

**GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
GRAIN INSPECTION ADVISORY COMMITTEE MEETING MINUTES**

Marriott Metro Center—Washington, DC
December 12-13, 2006

WELCOME AND INTRODUCTIONS

Timothy Paurus, Vice-Chairperson, opened the meeting with a welcome to all in attendance. GIPSA Administrator James Link welcomed members and attendees, and introduced Bruce Knight, USDA Under Secretary for Marketing and Regulatory Programs.

Under Secretary Knight thanked the members for their commitment to the Committee, and for speaking on behalf of our customers and consumers. He noted that LibertyLink rice has been a priority issue for the mission area and praised GIPSA for its work in ensuring open markets for U.S. rice. Mr. Knight also reported that USDA is working to ensure that the new Farm Bill balances the market's diverse needs, while continuing to support America's farmers. Finally, he welcomed Dr. Javier Trujillo, Director in Chief, National Service for Food Safety, Mexico, as a good friend and a dynamic government leader, and thanked him for joining the Committee to share the grain quality perspective of Mexican importers.

GRAIN QUALITY PERSPECTIVE OF MEXICAN IMPORTERS

Dr. Trujillo reported that the Mexican government is responsible for guaranteeing the safety and quality of all food and feed products consumed in Mexico, regardless of their origin. Mexico has several teams working with USDA to increase U.S.-Mexico trade using the principals established by the North American Free Trade Agreement.

The Mexican delegation reported that U.S. grain and oilseed imports into Mexico do not always meet Mexican consumers' requirements. They asked that procedures be established to ensure the quality of U.S. grains and oilseeds correspond with the certification. Dr. Trujillo stated that administrative remediation procedures to address quality discrepancies that are available to Mexico's importing agro-industries are slow, expensive, and only result in a determination that the certificate issued in the U.S. is fully dependable.

Dr. Trujillo strongly urged all parties to modify the terms of the standard contract to include a meaningful mechanism to deal with the quality of products received in Mexico. He called for modification of a November 10, 2004, MOU to facilitate communication about and analysis of issues related to the import and export operation of grains and oilseeds. He also asked that GIPSA expand its testing and analysis capabilities based on importers needs and requirements.

Mexican importers called for establishment of a body, with some government supervision, to expedite and streamline dispute settlement processes between exporters and importers under the principles established by NAFTA.

Dr. Trujillo concluded by thanking the Committee and GIPSA for the opportunity to discuss Mexico's perspective on grain quality.

David Shipman noted that the dispute resolution process established under NAFTA for fruits and vegetables was effective because of industry support for it. He noted that the grain and oilseed industries have not indicated support for a similar system under NAFTA. He also said that if SAGARPA sets up a government lab in Mexico, GIPSA could collaborate and exchange samples, but has no authority to accredit a laboratory outside the United States. Finally, he stated that GIPSA will work to expand the availability of official services that are of interest to Mexico but that are not currently available.

ACCEPTANCE OF MEETING MINUTES FROM JUNE 13-14, 2006

The Committee approved the minutes of the June 13-14, 2006, meeting as presented.

REVIEW AND ACCEPTANCE OF DECEMBER 12-13, 2006, MEETING AGENDA

The Committee accepted the agenda with the addition of a follow-up discussion on Mexican trade issues on the second day.

MEETING ATTENDEES

Committee Members

Tim Paurus, AVP, Terminal Operations - CHS Inc. (Vice Chairperson)
Paul Coppin, Reynolds United Co-op
Warren Duffy, Archer Daniels Midland
Patricia Dumoulin, farmer
Kenneth Dalenberg, production agriculture farmer
Curtis Engel, The Scoular Company
Mark Fulmer, Lincoln Inspection Service
Arvid Hawk, retired
John Hewitt, California Farm Bureau Federation
Daniel Kidd, farmer
Ernest Potter, Ernest G. Potter, Ltd.
Dutt Vinjamoori, Martek Biosciences

Committee Alternates

Jerry Gibson, Bunge North America
Bob Smigelski, retired, The Anderson's Inc.
Thomas Fousek, Bartlett Grain, L.P.
Chet Boruff, Association of Official Seed Certifying Agencies

