

FINAL REPORT

QUALITY GRAINS ADVISORY COMMITTEE

January 1992

AUTHORIZATION

The Quality Grains Advisory Committee was established pursuant to House File 59 as enacted in 1989 by the Seventy-third General Assembly. The Committee is an advisory committee originally charged to develop recommendations to assure that Iowa agricultural producers receive the actual market value of above standard quality grain when sold to buyers and to establish a market which encourages the development of markets for above standard quality or special quality grains. The Committee was reconstituted in 1990 and again in 1991 in order to study issues related to the production, inspection, storage, transportation, processing, and marketing of quality grain as part of the annual process began by the Committee in 1989. The Committee was authorized to hold one meeting in 1991.

BACKGROUND

After conducting numerous public hearings around the state, the Committee submitted its initial recommendations to the Seventy-third Iowa General Assembly in February 1990. Findings and recommendations of the Committee are attached. The Committee also adopted a resolution. Versions of the resolution were sponsored by the Committees on Agriculture of the Senate and House of Representatives. Attached is a copy of the resolution passed by the House Committee on Agriculture.

The Committee met again in the fall of 1990 and heard testimony from a number of persons, including Dr. Charles Hurburgh, Iowa State University; Dr. Ravindra Datta, Iowa State University; Mr. Dan McGuire, Interstate Agricultural Grain Marketing Commission; Mr. Larry Kallum, Iowa Institute of Cooperation; and Mr. Steve Ferguson, Department of Agriculture and Land Stewardship. The

Committee reviewed progress being made by the grain industry, and in particular, grain cooperatives to market higher quality grains. The Committee submitted recommendations to the Seventy-fourth Iowa General Assembly in January 1991. The recommendations of the Committee are attached.

APPOINTMENT AND ACCEPTANCE OF MEMBERS

In 1989, the Legislative Council appointed legislative members and accepted members submitted by the Iowa Secretary of Agriculture who were selected by organizations interested in quality grain issues to serve on the Committee. In 1990, the same members were appointed by the Legislative Council to again serve on the Committee. In 1991, the Legislative Council appointed legislative members and reappointed a majority of the same public members to serve on the Committee. Upon recommendation by the Iowa Grain and Feed Association, the Legislative Council appointed Mr. Rick Keith to replace Mr. Fred Tomlinson. The National Farm Organization elected not to recommend a replacement for Mr. Tim Ennis. Members of the Advisory Committee were:

Senator Eugene Fraise, Co-chairperson
Representative Louis J. Muhlbauer, Co-chairperson
Senator Leonard L. Boswell
Senator Jack W. Hester
Senator John P. Kibbie
Senator Richard P. Vande Hoef
Representative Merlin E. Bartz
Representative Rick Dickinson
Representative Russell J. Eddie
Mr. Patrick Delanty, Iowa Soybean Association
Mr. Tom Feldman, Iowa Institute of Cooperation
Mr. Rick Keith, Iowa Grain and Feed Association
Ms. Denise O'Brien, Iowa Farm Bureau Federation
Ms. Emily Waund, Iowa Farm Bureau Federation
Ms. Betty Westmoreland, Iowa Corn Growers Association

ADVISORY COMMITTEE CHARGE

The charge of the Committee for the 1991 Interim, as restated by the Legislative Council, is as follows:

Study and review any issues relating to the production, inspection, shortage, transportation, processing, and marketing of quality grain as part of the annual process begun by this Committee in 1989. Focus and direction should be developed for presentation to the General Assembly.

ADVISORY COMMITTEE PROCEEDINGS

The Advisory Committee held its final meeting of 1991 in Room 116 of the State Capitol on September 27, 1991. The Committee, chaired by Senator Fraise and Representative Muhlbauer, heard testimony from a number of persons, including the following:

1. Mr. William C. Holmberg, Terra Plex Incorporated.
2. Dr. Charles Hurburgh, Iowa State University.
3. Ms. Marie Whiteing, Middle America Network.
4. Mr. Mark Glenn, Department of Agriculture and Land Stewardship.
5. Mr. Steve Ferguson, Department of Agriculture and Land Stewardship.
6. Mr. Dan McGuire, Interstate Agricultural Grain Marketing Commission.

