIPSA
David Shipman, Deputy Administrator, Federal Grain Inspection Service (FGIS), GIPSA
Julia Nelis, Secretary, Office of Deputy Administrator, FGIS, GIPSA
Steven Tanner, Director, Technical Services Division, FGIS, GIPSA
David Orr, Director, Field Management Division (FMD), FGIS, GIPSA
John Giler, Deputy Director, FMD, FGIS, GIPSA
John Sharpe, Director, Compliance Division, FGIS, GIPSA
John Shropshire, Field Office Mgr, New Orleans Field Office, FMD, FGIS, GIPSA
Kerry Petit, New Orleans Field Office, FMD, FGIS, GIPSA
Glenda Lasseigne, New Orleans Field Office, FMD, FGIS, GIPSA
Shana Love, Market and Analysis and Standards Branch, FMD, FGIS, GIPSA
Eric Jabs, Market and Analysis and Standards Branch, FMD, FGIS, GIPSA

Other Attendees

Brian Bartlett, Degesch America
Rob Clancy, Neogen Corporation
Floyd Dowell, Agricultural Research Service, USDA
Dusti Fritz, Kansas Wheat Commission and U.S. Wheat Associates
N. Figor, Kankakee Grain
Nick Friant, Cargill, Inc.
Mark Fulmer, Lincoln Inspection
Lauren Hottes, Romer Labs
Chuck Lambert, Deputy Under Secretary, Marketing and Regulatory Programs, USDA
Mel Mae, RMG
Parul Patel, Animal and Plant, Health Inspection Service, USDA
Tom Russell, Russell Marien Group
Vincent Vil, FGIS, NFCG
Lowell G. Watts, President, NCFGIL

STATUS OF MAY 2004 RESOLUTIONS

Donna Reifschneider, Administrator, GIPSA, briefed the Committee on GIPSA's actions in response to their May 2004 resolutions.

In response to the Committee's first resolution to use ANN technology to measure barley protein levels, GIPSA will implement ANN technology for barley and wheat, effective July 1, 2005, and May 1, 2005, respectively.

Reifschneider reported that GIPSA is not pursuing a pilot project in Minnesota, but that the Agency is taking other actions to ensure that customer service is a priority as Minnesota works to improve inspection operations. GIPSA will consider new pilots when the Agency's web-based system is online.

In response to the Committee's recommendation to explore the merits and cost of completing ISO registration and becoming an ISO registrar, GIPSA has completed a review and will present findings later in the day.

The Committee recommended that GIPSA continue and extend international collateral duty officers (CDOs). Reifschneider reported that GIPSA added four members to the CDO candidate team and is deploying CDOs "back to back" to ensure an ongoing GIPSA presence in Asia. A more lengthy international presence, she noted, would require additional funding. Meanwhile, GIPSA continues to strengthen its international outreach programs, especially in Asia and Mexico, as recommended by the Committee.

The Committee recommended that GIPSA explore ethanol industry and end users needs for DDG marketing standards. A GIPSA staff member will discuss market research and findings later today and GIPSA will issue a final summary report this fall.

As recommended by the Committee, GIPSA continues to work with the United Soybean Board on projects to enhance compositional traits of U.S. soybeans, meal, and oil, and to make U.S. soybeans more attractive to the international market. The projects grew from the completed Better Bean Initiative.

Reifschneider reported that in response to the Committee's recommendation to discontinue its processed grain product program, GIPSA notified customers that it is scaling back testing services to reflect service request decline, which will decrease the range of available customary services.

In response to the Committee's recommendation to review official agency designation policies and procedures, Reifschneider explained the extent of current designation criteria defined in the U.S. Grain Standards Act.

Regarding the resolution to evaluate the benefits and methods of outsourcing export inspection services, Reifschneider reported that a presentation on the topic would follow later in the day. She added that GIPSA fulfilled the Committee's resolution to send a fact-finding mission to Brazil and Argentina to review their grain export inspection system. Members would be fully briefed on the trip later in the day. GIPSA continues to work with Illinois, Iowa, and Missouri corn growers' associations through established agreements, by providing funds appropriated by Congress, and by training all parties interested in the Process Verification Program.