GIPSA

James Link, Administrator, GIPSA
David Shipman, Deputy Administrator, Federal Grain
Inspection Service (FGIS), GIPSA
Steven Tanner, Director, Technical Services Division (TSD),
FGIS, GIPSA
John Sharpe, Director, Compliance Division, FGIS, GIPSA
John Giler, Acting Director, Field Management Division
(FMD), FGIS, GIPSA
Jaime Adams, Deputy Director, Budget and Planning Staff, GIPSA
John Pitchford, Director, Office of International Affairs, FGIS, GIPSA
David Funk, Associate Director, TSD, FGIS, GIPSA
Amanda Taylor, Assistant to the Administrator, GIPSA
Terri Henry, Management Support Staff, GIPSA
Kathryn McCaw, Portland Field Office, FMD, FGIS, GIPSA
Dana Stewart, Assistant to the Deputy Administrator, FGIS, GIPSA
Marianne Plaus, Chief, Market and Program Analysis Staff (MPAS),
FGIS, GIPSA
Eric Jabs, MPAS, FGIS, GIPSA
Becca Riese, MPAS, FMD, FGIS, GIPSA
Bob Lijewski, Chief, Policies and Procedures Branch, FMD, FGIS, GIPSA
Ron Hill, Union Representative

Other Attendees

David Ayers, Champaign-Danville Grain Inspection
Don Trimble, Louis Dreyfus Corporation
Larry Kitchen, Missouri Department of Agriculture
Tom Megell, Kansas Grain Inspection
Randy Deike, Washington State Department of Agriculture
Tim Adams, Midsouth Grain Inspection
Tom Bressner, Assumption Coop Grain Company
Fraser Gilbert, SGS
Craig Elkins, Port Elevator Brownsville LC
Joseph Garber, National Grain and Feed Association
Rick Robinette
Tom Dahl
Howie Nelson
Nick Fairait

GIPSA UPDATE

GIPSA Administrator James Link briefed the Committee on Agency activities. In 2006, GIPSA contracted with the USDA's Animal and Plant Health Inspection Service to analyze the Agency's organizational structure and make recommendations for improvement. Many of those

recommendations, including the establishment of a Management Support Staff, to provide shared, or agencywide, administrative services have been enacted. Albert Conerly will become director of this new staff on January 2, 2007.

GIPSA also contracted with the Office of Personnel Management to conduct an Organizational Assessment (or climate) survey of all employees. In response to the survey findings, GIPSA established two action teams to assess priority issues and make recommendations to senior management for improvement.

Communication was a key issue agencywide. In response, Mr. Link established a confidential email box for employees to send him inquiries and comments; and GIPSA placed suggestion boxes at all Agency headquarters and field locations as a new communication tool.

Mr. Link discussed that upcoming attrition due to retirement will result in a tremendous loss of institutional knowledge. GIPSA is taking steps to retain a skilled and experienced workforce. He also reported that GIPSA instituted a Leadership Development Program to begin January 2007, to ready participants for future leadership challenges and opportunities. He noted that David Shipman would address Agency initiatives in more depth later in the meeting.

Mr. Link also thanked all GIPSA headquarters and field staff for their tremendous work and cooperation in addressing the Liberty Link situation.

In conclusion, Mr. Link said that he was very pleased with the Agency's progress in addressing staffing and organizational issues, and that he looks forward to working with staff and the Committee in the months to come.

STATUS JUNE 2006 RESOLUTIONS AND FGIS MANAGEMENT UPDATE

David Shipman, Deputy Administrator, FGIS, GIPSA, briefed members on the status of resolutions from the June 2006 meeting and management issues.

June 2006 Resolution #1. "Due to the upcoming retirement of the majority of FGIS employees, at what point do they need to start hiring new employees to replace outgoing employees? The hope would be for the newer workers to have the opportunity to work with and learn from the experiences of the retiring staff.

For FGIS to report on a succession plan at the next Advisory Committee meeting."

Mr. Shipman noted that GIPSA's Workforce Plan, FY 2005-2009, is the Agency's guide to ensuring that we have an effective workforce in place capable of carrying out our mission. Attrition will continue to increase, with 92 percent of supervisors and 73 percent of graders eligible to retire by 2009. Front-line inspectors and graders are not expected to retire en masse upon eligibility, but more gradually over a 3-year period.

Other factors affecting our workforce include centralization of oversight functions, expanded use of contractors, increased oversight demand, and deployment of web-based applications.