The Committee considered testimony by Mr. Holmberg and Ms. Whiteing regarding the importance of developing value-added processes. Mr. Holmberg, described integrated production systems which produce ethanol fuel and by-products such as high protein animal feed. The Committee also considered testimony from Mr. Glenn regarding the operations of the Coordinator of the Office of Renewable Fuel and the Renewable Fuel Advisory Committee established by the General Assembly last session to support industries using agricultural commodities to produce sources of energy, minimize threats to the state's environment resulting from atmospheric pollution, educate persons regarding the use of ethanol, and promote the use of alternative renewable fuels.

The Committee also received testimony presented by Dr. Hurburgh regarding federal regulation, including inspection reforms being instituted by the Federal Grain Inspection Service, including cleanliness standards for corn and soybeans, standards for intrinsic factors, and blending practices. The Committee considered the financial stability of the Federal Grain Inspection Service. It also considered developments in technology, including testing procedures, which may dramatically affect the way grain is marketed in the state.

The Committee listened to the testimony of Mr. Ferguson regarding the marketing of quality or speciality grains, including initiatives by the Department of Agriculture and Land Stewardship to increase trade with the Republic of Mexico, the development of an electronic network to promote Iowa's quality grains, and proposals to establish a program to assure that Iowa grain exports provide high quality grain to foreign buyers.

The Committee also listened to testimony praising the work of the Committee as a catalyst which motivates the grain industry to improve the marketing of quality grains. The Committee received a report by Mr. McGuire who described the work of the Interstate Grain Commission in arranging shipments of high quality grain to foreign markets. Evidence was presented showing that United States grain exports have been declining and that the United States faces strong competition.

MATERIALS

The Advisory Committee was presented with a number of written materials which are available upon request from the Legislative Service Bureau. The materials include the following:

1. Issues and Recommendations Presented for Consideration, Legislative Service Bureau.
2. Grain: Quality in International Trade, Congress of the United States Office of Technology Assessment.
3. Enhancing the Quality of U.S. Grain for International Trade (Summary), Congress of the United States Office of Technology Assessment.
4. Cleaning Wheat at a Country Elevator, Kansas Wheat Commission and Kansas Agricultural Experiment Station.
5. Reeve Agri-Energy, Inc. (Video Tape), Reeve Agri-Energy, Inc.
6. 100+ Emission Control (Video Tape), Midwest Power Concepts.
7. Customer Demands for Quality Grain: The Market of the 1990s, Iowa State University.
8. Reports of Tests: Ethanol Injection Effects on Visible and Fuel Economy on a Bus and Garbage Truck, University of Nevada, Las Vegas.

9. Presentation and Support Materials for Iowa's Quality Grain Advisory Committee, Department of Agriculture and Land Stewardship.