Finally, Reifschneider addressed the Committee's opposition to the establishment of new user fees for standardization activities. Reifschneider informed the Committee that neither the House nor Senate budget bills for fiscal year 2005 include new user fees for standardization activities, but that GIPSA was required to include standardization shifts in its reauthorization proposal.

NEW MEMBER NOMINATIONS

Bressner reminded all that the Advisory Committee needs new members and alternates to serve next year and that Advisory Committee Nomination Form AD-755 was included in their meeting notebooks and asked members to submit nominees to Terri Henry in Washington, DC, by the November 22, 2004, deadline.

ENTERPRISE ARCHITECTURE

Chuck Smith, Technical Advisor to the Administrator, GIPSA, presented an overview of GIPSA's Application Modernization (GAM) effort. Current projects underway consist of GIPSA Agricultural Product Standards, GIPSA Website Redesign, FGIS NQDB, and GIPSA eAuthorization.

GIPSA's Enterprise Architecture (EA) effort was completed in August 2003 and 27 applications were identified. GIPSA is now moving forward with implementing the results from the EA project. This new program is called GIPSA Application Modernization. Smith explained how the FGIS Systems Architecture will be coordinated through GIPSA eAuthentication, GIPSA portal/content management, GIPSA Ag Product Standards, Grain Inspection Data Warehouse, GIPSA organization and personnel activity reporting, FGIS certificates, FGIS delegation, designation and export registration, FGIS service offerings and requests, FGIS customer information management, and FGIS inspections, testing and weighing.

The purpose of the NQDB is to capture all testing and weighing under U.S. Grain Standards Act and Agricultural Marketing Act. Official agencies will be able to view their inspection results and grant access to customers to do the same. GIPSA will be able to collect additional information to generate supervision fees and tonnage reports and eliminate the need for the Form AD-847.

A contractor has been selected for the GIPSA Website Redesign and has deployed MyUSDA.gov. The GIPSA website has recently completed the design stage, and GIPSA is awaiting access to the Department development environment. February 2005 is the target date for the GIPSA website launch. A contractor has also been selected for the GIPSA Application Modernization effort that has a proven track record developing web applications for the U.S. Postal Service.

ETHANOL CO-PRODUCTS/DDG STANDARDS

Shana Love, Market Analysis and Standards Branch, Field Management Division, , FGIS, GIPSA, expanded on the Advisory Committee's May 2004 recommendation that GIPSA explore the ethanol industry and end users needs for distillers dried grains (DDG) marketing standards with an overview of ethanol and ethanol co-products markets and possible options for GIPSA. Love explained in detail the marketing system of the co-products (distillers dried grains (DDG) and distillers dried grains with solubles (DDGS)), specifically in regard to quality factors, pricing, supply and use, and transportation of the co-products. Love also discussed the sources and forms of variation found in the distillers' grains, including differences in color, nutrient composition, and flow ability. In general, Love's research showed that the lack of industry standardization is threatening to hold back the successful marketing of the co-products both nationally and internationally. Love explained in detail some of the options for GIPSA to assist the industry in

marketing distillers' grains. These options included establishing grading standards, establishing standards of identity (improved terminology), offering process verification for export markets, and standardizing reference testing methodologies for distillers' grains and bulk corn. The majority of the commenters expressed the opinion that due to the evolving nature of the market, at this time there was no need for GIPSA to create official standards or definitions, but they felt that there was a need for GIPSA to stay actively engaged with the industry.

ISO CERTIFICATION AND REGISTRAR

David Orr, Director, Field Management Division, FGIS, GIPSA, provided an update on GIPSA efforts to explore ISO certification and registration.