In January 2007, GIPSA will begin a Leadership Development Program to prepare 19 current and potential managers for future leadership challenges and opportunities. GIPSA also actively participates in USDA and Office of Personnel Management leadership programs, including the Senior Executive Service Candidate Development Program, New Leader Program, Aspiring Leader Program, Executive Leader Program, and the Federal Executive Institute. GIPSA also instituted an Agricultural Commodity Grader Development Program. In addition, GIPSA is expanding its web-based development training system.

Mr. Shipman reported that GIPSA is increasing staffing for all units in Kansas City rather than Washington, DC, to improve recruitment and retention. Washington, DC presents recruiting and retention challenges due to the high cost of living, long commuting times, and terrorist threats.

June 2006 Resolution #2. "For FGIS to continue examination of safer methods of performing carrier stowage examinations and to provide written guidelines. "

Mr. Shipman reported that FGIS issued Program Notice 06-07, "Conditional Dismissal of Mandatory and Service-On-Request Stowage Examination of Land Carriers and permits official personnel to proceed with other associated inspections services after dismissing a mandatory stowage examination of a land carrier or domestic barge, when conditions pose a potential safety risk to official inspection personnel. The previous policy required a stowage Domestic Barges on June 12, 2006. He also reported that GIPSA is continuing to research safer methods for railcar stowage exams, and will field test hand-held and stationary cameras.

June 2006 Resolution #4. "The Committee would like to have updates at the next meeting include more specific time frames and identification of project schedules associated with each activity, including centralized monitoring, QA review and the farm gate quality survey."

Mr. Shipman reported that GIPSA launched a farm gate survey in 2006 to capture inspection data for sorghum that producers bring to the market. GIPSA collected samples from 164 elevators in Arkansas, Colorado, Illinois, Kansas, Louisiana, Missouri, Mississippi, Nebraska, Oklahoma, South Dakota, and Texas, where 90 percent of U.S. sorghum is produced. GIPSA's goal is to collect at least 1,010 samples. As of December 6, 2006, GIPSA had processed 970 samples. Survey data will be posted on the website by December 29, 2006. Mr. Shipman encouraged everyone to review the data on the web site and share comments with the Agency. GIPSA will conduct a second sorghum and an initial soybean survey in 2007.

Mr. Shipman then discussed centralization of oversight and monitoring, and Kansas City operations as a whole. First, FGIS will consolidate field performance monitoring into the Kansas City area and establish a small quality assurance and control staff. The net effect of these actions will be a projected 44 percent savings.

As attrition shrinks staffing in Washington, DC, and the domestic field offices, an increasing number of staff positions will be filled in the Kansas City area to handle additional functions. Over the next 3 to 4 years, FGIS plans to station employees from all divisions in the Kansas City area to support field operations, provide program analysis and procedures development, conduct compliance related activities, manage quality control and assurance activities, and serve as a Continuity of Operations command center. FGIS will acquire new or renovated space to collocate all FGIS activities in the Kansas City area by 2009.

Finally, Mr. Shipman reported that five foundation systems of our Application Modernization project deployed during the summer of 2006. The Certification application, which will be deployed incrementally beginning in January 2007, will issue redesigned inspection and weighing certificates that are standardized in design, color, and size to make them more identifiable as official documents and easier to print. The Certification application will feed the Inspection Data Warehouse, a comprehensive database of inspection and weighing information that will provide data and reports to our customers. Both systems will be fully deployed across the official inspection system within 9-12 months.

Mr. Shipman concluded that Jaime Adams, deputy director, Budget and Planning Staff, will address financial planning; and John Giler will discuss contracting for export grain inspection, two additional resolutions from the June 2006 meeting.

AGENCY FINANCES

Jaime Adams, Deputy Director, Budget and Planning Staff, GIPSA, first reported that the Executive Resources Staff has been renamed the Budget and Planning Staff.

Ms. Adams then reviewed the FY 2006 Financial Report for User Fees: Grain Inspection and Weighing Program, Supervision of Official Agencies Program, Rice Inspection Program, and the Commodities Inspection Program.

FY 2006 Financial Report -- User Fees (Dollars in Millions)

	Grain I&W	Official Agencies	Rice Inspection	Commodity Inspection
Reserve - BOY	\$ 0.6	\$ 0.9	\$ 0.4	\$ 2.0
Revenue	30.4	2.2	4	2.1
Expenses	28.8	1.6	4.4	2.2
Margin	1.6	0.6	(0.5)	-0.1
Reserve - EOY	2.3	1.4	(0.1)	1.9
Target Reserve	7.3	0.5	1.2	0.6

*Numbers may not sum due to rounding.