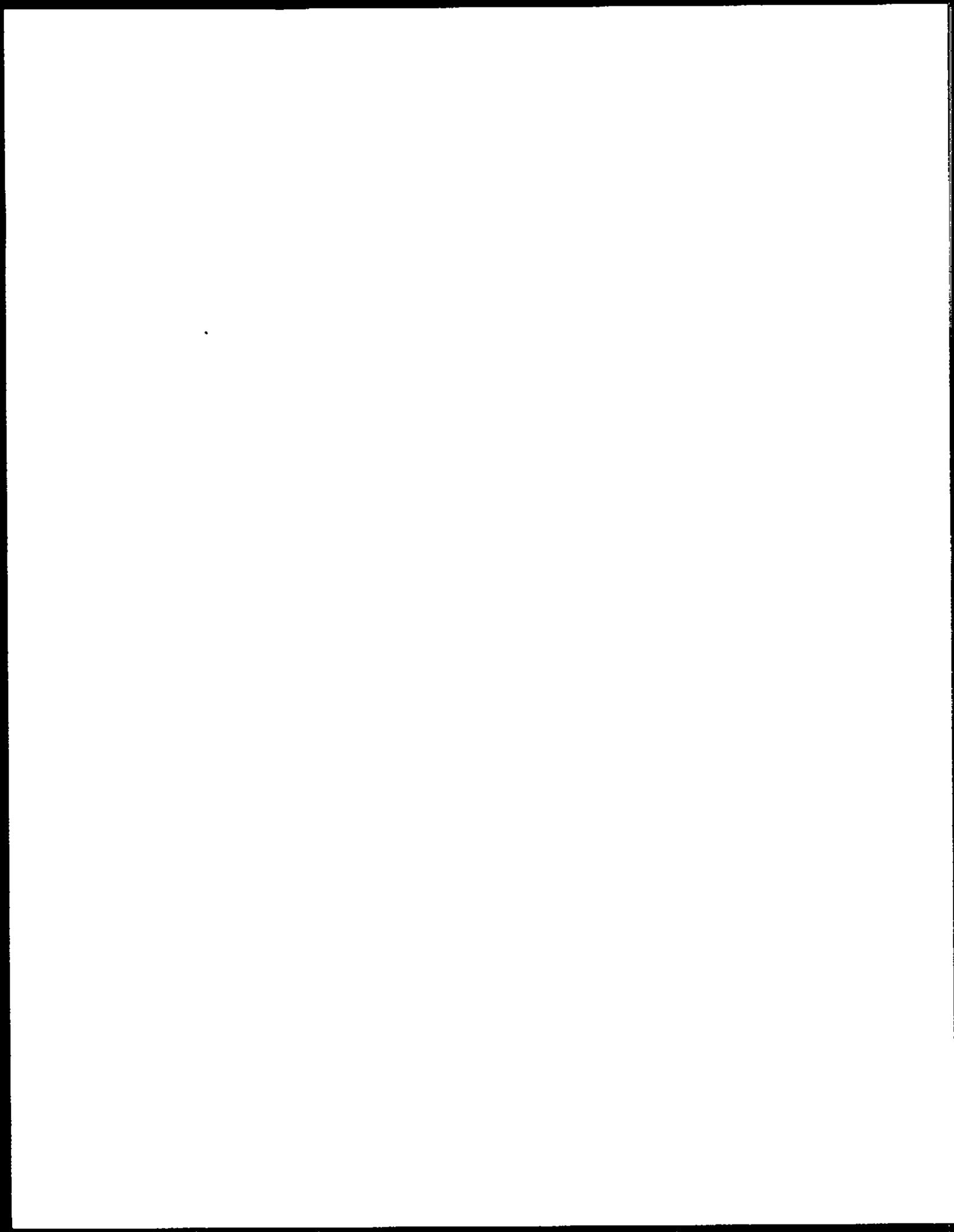
RECOMMENDATIONS

The Advisory Committee discussed testimony and information presented for consideration. There was a consensus among members that the Committee serves an important role in the effort to ensure that producers and marketers of grain deliver the highest practicable quality of grain to customers. The Committee discussed the management practices of producers and harvesters. Members also discussed incentives to encourage the production and marketing of higher quality grains. Members expressed support for the production of ethanol and its by-products.

The Committee approved the following recommendations:

1. The Iowa General Assembly should strongly support the Interstate Agricultural Grain Marketing Commission and Iowa's involvement in the Interstate Compact on Agricultural Grain Marketing.
2. The Iowa General Assembly should support an increased ethanol production capacity within the state by providing incentives to producers which are at least comparable to incentives offered by competing states surrounding Iowa.
3. The Legislative Council should continue its commitment to issues involving grain quality, by reauthorizing the Quality Grains Advisory Committee to meet again in 1992.