During the May 2004 Grain Inspection Advisory Committee meeting, the Committee made two recommendations regarding ISO registration:

“Explore the Merits and Cost of Obtaining ISO Registration for FGIS Grain Inspection Services.”

and

“Explore the Merits and Cost of Becoming an ISO 9000 Registrar and Offer Registration Service to our customers.”

Orr reported that GIPSA has evaluated various options regarding the merits and cost of obtaining ISO registration for grain inspections services. Generally, the need for a government organization to seek registration is not as great as the need for a private company. Third-party certification is an effective and acceptable means for a private company to establish that they have a management system in place. Federal agencies, on the other hand, have the advantage of inherent transparency because they must follow laws and regulations with Congressional oversight. The cost of ISO registration would run \$10,000 to \$25,000 annually and would not likely improve overall performance since GIPSA currently operates under business management practices that reflect many ISO 9001:2000 requirements. As an alternative, GIPSA could take action to self-certify itself to ISO 9001:2000 and publish a Quality Manual on its website. The cost of self-certification would be minimal because qualified staff members are in place and much of the quality management system exists as everyday practice.

With regards to exploring the merits and cost of becoming an ISO 9000 registrar and offer registration service to our customers, Orr explained that becoming an accredited registrar would cost approximately \$28,000 along with a 1.5 percent charge on the gross revenue earned

from registration activities. Further, since this would be a new program, GIPSA could expect semi-annual audits for several years at a cost of approximately \$20,000 per audit. GIPSA does not consider becoming an ISO 9000 registrar as consistent with its mission and core business practices.

Orr concluded his presentation indicating GIPSA plans to offer a Process Verified Program that mirrors ISO 9000 and adds other requirements. This program could provide customers marketing value-added products with a third-party verification system.

PHYTOSANITARY CERTIFICATION AND APHIS' ROLE IN THE GRAIN MARKET

Parul Patel, Senior Program Manager, Phytosanitary Issues Management, Animal Plant and Health Inspection Agency, gave a presentation on phytosanitary certification and APHIS' role in the grain market.

Patel provided an overview of USDA-APHIS-PPQ's role relative to facilitating the phytosanitary export certification of plants and unmanufactured plant products, including grain and various grain products. The presentation covered the Agency's mission and legislative authority, its headquarters organizational make-up, the types, scope and complexity of phytosanitary certification services and areas of coverage, and a handful of country-specific examples and approaches used to manage, address, and/or resolve technical phytosanitary grain trade issues. Final comments included a discussion of upcoming certification challenges facing the USDA, Animal and Plant Health Inspection Services, Plant Protection and Quarantine (USDA-APHIS-PPQ).

CONTAINER SHIPMENTS AND MANDATORY EXPORT INSPECTION AND WEIGHING

John Sharpe, Director, Compliance Division, FGIS, GIPSA, presented an overview of containerized export shipments. Sharpe informed all that GIPSA is seeking the Committee's input regarding how the Agency should pursue enforcing the mandatory inspection and weighing for export containers of commodity and specialty grain.

Sharpe indicated that the U.S. grain market has recently experienced a significant increase in containerized grain exports. Rising bulk vessel and barge shipment costs accompanied by an abundance of empty containers needing to be returned to Asian countries and lower container shipment costs have made containerized grain exports attractive. Some barge loading sites are

now loading containers instead of barges and some container yards are loading grain into containers.

Because containers can be loaded almost anywhere with little investment, new persons are entering into the export grain business. Not all of these persons are familiar with the required export registration, inspection, and weighing requirements. Traditionally, most containerized grain shipments were very high quality specialty grain. Past container shipment costs has been significantly higher than bulk vessel transportation. Specialty grains have been the only type of grain that could garner a price that would support containerized transportation. Enforcing the mandatory inspection and weighing requirements presents challenges because of the mobility of the loading equipment, limited quality control capabilities at some sites, and brings into question the appropriateness of the 15,000 metric ton exemption, especially for high quality specialty grain.