This was broken down by cost type which includes: 84 percent for personnel salary and benefits; 2 percent for travel and transportation; 4 percent for rent, communications, and utilities; 1 percent for supplies and materials; 2 percent for other services; 3 percent for contractual services; and 4 percent for other services and agreements.

This was followed by the FY 2007 Financial Forecast for User Fees.

**FY 2007 Financial Forecast - User Fees
(Dollars in Millions)**

	Grain I&W	Official Agencies	Rice Inspection	Commodity Inspection
Reserve - BOY	\$ 2.3	\$ 1.4	\$ (0.1)	\$ 1.9
Revenue	30.5	2.2	3.9	1.6
Expenses	28.9	1.6	4.2	1.9
Margin	1.6	0.6	(0.3)	(0.3)
Reserve - EOY	3.9	2.0	(0.4)	1.6
Target Reserve	7.3	0.5	1.2	0.6

Ms. Adams then reported on the FY 2006 Financial Report for Appropriated: Compliance Program, Methods Development, and the Standardization Program.

**FY 2006 Financial Report -- Appropriated
(Dollars in Millions)**

	Compliance	Methods Development	Standardization	Total
Appropriation	\$ 6.4	\$ 7.1	\$ 4.4	\$ 17.9
Expenses	6.4	7.1	4.4	17.9
Margin	0	0	0	0

FY 2006 expenditures by cost type were: 70 percent personnel salary and benefits; 3 percent travel and transportation; 2 percent rent, communications and utilities; 3 percent supplies and materials; 3 percent capitalized equipment; 1 percent other services; 13 percent contractual services; and 5 percent miscellaneous or related services.

This was followed by the FY 2007 Appropriations Outlook. GIPSA's FY 2006 appropriation was \$38.0 million. The President's budget proposes \$41.5 million, which includes increases for pay costs, system modernization, and an international duty officer. The Senate is proposing \$38.7 million, which would only include an increase for pay costs. The House proposes \$39.7 million, including an increase for pay costs and 1.0 for unspecified costs. At this time, we are still working under a continuing resolution, and operating under FY 2006 funding levels.

The Agency had no additional expenses this year for New Orleans since FEMA assumed responsibility for the FEMA trailers.

In 2006, in response to a workload decrease in the rice program due to a policy change by Anheuser-Busch, GIPSA adjusted staffing levels and proposed a fee increase this summer that will be implemented in February 2007.

LIBERTY LINK RICE

John Pitchford, Director, Office of International Affairs, FGIS, GIPSA, discussed the timeline of events for the LLRice 601 issue:

- August 18, 2006. USDA announced the detection of LL601 in the commercial long grain rice supply. GIPSA, APHIS, and FAS quickly formed a partnership to respond. Bayer CropScience filed a petition to APHIS for deregulation.
- August 24, 2006. GIPSA verified two DNA methods developed by Bayer CropScience with 0.01 percent limit of detection. One method is specific to the LL601 event, and the other detects the 35S-BAR sequence which is not specific to LL601, but can be used as a screen in markets that will accept it.
- September 1 and September 15, 2006. GIPSA validated two protein strip tests.
- September 22, 2006. GIPSA established a laboratory proficiency program for LLRice. For the program, GIPSA distributed samples weekly for 6 weeks, then monthly. Results are due within 5 working days using the real time PCR 35S-BAR Bayer CropScience method. The names of the laboratories that demonstrate capability are posted on the USDA/GIPSA website.
- November 24, 2006. APHIS deregulated LL601. APHIS deregulated similar LLRice events (LL06 and LL62) in 1999. The LL protein is currently in commercialized corn, canola, and cotton varieties. APHIS also presented preliminary information on their investigation into how the regulated event entered the commercial long grain rice supply and whether any violations occurred. LL601 was traced to foundation seed of the Cheniere variety of long grain rice.
- November 28, 2006. The rice industry announced a seed action plan for the 2007 planting season. The USA Rice Federation action plan calls for testing of all seed lots. The Cheniere variety cannot be used in 2007, and growers have to provide certification that their seed was tested. Additional information on the action plan is available at: www.usarice.com.

Mr. Pitchford noted that GIPSA has also played a key and ongoing role in providing trade support to maintain open markets around the world.