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SECOND YEAR'S FINDINGS
Quality Grains Advisory Committee
Submitted to the General Assembly
January 1991

The Committee approved the following recommendations:

1. The state should support alternative uses for grain, and especially off-grade grain. Ethanol production offers the most promising alternative. The state should support expansion of the ethanol industry. The state should encourage the federal government to adopt creative programs to enhance ethanol production (e.g., connecting farm program payments to the use of corn dedicated to ethanol production).
2. The state should support development of seed corn varieties which serve specific end use purpose.
3. The state should support educational efforts directed to ensuring that proper procedures are followed when producing, harvesting, storing, handling, and transporting grain.
4. The state should consider establishing an official responsible for coordinating activities related to quality grain.
5. The state should support efforts by the Department of Agriculture and Land Stewardship to build trade relationships with Mexico. Associations interested in agricultural production, including state promotion organizations, should be encouraged to actively participate in this process.
6. The state should consider monitoring grain shipments to Mexico. The monitoring should include accounting of the amount of grain and inspection of the quality of grain transported to Mexico.
7. The state should consider incentives to promote the ethanol industry.
8. The state should work to promote higher grain quality standards.
9. The state should consider forming agreements between the state and producers interested in marketing quality grain products.

10. The Quality Grains Advisory Committee should be reauthorized to meet in the 1991 Legislative Interim in order to further study issues related to the production, inspection, storage, transportation, processing, and marketing of quality grain. If reauthorized, the Advisory Committee will maintain focus upon these issues, provide direction to interested agencies and organization, and serve as an advisory body to the General Assembly.

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INITIAL FINDINGS
QUALITY GRAINS ADVISORY COMMITTEE
SUBMITTED TO THE 73RD GENERAL ASSEMBLY
January 1991

ADVISORY COMMITTEE FINDINGS

The Advisory Committee makes the following findings:

1. Iowa's grain marketing system is permanently integrated within the United States' marketing system. Iowa must take action to ensure that its grains are produced and transported with the highest possible quality. However, the state is not well positioned geographically to independently ensure that its products are delivered free of defects.

Iowa must assume a leadership role to improve the current system which is an interdependent structure composed of producers, local grain dealers and warehouse operators, cooperatives, terminal operators, associations, shippers, export companies, Iowa state agencies, other state governments, the United States government, domestic and foreign buyers, and foreign governments.

2. Three basic perspectives are expressed regarding the issue of providing increased prices to producers delivering quality grains, including the following:

a. Producers expect a premium price to be paid for delivering grain of a higher quality than the market standard.

b. Local grain merchants, including grain dealers and warehouse operators expect that a market for quality grain must be readily available before the merchant may pay a premium for quality grains.

c. Large grain marketing companies assume that the current system is responsive and fair within current grain marketing conditions.

3. Iowa must avoid favoring any one group. This state depends upon warehouse operators and grain merchants just as it depends upon producers. State action should assist persons in improving the current system rather than mandating action which isolates and alienates a necessary component of the state's grain marketing system.

4. The blending of grain performed at the local level is an institutionalized part of business which benefits local grain warehouse operators and dealers. Blending practices also often benefit producers. However, blending reduces quality and the practice, as often performed at terminal ports, increases the risk of adulteration. Adulteration of grain through blending should never be profitable.

5. Grain handling practices cause deterioration in quality. Many handling practices can be improved during production, storage, and transportation.

6. Most complaints relating to quality are received from foreign buyers reporting an unacceptable level of broken grain, foreign material in grain, or grain damage.

7. There are indications that markets exist for grain above standard quality. However, the size of the market is unknown. Delivering high quality or special quality grain is sometimes not cost effective due to handling or transportation costs.

8. Producers are capable of delivering quality grain. However, producers may be reluctant to improve production and storage practices until economic benefits are received from improved on-farm practices.

9. Technology is rapidly evolving to permit measurement of many quality characteristics (e.g., protein content, oil content, starch content, hardness of kernels), and grain users are increasingly demanding special characteristics in the grains they purchase. Substantial premiums can be expected for varieties of grains that contain special characteristics. There is a need to change the existing marketing system to provide producers and small grain dealers and warehouse operators with economic incentives for segregating food grain and preserving quality.

10. Iowa is in an excellent position to produce special quality and superior quality grain for which substantial premiums can be expected.