Shipman and Sharpe addressed questions and concerns regarding mandatory registration of exporters shipping 15,000 metric tons of grain in containers. Sharpe is working with the Department of Commerce to identify organizations through their export declaration database that are exporting grains covered by the USGSA. GIPSA and the Department of Commerce intend to use this information to educate those organizations that are not registered of the requirement. GIPSA has already sent letters to the NGFA, NAEGA, and U.S. Grain Council explaining the requirements as they relate to grain exported in containers. One exporter requested a waiver from the mandatory inspection and weighing requirements. GIPSA has denied this request because circumstances did not preclude inspection and weighing. At the same time GIPSA is reviewing container inspection procedures to make them as efficient as possible. The ability to waive mandatory aflatoxin testing of export corn for shippers exporting less than 15,000 metric tons was discussed and may be further addressed in the reauthorization process. A lengthy discussion ensued regarding the need for mandatory inspection and weighing of high quality specialty grain exported in containers and methods to differentiate between commodity and high quality specialty grain.

NEW SOYBEAN TRAITS

Steven Tanner, Director, Technical Services Division, FGIS, GIPSA, briefed the Committee on enhanced soybean traits being developed. These new varieties are being developed to provide more nutritious grains for human and animal consumption, improve the quality and competitiveness of U.S. soybeans, and meet new labeling requirements. The specific traits highlighted were fatty acid profiles, amino acid profiles, and low phytates.

Fatty acids are components of lipids. The levels of various fatty acids in livestock rations affect animal nutrition and meat quality and can affect the health and nutrition value of human food. Life Science organizations are developing customized fatty acid profiles in soybeans to target

specific end uses. In 2005, varieties with low linolenic acid will be released to reduce or eliminate trans fatty acids in processed soybean oil, making healthier cooking oil, and meeting new FDA labeling requirements.

In addition to modifying soybeans fatty acid profiles, Life Science organizations are also modifying the amino acid profiles. Amino acid profiles are a measure of protein quality. By targeting enhancement or reduction of specific amino acids, soybeans can be designed for a specific purpose. The last trait highlighted by Tanner was soybeans with low phytates designed to enhance a body's uptake of essential minerals. Lowering phytates allows an increase in animal uptake of phosphorus.

To effectively market soybeans with the new traits, Tanner indicated that product segregation and standard tests are essential to maintaining the enhanced value of the soybeans. GIPSA is pursuing rapid testing methods to differentiate functional qualities that meet specific end-use needs.

Tanner asked the Committee for guidance and support of the direction that GIPSA is pursuing with regard to soybean specialty traits.

FGIS FINANCIAL UPDATE

David Shipman, Deputy Administrator, FGIS, GIPSA, briefed the Committee on user fee supported programs and appropriations.

Shipman gave an overview of the six user-fee program accounts for FY 2004 (see following table). Overall the Agency collected \$35,867,361 in revenue from user fees and had expenses of \$35,922,902, resulting in a negative margin of \$55,541. Both Canadian (Program 510) and U.S. export inspection (Program 520) operations collected sufficient revenue to cover operating expenses. The Program 520 collections improved from FY 2003 levels due to a fee increase implemented in July 2004.

The financial performance of Supervision of Official Agencies account (Program 530) was problematic in FY 2004. The Agency ended FY 2004 with expenses exceeding revenue by \$1,078,779. A fee increase and a review of program operations are underway to address the financial status of this program. FGIS expects to propose a fee adjustment by late spring 2005.

The Rice (Program 570) and Commodity (Program 580) programs operated as expected, with expenses slightly exceeding revenue. A review of rice fees is also underway and will likely result in a proposal to increase fees sometime during 2005. GIPSA does not plan to adjust the commodity program fees. Additional adjustments to commodity program operations due to a down turn in service requests will be undertaken during 2005.