The top 10 markets for U.S. rice for the 2005/2006 marketing year, and their reaction to the LLRice issue, were: Mexico – no reaction, market open; Japan – short grain (SG) and medium grain (MG) market requires testing, long grain (LG) prohibited, and processed products with LG ingredient must be tested before processing; Iraq – testing for “GE content,” market open; Haiti – no reaction, market open; European Union countries – market closed due to onerous testing requirements; Canada – importer must provide evidence of testing, market open; and Cuba, Saudi Arabia, Nicaragua, and Ghana – no reaction, markets open. Korea and the Philippines remain with two unresolved markets.

The forecast for 2007 U.S. rice production is at 193.3 million hundred weight. Fifty percent of the harvest is to be exported and 80 percent of U.S. rice exports are long-grain.

WHEAT AND SOYBEAN FUNCTIONALITY RESEARCH

David Funk, Associate Director, Technical Services Division, FGIS, GIPSA, gave an overview of wheat and soybean functionality research, including use of the wet gluten service, Farinograph standardization, gluten viscoelastic properties research, soybean fatty acids; and soybean amino acids.

Mr. Funk reported that the official NIRT protein-based wet gluten services for HRW and HRS were initiated on May 1, 2006, and GIPSA continues to build awareness of the free service. Most of the 1,146 service requests to date have come from wheat quality surveys – 1,062 from Kansas and 84 from Montana. International markets seem more interested in wet gluten results than domestic users, but neither has been requesting service.

GIPSA's current wheat functionality initiatives are: flour milling capability, broad instrumentation base for "reference" functionality assessments, validation/improvement of reference methods, development and evaluation of new reference methods, and use of reference methods to calibrate NIRT-based or other rapid tests. Mr. Funk reported that there are approximately 17 different types of wheat functionality equipment used for testing.

Initial results of the Farinograph standardization study showed reproducibility among several commercial laboratories and among AACC check sample results. The Farinograph "mixing tolerance" result is commonly accepted as an assessment of flour "strength." TSD distributed samples to five labs for testing and was surprised to see a broad range of results. For AACC check sample series, TSD reviewed mixing tolerance results over 5 different months; variation was large (7 to 15, 10 to 20). Overall, variability has not changed much since 1965. Wheat breeders want to be able to assess quality with smaller sample portions. GIPSA results suggest that mixing tolerance results may be significantly affected by bowl size, as well as different motors and mixing energy inputs.

Mr. Funk reported that GIPSA is working to assess the effects of mixing on standard tests for wheat functional quality, and develop a market-practical test for measuring the functional properties of wheat gluten.

In the area of soybeans, Mr. Funk reported that there is increased interest in low-linolenic soybeans, which produce oil that has half the linolenic acid level of commodity soybean oil, making it more stable, and reducing or precluding the need for hydrogenation – the process that

creates unhealthy trans fats in foods. GIPSA is taking part in a study with Iowa State University, Monsanto, Pioneer, United Soybean Board, AOCS, and instrument manufacturers to test approximately 70 samples representing different low-linolenic genetics with NIR instruments using different calibrations. GIPSA will supply reference analyses for the study.

Mr. Funk also reported that there is increased market interest in soybean (and corn) varieties with enhanced amino acid profiles to provide better nutritional value for food and feed. This has created a need for rapid, accurate, and precise methods to assess amino acid profiles in grain. The United Soybean Board is organizing research projects to encourage development of rapid testing methods. Current amino acid reference methods are inefficient, requiring 7-8 days to analyze a 20-sample batch. Better reference methods are needed to support rapid method development.

THIRD PARTY CONTRACTING

John Giler, Acting Director, FMD, FGIS, GIPSA, discussed the contracting pilot for export services.

At the June 2006, Grain Inspection Advisory Committee meeting we discussed the status of third-party contracting; types of contracts—service delivery and labor; locations selected for the contract activity—California, Milwaukee, Chicago, Toledo, Corpus Christi; the contracting process; and the status of contract activities.

Mr. Giler reported that the first contract was in place in the fall of 2006. There were two contracts (east and west) for the Toledo area because of the size of the field office circuit. One company applied for the western area (Chicago and Portland) and three for the eastern area (Toledo to Albany). During the process, GIPSA noted that all contractors did not have adequate staff to provide all services at all locations, but each indicated they would staff to meet any service requests. The Toledo Field Office invited all potential contractors and grain companies operating in the Toledo circuit to the office for a presentation on the contracting process and expectations of both contractors and grain companies. To date, no contract service agreements were established with grain companies.

