

**PUBLIC ROLE IN GRAIN AND OILSEED MARKETING
FACILITATION: USDA PERSPECTIVE**

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ABSTRACT

In fiscal year 2002, U.S. grain and oilseed exports accounted for approximately \$15 billion of the total \$53 billion in American agricultural exports. Rapidly emerging technology and increasing consumer demands are bringing new marketing mechanisms and challenges to merchandisers of grain, oilseeds, and related agricultural commodities. To retain its position in today's highly competitive world market, the U.S. grain industry is adopting new technologies and business strategies that balance the efficiencies of the commodity market and the added value of greater product differentiation. This evolution away from traditional marketing methods will necessitate a new role for USDA in today's dynamic marketplace.

Industry leaders in the grain and oilseed sector believe that, in 5 years, the market's needs will be significantly different than those of today. Today, USDA provides grain standards, factor testing, and standardization services to the industry. In the future, the standards will have to be more reflective of the overall market value of a product. Testing may not adequately meet all market needs, and may be supplanted or supplemented by quality management programs, such as the Process Verification Program being proposed by USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA).

Enormous changes have occurred in the agricultural sector through years of growth and development. Past policies designed for narrower purposes in an isolated economy simply cannot meet the current needs of our modern, rapidly expanding food and agricultural system. As new and differentiated products move into the market, USDA must help those products move from buyer to seller unhindered by domestic or international trade obstacles.

INTRODUCTION: THE IMPORTANCE OF TRADE EXPANSION

In the United States, because we produce far more than we consume, expanding international trade opportunities has long been a key component of the national food and agricultural policy. Today, in a market environment characterized by competition, economic uncertainty, technological advancements, increasingly demanding consumers, and, at times, international regulatory regimes not founded on sound science, trade expansion has never been so challenging and so vital to the well-being of our food and agricultural sectors.

The United States Government, with the U.S. Department of Agriculture (USDA) playing a lead role, recognizes not only the critical importance of trade expansion, but that working to "level the playing field" through worldwide reductions in tariffs and other barriers to trade is critical to the success of American agriculture. To this end, the USG and USDA have several efforts underway to liberalize the world's food and agricultural trading markets. These include, most

notably, the multilateral negotiations of the Doha development agenda intended to further the achievements of the Uruguay Round negotiations concluded in 1994. The United States also is negotiating to create the Free Trade Area of the Americas, a hemispheric-wide trade zone, and several other regional agreements, as well as numerous bilateral negotiations with other countries. These efforts clearly reflect a recognition that trade expansion is the most powerful economic development engine, a critical tool for ensuring the long-term economic health of the U.S. food and agricultural sectors, and an invaluable means of hastening the global development process.

DEVELOPMENTS WITHIN THE GRAIN AND OILSEED SECTOR

In fiscal year 2002, U.S. grain and oilseed exports accounted for approximately \$15 billion of the total \$53 billion in American agricultural exports. This vitally important sector is undergoing changes that are characteristic of the agricultural sector as a whole. Rapidly emerging technology and increasing consumer demands are bringing new marketing mechanisms and challenges to merchandisers of grain, oilseeds, and related agricultural commodities.

Whenever possible, the industry extracts special traits from the main commodity stream relying on the established infrastructure as much as possible. However, some companies find it necessary to reach farther back into the marketing system and contract with producers to grow a specific variety or use specific agronomic practices. Producers in the grain and oilseed sectors are responding to market signals by producing more value-enhanced products. In the soybean sector, producers and the marketing system have a long history of producing and providing the food-quality beans needed for tofu, miso, and similar products. Other promising value-enhanced soybeans, many of which have been created through biotechnology, are available or will be within a few years. High oleic soybeans, which produce oil that contains less saturated fat than conventional soybean oil, and high sucrose soybeans, which have a less “beany” taste, entered the market in the late 1990s. Today, soybeans tailored to the animal feed sector are near commercial production.

In the corn sector, the number of acres devoted to value-enhanced corn has nearly doubled in the past 6 years -- up to 4 million acres in 2001 from 2 million acres in 1996 - - with food grade and white corn leading in planted acreage.¹ While overall production of all value-enhanced corn has increased, production has not expanded for all types. For example, producers sharply expanded high-oil corn acreage from less than 50,000 acres in 1994 to 1 million acres in 1999 in response to high market premiums. The premiums were based on the added value of higher oil content (6 percent or more versus 4-4.5 percent for commodity corn) that provided higher energy and, in turn, improved poultry and livestock feed efficiency. Acreage has since halved as premiums collapsed due to the increased availability of cheaper substitutes such as fast-food grease. According to the U.S. Grains Council, about 30 percent of farmers who grow value-enhanced corn one year do not grow that same type the following year. This high turnover rate has led to

¹ U.S. Grains Council's annual *Value-Enhanced Grains Quality Report*
www.vegrains.org/documents/2001veg_report/intropage.htm

an uneven trend in value-enhanced corn acreage. So, while the market's overall need for crop differentiation will likely increase over time, the need for specific crops will vary.