FY 2004 Trust Programs				
Title	Program	Income	Expenses	Balance
Canada	510	\$346,951	\$215,282	\$131,669
Export Grain	520	\$27,459,999	\$26,267,519	\$1,192,480
OA's	530	\$1,528,046	\$2,606,826	\$-1,078,779
Rice	570	\$4,262,452	\$4,421,572	\$-159,120
Commodities	580	\$2,253,425	\$2,405,243	\$-151,819
Registration	610	\$16,487	\$6,460	\$10,027
Total User Fees		\$35,867,361	\$35,922,902	\$-55,541

Shipman also reviewed the overall trust fund balance for the six user fee accounts (see table below). Overall, the Agency ended FY 2004 with a \$3,411,805 balance in the trust accounts.

Trust Fund Balance	
Canada	\$5,626
Export Grain	\$-678,724
OA's	\$913,685
Rice	\$770,018
Commodities	\$2,304,284
Registration	\$96,917
Total User Fees	\$3,411,805

GIPSA aims to maintain a 3-month operating reserve of \$9 million. Adjustments to the Program 520 fees implemented in July 2004 and future adjustments to the 530 and 570 programs' fees include provisions to increase the reserve to the 3-month operating level.

Shipman reviewed the FY 2004 appropriations received from Congress and discussed expectations for FY 2005. As of this meeting date, Congress had not yet appropriated funds for FY 2005, and the Agency is operating under a continuing resolution at the FY 2004 level. FY 2004 appropriations were:

Compliance	\$ 5,793,000
Methods Development	\$ 6,864,000
Standardization	<u>\$ 4,182,000</u>
Total	\$16,839,000

GIPSA does not anticipate any significant increases in appropriated funding in FY 2005. We do expect some increase to support our enterprise architecture (information technology (IT)) investments. In 2004, GIPSA invested \$2.4 million in IT projects; in FY 2005, we plan to invest an additional \$2 plus million. The IT investment project is a multi-year effort to modernize the Agency's overall information systems, culminating in the delivery of new web-based systems between 2005 and 2007.

Shipman explained that, other than for IT investments, spending for FY 2005 will be maintained at the FY 2004 level until final appropriations are received from Congress. Priorities for FY 2005 include continuing development of the web-based program applications, completing the outsourcing evaluation for the rice inspection program, evaluating the performance criteria for providers of official services (designated, delegated, cooperators, and contractors), and furthering the development of methods to measure wheat functionality, low linolenic acid content of soybeans, and high fermentable starch in corn hybrids.

In response to a question from Ernest Potter, Shipman confirmed that the fiscal year runs from October to September.

In response to an inquiry from Arvid Hawk regarding losses in the 530 account, Shipman replied that GIPSA is carefully monitoring performance in this account.

OUTSOURCING RICE PROGRAM

David Orr, Director, Field Management Division, FGIS, GIPSA, briefed the Committee on the rice outsourcing program. Competitive sourcing, one of the President's management agenda initiatives, directs Federal agencies to evaluate the benefits of outsourcing program activities considered available from the private sector. GIPSA has inventoried all positions and activities and categorized them, according to government guidelines, as inherently governmental or commercial. The rice inspection activities of GIPSA have been categorized as commercial and are being evaluated for potential outsourcing. GIPSA contracted with Paradigm Technologies to conduct a review to determine whether it is feasible and practical to undergo the complete competitive outsourcing process, a process that is time consuming and costly. The study compares three private sector companies to the current Federal program for rice inspection. GIPSA is currently reviewing a draft report of the study and will be seeking input from union representatives for FGIS inspectors. GIPSA expects to receive the final report by mid-December 2004. If the final report concludes it is feasible and practical to pursue outsourcing, GIPSA will be required to proceed with a formal competitive bidding process under the guidelines of OMB Circular A-76. This competitive bidding process typically takes between 18 and 24 months.

FACTFINDING REPORT: SOUTH AMERICAN EXPORT OPERATIONS

Eric Jabs, Market Analysis and Standards Branch, Field Management Division, FGIS, GIPSA, presented an overview of the fact-finding mission to Brazil and Argentina. The presentation highlighted each country's grain production, procurement, standards, and inspection and weighing procedures. In addition, inspection fees were examined and compared and contrasted with those in the United States.