There is a service contract for non-export vessels in place in the Corpus Christ (south Texas) area that primarily involves rail and truck shipments into and out of the port area. The “labor contract,” which is a contract to provide samplers and technicians to the Corpus Christi office, resulted in a proposal that was rejected due to cost. The first proposal would have cost GIPSA 66 percent more than GIPSA’s cost for intermittent employees. The bidder was offered an opportunity to make a best and final offer, which was accepted. Later, the contractor determined they would not cover their expenses at that price and withdrew their offer. There is currently no labor contract in Corpus Christi.

In other contracting activity, California has had no export ship activity; Milwaukee has had 19 vessels, which is more than expected; and Toledo and Chicago contracts should start in January.

From January to March, most of the work in the Toledo and Chicago areas is on railcars, which gives contractors the opportunity to get started and prepare their staff for vessels.

GIPSA's evaluation of the contract pilots will consider 1) the cost of service to grain industry, 2) accuracy of inspection results, 3) the quality of service delivery and customer service, and 4) the impact of the pilot of the integrity of the official system.

The only export contract in place is in Milwaukee, where the contractor negotiated a contract with the grain company at \$69/hour per person and then amended the rate to \$60/hour. The contractor is also providing services for inbound trucks at a cost of \$9 per truck. Every 15 days, the service provider reevaluates whether there is a need to charge more to recover costs, but has not yet changed its rate. The cost for a Federal employee to oversee the export part of the business is charged back to the contractor at \$64/hour. In addition, for tonnage rate, the Toledo office is charging the standard tonnage rate of \$0.184 per metric ton.

To date, GIPSA has learned that small businesses do not seem interested in competing for the contracts, but larger companies are. Overall, inspection contractors will not be adequately staffed until and unless they are sure they have sufficient business.

THE ETHANOL INDUSTRY AND AGENCY OPERATIONS

Eric Jabs, GIPSA, ODA, MPAS, and Becca Riese, GIPSA, ODA, MPAS discussed the current and evolving ethanol market and impact on official corn inspections.

In 2005, U.S. ethanol output was 3,904 million gallons using more than 1,400 million bushels of corn, sorghum, wheat, and wastes. This represents a 139 percent increase over 2000 levels and 179 percent increase over 1995 levels. As of October 2006, there were 106 ethanol plants in the U.S. with an annual capacity of 5,081.4 mgy, and 48 facilities under construction or expansion with an additional 3,696 mgy. Fueling the continued growth are volatile oil prices, record corn production, increased processing capacity, Federal and State incentives, and the 2005 Renewable Fuels Standard, which increases the volume of renewable fuel required to be blended into gasoline.

Over 80 percent of facilities use a dry mill process, which is the fastest growing segment of the market. One bushel of corn equals approximately 2.8 gallons of ethanol and more than 17 pounds of distiller's grains.

In 2005, 9 million metric tons of distillers grains were produced; a 23 percent increase from 2004 and a 233 percent increase from 2000. Approximately 20-25 percent of the distiller's grains are sold wet locally. In 2006, 1.2 million metric tons were exported, mainly to Ireland, Europe, the United Kingdom, Mexico, and Canada.

GIPSA surveyed approximately 94 facilities that use grain as the primary feedstock about a range of issues, including grain procurement, infrastructure, inspection procedures, pricing/co-products, supply and demand, and policy. Twenty-three ethanol processors in Iowa, Illinois, Kansas, Kentucky, Minnesota, North Dakota, Nebraska, South Dakota, and Tennessee responded.

The survey found that price is the key factor ethanol processors consider when sourcing grain. Other considerations include timing of deliveries, moisture, mycotoxins, damage, and grade. Factors of less concern are high fermentable starch, foreign material, and distinctly low quality. Based on the survey results, ethanol plants do not use the official system, but instead rely on internal staff and contract laboratories to conduct any necessary inspections. The survey also found that ethanol processors are content with their current level of quality control.

GIPSA also analyzed corn inspections to determine if there is a correlation between ethanol capacity and the number of official agency corn inspections. The Agency selected six official agencies and their assigned territories based on corn production and ethanol capacity from FY 2002-2006; and contacted more than 100 ethanol facilities to catalog operating dates, ethanol capacity by fiscal year, and expansion projects. USDA's National Agricultural Statistics Service determined corn production in each territory. The study found disparate results for official agencies. Between FY 2002 and 2006, corn inspections increased as a percent of production for some official agencies, while agencies inspection volume decreased as ethanol capacity increased.