RECOMMENDATIONS

The Quality Grain Advisory Committee makes the following recommendations for consideration by the Legislative Council and the 1990 General Assembly:

1. The state should actively support public research and education programs. The programs should promote practices and strategies designed to improve the production, handling, storage, marketing, and transportation of quality grains. The support should represent a public-private partnership to accomplish the following:

a. Increase production and consumption of grain-based products, including alternative fuels, livestock and poultry feeds, biodegradable products, and human foods.

b. Improve grain quality, by developing and measuring better seed varieties, special quality characteristics, and intrinsic value.

c. Determine the extent and location of market demand for premium grains, including world market demand for grain having specific characteristics or superior quality.

2. Iowa should be identified as a state producing premium quality grains. The Committee has reviewed methods to achieve a high level of identification by state, including providing for shipments of identity preserved grain, establishing an organization to facilitate grain marketing (similar to the Nebraska Wheat Board), or providing for state certification of Iowa produced grains. The Committee recognizes that obstacles exist. Iowa should not be placed in a position of being identified with grains which are delivered in poor quality. The shipment of identity preserved grain is often not cost effective. Organizations created to facilitate the marketing of grains may become politicized or dominated by well organized interests.

The Committee expresses support in principle for the implementation of an "Iowa Certified Quality Grain" program in which the Department of Agriculture and Land Stewardship certifies that the grain sold satisfies quality standards. The standards could include factors not presently contained within federal grain standards, including aflatoxin levels, protein, oil or starch levels, and stress crack levels.

3. The state should encourage increased production and marketing of value-added products, including livestock, alternative fuels, biodegradable products, and foods and fibers designed for direct human consumption.

4. Marketing of grains should be based on practices which ensure quality. These practices include standards and procedures used to judge the quality of grains. The Committee stresses the importance of the federal government's immediate reform of grain standards. Changes in practices include the following:

a. Standards should incorporate factors not presently included in grade standards, including aflatoxin levels, protein, oil or starch levels, and stress crack levels.

b. Grain should be purchased on a zero defect basis excluding moisture.

c. Foreign objects and broken grain should be measured separately. There should be a low tolerance for the acceptable level of foreign objects.

d. Blending of grain should be restricted where adulteration of the grain is threatened or the blended grain is sold for a price in excess of the price that the same grain unblended would command.

5. The state should commit more financial resources to its agricultural sector. The Committee notes that agriculture provides the foundation for the state's economic well-being, but has traditionally been underfunded. To illustrate this point, the Committee notes that in 1989, total revenue produced from agriculture in this state equaled more than nine billion dollars while the state appropriated less than twenty million dollars to support the Department of Agriculture and Land Stewardship.

6. The state should establish an ethanol commission to cooperate with the private sector in developing and promoting ethanol as an alternative fuel source.

7. The state should work to harmonize efforts by organizations which facilitate trade between foreign grain buyers and Iowa sellers. The Committee stresses the need to develop a simple line of transmission in which buyers may communicate with a single or unified "voice" representing the state.

8. The state should support a delegation in Washington D.C. representing the state's interest to ensure that federal farm legislation better achieves the objectives contained in this report.

9. The state should encourage risk management strategies among small grain merchants engaged in marketing grains of special qualities or superior quality, including the formation of marketing pools. The state should provide seed capital to assist cooperatives in organizing in order to establish trading relationships with foreign customers interested in purchasing premium quality grains.

10. The Department of Agriculture and Land Stewardship should act with all deliberate speed to implement the electronic bulletin board established in House File 59 enacted last session to ensure installation of a computerized network capable of linking sellers of high quality grains to potential customers.

11. The state should require that grain warehouse and terminal operators complete continuing education classes each year and periodically pass an oral exam related to handling and storage practices designed to maximize the maintenance of grain quality.

12. The state should require that all grain testing and grading equipment meet established standards, and that equipment in operation be inspected and certified periodically.