OUTSOURCING FEDERAL SERVICES AT EXPORT

John Giler, Deputy Director, Field Management Division, FGIS, GIPSA briefed the Committee on outsourcing inspection and weighing services at export. This information was provided in response to the May 2004 Advisory Committee resolution, which stated:

“We recommend GIPSA evaluate the benefits and methods of outsourcing the inspection services at export locations, with GIPSA oversight and without jeopardizing the program integrity.”

Giler compared four theoretical approaches to providing mandatory export inspection services to the current system. Today, delegated States supervised directly by FGIS personnel inspect 20 percent of the grain exported from the United States; FGIS personnel directly provide inspection and weighing services for the remaining 80 percent of U.S. exports. The four alternate approaches were: (1) FGIS would supplement the current Federal workforce with contract employees to provide technical services (sampling and analytical services); (2) authorization of private companies to provide export services under complete and stringent FGIS oversight; (3) expansion of the current delegation program to include private as well as State agencies to provide export inspection services with less stringent FGIS oversight; and (4) complete privatization of export inspection services with no Federal oversight, which would be similar to the process used by U.S. competitors in South America. [Note: Giler's presentation outlined five options, the current system (option #1) plus four theoretical approaches (labeled #2-5). Consequently, the four approaches discussed in these minutes relate to approaches 2 -5 in the attached presentation.]

Giler explained how each approach might work, including conditions for service, legislative and regulatory action required for implementation, a projected implementation timeline, the estimated cost of service delivery, and the amount of Federal oversight associated with each approach. Giler also explained quality assurance controls available to maintain a high level of confidence in and respect for the official U.S. export grain inspection system.

GIPSA recognizes the Committee's and other stakeholders' interest in considering alternative approaches to export grain inspection with the goal of benefiting the competitive position of U.S. grain exports without lessening the high level of confidence and respect U.S. trading partners have in the current system. Shipman noted that GIPSA will not seek any legislative changes to implement changes in the export grain inspection system as part of the FY 2005 reauthorization of the U.S. Grain Standards Act, but stakeholders are expected to do so. The evaluations GIPSA is conducting on this issue, at the request of this Committee, will provide essential information for future discussions on how alternative approaches to export grain inspection address the changing market needs and future GIPSA challenges, including a projected 73 percent attrition rate over the next 5 years.

The approaches that would introduce contract employees or private inspection agencies into providing official services to the export market, as outlined in Giler's first and second theoretical approaches, would present new challenges for GIPSA. Shipman noted that current technology offers the capability to effectively oversee private agencies and ensure the integrity of U.S. grain exports, provided GIPSA has sufficient enforcement authority to address the performance of non-Federal inspection agencies, and sufficient time and resources to successfully carry out the transition. This assessment did not apply to approaches three and four, and when asked, Shipman said he would not recommend either approach.

Shipman also remarked that transitioning from a Federal/State system to a State/private system with Federal oversight might not immediately reduce the overall cost of export inspection service, which would include both the costs of direct GIPSA oversight and of private inspection providers. Over time, implementing a private export inspection system in the U.S. could add operating efficiencies if private companies contain costs associated with providing official export inspection services better than the current Federal system.

He emphasized that international buyers' concerns about any change would pose an immediate challenge requiring effective outreach to retain their full confidence in the official U.S. inspection certificate. The question stakeholders and policymakers must address is whether implementing change now will deliver long term savings, and thus, improve the competitive position of U.S. grain exports without negatively impacting the confidence of international buyers.

TOUR OF EXPORT ELEVATOR AND NEW ORLEANS FIELD OFFICE

On the second day of the meeting, the Committee meeting participants toured the Bunge North America Export Elevator in Destrehan, Louisiana. The tours were conducted by C.J. Jones and Robert Stanley. Later that morning, a tour of the FGIS New Orleans Field Office, was given.