GIPSA cannot definitively conclude to what extent ethanol capacity affects official agency corn inspections. Several other factors that can influence inspection volume, including environment—drought may increase inspections for quality/mycotoxins; logistics—product movement may change depending on freight spreads at export ports; sector volatility—feed demand, substitute products; operational volatility—businesses may change their shipping options such as from rail to truck; and supply volatility—carryover stocks fluctuate from year to year.

A number of factors will shape the ethanol industry. Technology will advance to improve ethanol conversion efficiency. Agronomic changes will increase corn yields, which have increased 20 bushels per acre in the past 10 years and doubled in the last 40 years. Several experts, including National Corn Growers Association, predict yields of more than 180 bushels per acre in the next 10 years. In the next 25 years, experts are predicting over 300 bushels an acre because of genetically engineered varieties. A future corn price of \$4 is still profitable for ethanol.

In 2006, profitability reached \$2 per gallon or \$6 per bushel of corn. A typical 40-million-gallon plant would have sustained a profit of \$80 million. However, profit has trended down to a \$0.25 per gallon. Plants will continue to be built while profits are being made.

Future considerations also include the quality of co-products. Process Products Certificates issued by USDA's Animal and Plant Health Inspection Service (APHIS) do not address the quality of co-products. APHIS is exploring the application of phytosanitary certificates to co-products. A phytosanitary certification requires an official sample, which may increase the workload for official agencies.

The National Corn Growers Association, American Feed Industry Association, and the Renewable Fuels Association are working to establish a set of recommended standard analytical methods for the major quality factors (i.e., moisture, protein, and fat) that would be voluntarily

adopted by the feed industry. The industry is contemplating the need for market-driven (not Federal) trading guidelines or possibly standards.

Mr. Jabs and Ms. Riese concluded that ethanol's impact on corn inspections will depend on the proliferation of ethanol output, which will be determined by several factors. Opportunities may develop for official sampling and inspection of co-products. GIPSA has found no clear correlation between ethanol capacity and official corn inspections. Ethanol output can continue to expand, and exports and other domestic uses can be maintained or increase if corn yields keep pace and harvested acreage gravitates upwards.

March 2005 to June 2006, the U.S. has exported over 2.3 MMT of wheat to Iraq.

INTERNATIONAL OUTREACH AND TRADE ISSUES

John Pitchford discussed international outreach and trade issues.

Mexico. GIPSA has been working on three primary outreach activities with Mexico. First GIPSA provides training, both in Mexico and at GIPSA's Technical Center, to Mexican inspectors to provide them with a better understanding of GIPSA's and APHIS' inspection roles.

Second, GIPSA continues bilateral discussions with Mexican officials and importers about grain quality concerns with U.S. export shipments. In late 2006, GIPSA and USDA officials met with Dr. Trujillo and representatives of Mexico's grain industry. In all, GIPSA will work with Mexico to provide official service for the quality specifications typically used in commercial sales contracts for export grain to Mexico. These will primarily involve providing additional mycotoxin testing services. Mexico will provide GIPSA with specific importer quality concerns and complaints. GIPSA suggested that our organizations plan to continue our dialog on an informal, yet regular, basis. We proposed meeting every 3 to 6 months (alternately in the U.S. and Mexico) after exchanging proposed agenda topics of particular interest.

Third, GIPSA is a participant in the NAFTA Corn and Bean Working Group, a USDA intra-agency group established to address concerns between the U.S. and Mexico when full implementation of the North American Free Trade Agreement (NAFTA) occurs in January 2008. In this capacity, GIPSA has proposed to USDA's Foreign Agricultural Service (FAS) that we conduct outreach activities to help Mexican farmers prepare for 2008. On November 16, 2006, Mexico's Secretary of Agriculture Mayorga met with Secretary Johanns to ask USDA's Working Group to accelerate their efforts to help manage the public's perception when NAFTA is fully implemented. Secretary Johanns asked FAS to coordinate USDA Agency proposals for outreach activities for edible dry beans and corn. FAS has asked GIPSA to develop grading seminars and provide handling and marketing information for dry edible beans that could become a deliverable under the NAFTA Corn and Bean Working Group.