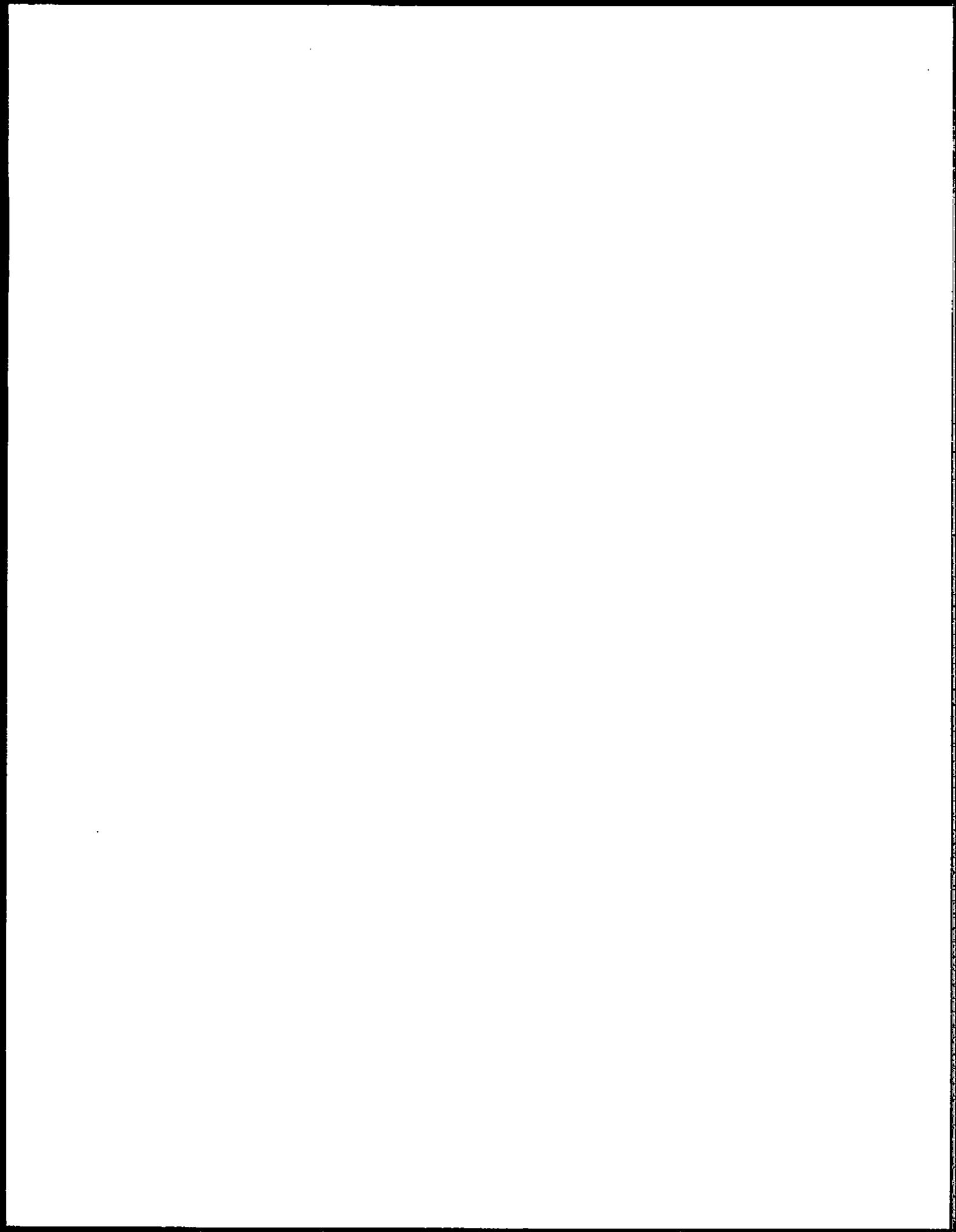
13. The state should sponsor a convention of grain producing states in order to discuss grain quality issues and to reach a consensus with the goal of initiating coordinated action directed toward improving grain marketing.

14. The state should support Iowa's participation in the Interstate Compact on Agricultural Grain Marketing, including support of efforts by the interstate agricultural grain marketing commission to improve the marketing of grain, preserve the integrity of grain shipments, and to increase the marketing of premium quality grains.

15. The state should support in principle reforms contained in federal legislation introduced on November 11, 1989, by Senator Daschle and Representative Bond to amend the United States Grain Standards Act to improve the competitive position of the United States grain in international and domestic markets, to facilitate the communication of quality characteristics that

final buyers of grain desire, to provide certain incentives to producers of high quality grain, and to improve the quality of farmer-owned and federally-owned reserve grains stocks. A copy of the bill is included in the appendix.