GENERAL DISCUSSIONS

Container Shipments and Mandatory Export Inspection and Weighing: There was an extensive and lengthy discussion by Committee members about the containerized grain export situation. Several members reiterated that the problem is not restricted to just high-value specialty grain, and that the more important issue is the exportation of common grain, such as U.S. No. 2 Soybeans, in containers by non-traditional companies from non-traditional locations. Many members felt that the 15,000 metric tons exemption requirements are not clear (especially the definition of ‘facility’) or uniformly applied. Members also pointed out the difficulty in drawing representative samples from containers and they questioned the need for sampling every container in a multiple container lot. Some members discussed the possibility of FGIS developing an IP inspection program that would permit the inspection of samples obtained when the grain is loaded into shipping bins.

Registration of export firms, and mandatory export inspection and weighing of grain shipped in containers is the subject of Resolution 2.

Enterprise Architecture: Committee members had no further comments regarding this issue.

Ethanol Co-Products/DDG Standards: Committee members had no further comments regarding this issue. Development of DDG standards is the subject of Resolution 3.

ISO Certification and Registrar: Committee members had no substantive comments regarding this issue. ISO registration is the subject of Resolution 1.

Phytosanitary Certification and APHIS’ Role in the Grain Market: Committee members had no further comments regarding this issue.

New Soybean Traits: Committee members had no further comments regarding this issue.

FGIS Financial Update: Committee members had no substantive comments regarding this issue. Suggested actions that promote financial viability are the subject of Resolution 6.

Outsourcing Rice Program: Committee members had no further comments regarding this issue. Rice outsourcing is the subject of Resolution 5.

Fact-Finding Report: South American Export Operations: Committee members had no further comments regarding this issue.

GIPSA Evaluation: Outsourcing Inspection and Weighing Services at Export: Committee members reiterated their support for investigating outsourcing of export inspection and weighing services.

But, members strongly indicated that ensuring the integrity of the official certificate must be a prime consideration. Committee recommendations related to outsourcing of inspection and weighing services at export is the subject of Resolution 5.

RESOLUTIONS

1. The Advisory Committee recommends that GIPSA continue to develop and promote process verification in the grain and feed industry. Monitor demand and cost for ISO registration of the grading and inspection processes, but do not pursue at this time.
2. In light of the increased volume of grain being exported from the U.S. in containers, the Advisory Committee recommends GIPSA take the necessary action to ensure the registration and mandatory inspection and weighing provisions of the U.S. Grain Standards Act are enforced equitably for all export grain.

Furthermore, the Advisory Committee recommends GIPSA take action to propose an exemption to the mandatory export inspection and weighing provisions of the Act for high value, niche market grains, when buyer and seller contractually agree to forego official inspection and weighing.

The Advisory Committee also recommends GIPSA immediately implement revised inspection and weighing procedures to improve the efficiency and cost effectiveness of official inspection and weighing services for container shipments of grain.

3. The Advisory Committee recommends that FGIS not move forward with the development of DDG marketing standards. GIPSA should continue to support the industry in anyway possible.
4. 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.
5. The Advisory Committee recommends that GIPSA immediately proceed with a competitive bidding process for rice inspection in accordance with OMB Circular A-76 if the final results of the current feasibility study conclude that the private sector can provide more cost-effective service to the rice industry.
6. The Advisory Committee recommends that GIPSA look into consolidation of domestic field offices to maintain the financial viability of the Program 530 trust fund account. This is due to the recent financial losses in this account (despite reallocation of GIPSA overhead costs 2 years ago), and projections that losses will continue if left unchanged.

7. The Advisory Committee recommends that FGIS continue to review options for outsourcing services at export and seriously consider contracting of services, direct oversight of delegated private agencies and expanded delegation to private providers as options to restructure. The status quo has been fiscally challenged and the South American model does not provide for an official certificate (integrity). The system needs to provide for integrity as well as less cost.

NEXT MEETING

The next meeting of the Grain Inspection Advisory Committee will be held May 3-4, 2005, in Kansas City, Missouri.

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