Europe. GIPSA has been working with USDA agencies and the U.S. grain industry to address the European Commission's requirements for vomitoxin (DON) and other mycotoxins in wheat that went into effect July 1, 2006. They implemented a tolerance of 1.75 PPM for DON in Durum wheat and 1.25 PPM in all other wheat's. Wheat imports are being tested upon arrival in

EU ports. GIPSA is working with EU countries to seek their recognition of GIPSA sampling, testing methods, and certification for DON in wheat, to maintain uninterrupted U.S. wheat exports to Europe. We also are working with USDA agencies to address increased enforcement of Karnal bunt restrictions by some EU members, including the United Kingdom, following release of a British report on the possibility of Karnal bunt becoming established in the EU.

Asia Collateral Duty Officer Program. In 2002, GIPSA placed its first Asia Collateral Duty Officer in Kuala Lumpur on a long-term (3.5-month) temporary duty assignment to develop a more proactive approach in working with overseas customers and their Governments in Southeast Asia. Based on the success of this program, GIPSA has continued to place representatives in Asia each year. In FY 2006, GIPSA maintained a presence in Asia for 8 months. Our presence in the region has drawn praise from our customers (buyers, millers, and processors), USDA Cooperators, and FAS representatives in the area.

Our officers commonly participate in educational seminars, investigate quality and weight complaints for grain shipments that were inspected and weighed by FGIS at the time of loading, and participate in government-to-government discussions or negotiations related to import restrictions or conditions/specifications that restrict U.S. trade.

Iraq Grain Trade Facilitation. GIPSA was instrumental in working with the U.S. grain industry to open the Iraqi wheat market to U.S. exports. In 2004, Iraq made its first purchase of 325,000 metric tons of U.S. Hard Red Winter wheat. Key to opening this market was the presence of a GIPSA technical expert to facilitate the sampling, discharge, and testing of the initial and subsequent wheat shipments at destination. From March 2005 to June 2006, the U.S. has exported over 2.3 MMT of wheat to Iraq.

GENERAL DISCUSSION

Tim Paurus, Vice-Chairperson, opened the second day of the meeting with Committee discussion about the previous day's presentation by Dr. Trujillo.

Ernest Potter voiced his concern about the Mexican importers' comment that 20 percent of loads arrive with physical discrepancies upon inspection. Mr. Shipman stated that it may be overstated and that part of GIPSA's responsibility is to look at those types of discrepancies. Jerry Gibson asked for GIPSA's thoughts about Mexico's complaint. Mr. Shipman stated that the complaints have not been addressed because they have not been brought to GIPSA's attention.

Dutt Vinjamoori said it would be helpful to randomly sample shipments to Mexico, tracking quality from beginning to end to see if and where problems arise. Arvid Hawk added that contract specifications must be closely examined. Ernest Potter concurred that contracts should clearly specify official or unofficial inspections are required, and who performed the services.

Mr. Shipman explained the services the official system can provide to buyer and seller. GIPSA continues to work with Mexico to resolve their concerns through 1) seminars and training classes in the U.S. and Mexico on sampling and inspection; and 2) GIPSA representation at Mexico

industry meetings to educate Mexican market participants on the official inspection system, methodology, procedures, and techniques.

Various members agreed that the Mexican government needs to understand that they need to give the U.S. the information in a timely manner to address quality discrepancies.

RESOLUTIONS

1. The Committee recommends GIPSA to report on the working agreement with APHIS as it pertains to phytosanitary certificates.
2. The Committee recommends that GIPSA continue to cooperate with the ethanol community and trade associations to learn of their needs to facilitate the movement of grain and grain by-products.
3. The Committee recommends that GIPSA work with the U.S. and Mexico's grain industry to better define Mexican end users' concerns about U.S. grain quality at the point of final destination in Mexico.
4. The Committee recommends that GIPSA help establish an informal consultative grain industry group with Mexico in furtherance of the above resolution.
5. The Committee recommends that GIPSA review its ability to institute a laboratory proficiency program for mycotoxins.

CERTIFICATES TO OUTGOING MEMBERS/ALTERNATE

GIPSA presented certificates to and thanked the following outgoing members and one alternate for their 3 years of serving on the Committee: Paul Coppin, Warren Duffy, Pat Dumoulin, Arvid Hawk, Ernest Potter, and Tom Fousek.

NEXT MEETING

Bob Smigelski recommended that the next meeting of the USDA Grain Inspection Advisory Committee be held in Kansas City, Missouri, in mid-June. Mark Fulmer seconded and the motion carried unanimously.

Tim Paurus thanked everyone for attending and for making the meeting a success. Meeting was adjourned.

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