16. The 1990 General Assembly should pass a concurrent resolution petitioning the United States government to improve practices, including federal grain standards and procedures for monitoring the handling of grains to ensure their integrity. A copy of the resolution is included in the appendix.



1 HOUSE CONCURRENT RESOLUTION NO. 104
2 BY COMMITTEE ON AGRICULTURE
3 (SUCCESSOR TO HSB 615)

4 A Concurrent Resolution to urge the Congress of the
5 United States, the President of the United States,
6 and the United States Secretary of Agriculture, to
7 enact and implement legislation to ensure that the
8 United States is the world's preeminent supplier of
9 grains.

10 WHEREAS, the state of Iowa is one of the major
11 agricultural producing regions in the world, having
12 33,500,000 acres of farmland, generating more than
13 \$9,000,000,000 annually from the production of
14 agricultural commodities, and exporting annually
15 \$2,000,000,000 worth of agricultural products to
16 foreign markets; and

17 WHEREAS, Iowa and the upper midwest are naturally
18 suited for consistent, cost-effective production of
19 high quality grain, with Iowa having more cropland
20 than 19 other states combined, and ranking first among
21 all states in the production of corn and soybeans; and

22 WHEREAS, foreign customers at times express
23 dissatisfaction with the quality of grain received
24 from the United States; and

25 WHEREAS, premium quality grains deteriorate during
26 shipment, which can be caused by mishandling, poor
27 storage, and adulteration through blending of inferior
28 quality grains; and

29 WHEREAS, grain users are increasingly demanding
30 special characteristics in the grains they purchase.

1 and competitor nations are becoming increasingly
2 capable of delivering scheduled shipments of superior
3 quality grains having specified characteristics
4 demanded by foreign customers; and

5 WHEREAS, federal grain standards and procedures do
6 not measure use factors, other than protein or oil
7 content, economically important to customers, which
8 result in foreign customers purchasing grains meeting
9 only minimum grade requirements under their contracts;
10 NOW THEREFORE,

11 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES, THE
12 SENATE CONCURRING, That the Congress of the United
13 States, the President of the United States, and the
14 United States Secretary of Agriculture enact and
15 implement legislation to assure the United States'
16 position as the world's preeminent supplier of quality
17 grain; and

18 BE IT FURTHER RESOLVED, That federal reforms of
19 current grain standards provide opportunities for
20 measurement of as many quality characteristics of
21 grain as practical and economical, which may include
22 protein content, oil content, starch content, and
23 kernel hardness; and

24 BE IT FURTHER RESOLVED, That technical and
25 financial support be extended to producers through
26 land grant colleges to assist in developing seeds for
27 the production of grain to meet end-use demands of
28 domestic and foreign customers of grains, to
29 facilitate bulk merchandising of grains, and to
30 minimize deterioration in grain quality, including

1 breakage and foreign material adulteration caused by
2 mechanical factors; and

3 BE IT FURTHER RESOLVED, That Congress and the
4 United States Federal Grain Inspection Service
5 continue to review the current federal grain standards
6 and procedures, to better maintain grain integrity and
7 efficiency within the system which in turn will reward
8 producers and handlers delivering quality grain,
9 facilitate commercial transactions between marketers
10 and foreign customers purchasing quality grains, and
11 ensure the scheduled delivery of grain of a quality
12 contracted for as a normal part of conducting business
13 with United States suppliers; and

14 BE IT FURTHER RESOLVED, That the United States
15 support uniform procedures and standards for grading
16 grain quality among all grain exporting nations of the
17 world; and

18 BE IT FURTHER RESOLVED, That copies of this
19 resolution be sent by the Chief Clerk of the House of
20 Representatives, to the President of the United States
21 Senate, to the Speaker of the United States House of
22 Representatives, to Iowa's congressional delegation,
23 to the President of the United States, and to the
24 United States Secretary of Agriculture.

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