The efficiency of our food and feed system has enabled U.S. agriculture to provide an abundant, safe, and affordable food supply to U.S. citizens, and to be a dominant food supplier for the rest of the world. To retain this position in today's highly competitive world market, the grain industry is adopting new technologies and business strategies that balance the efficiencies of the commodity market and the added value of greater product differentiation. This evolution away from traditional marketing methods will necessitate a new role for USDA in today's dynamic marketplace.

These merchandisers recognize that they need, now and in the future, new types of information to effectively market their product. In a recent report published by The Context Network², 84 percent of those surveyed anticipate an increasing amount of grain being priced based on quality attributes. Thirty-one percent of grain industry leaders thought that diagnostic systems that quickly and accurately measure grain attributes are very important today; 76 percent felt they would be very important in 5 years. Similarly, only 20 percent of respondents thought that the ability to identity preserve grain was important or very important today; 69 percent felt it would be important or very important in 5 years. With regard to official grain standards, 68 percent of grain industry leaders said the current USDA standards adequately meet the needs of the grain industry today. However, only 42 percent thought that the current USDA grain standards would meet the needs of the grain industry in 5 years. There was particular concern among respondents about the potential need for vastly more complex standards given the development of new grain traits, demands of export markets, and new niche markets in the grain industry.

Given evolving market needs, USDA is working to identify how the Department can continue to foster the effective marketing of agricultural products. Within USDA, GIPSA is the agency charged with facilitating the marketing of grains, oilseeds, and related commodities.

USDA'S ROLE IN GRAIN AND OILSEED MARKET FACILITATION

GIPSA facilitates marketing of these products by providing buyers and sellers of grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased. To this end, GIPSA establishes and maintains official U.S. grading standards for grains, oilseeds, and related commodities; develops standard testing methods to accurately and consistently measure grain quality; and provides a national inspection and weighing system through a network of Federal, State, and private laboratories.

Given industry leaders' belief that the current standards will not be effective marketing aids in 5 years, GIPSA is working with market participants to determine how to revise existing or develop new standards that accurately reflect the overall market value of a product. The question will not

² The Context Network. April 2005. *Grain Industry 2005: A Survey and Analysis of Identity Preservation, Consolidation, Integration, Biotechnology, and the Future of the U.S. Grain Marketing System.*

only be whether to adjust factor limits, but whether new standards are needed to reflect multiple end-uses and values. For example, breeders are working with end users to tailor corn for specific end uses. This may lead to the subdivision of traditional commodity corn into multiple end-use types, such as poultry, swine or cattle feed corn. The standards must help the market assess the value of the commodity in light of specific end uses.

As GIPSA develops market-responsive standards, we also will ensure the availability of standardized measurements to accurately assess the value of grain. Standardized measurements of attributes, whether for biotechnology traits, physical characteristics, or intrinsic qualities, will be important to the market and a key to GIPSA's success in facilitating the marketing of grain. Today, GIPSA is working with industry, academia, and other government entities to foster the research and development of methods to meet the market's needs of tomorrow.

While GIPSA is working to identify salient value-enhanced components and suitable testing methodologies, the Agency is also seeking alternatives to end-product testing to support emerging marketing practices. For example, more customers are stipulating that their suppliers implement and maintain a specified quality management system. In response, the market is moving toward increased use of a wide variety of identity preservation and similar marketing systems. These systems will become increasingly important marketing tools as more value-enhanced grains and oilseeds enter the commercial market and the non-biotech niche market continues. To complement these effective market systems, GIPSA plans to institute a voluntary, fee-based process verification program for grains and oilseeds that will be built upon the strong foundation provided by the Agricultural Marketing Service's voluntary, audit-based programs for fruits, vegetables, and livestock products.

GIPSA's requirements, as based on ISO 9000-2001 standards, would focus, not on products, but on processes used to ensure quality. The process verification program would not dictate how a product is to be produced. GIPSA would confirm, but not participate in the development of, an organization's written manufacturing processes through periodic announced and unannounced independent, third-party audits. The process verification program would address the criteria a quality system must meet -- but not how an organization must meet those criteria. Under this program, GIPSA could verify any organization's processes, large or small, whether they're designed for identity preservation, testing, product branding, or any other marketing goal, and organizations could market their product as **"USDA Process Verified."**

GIPSA currently is developing a proposed rule to be published in the *Federal Register* to implement the process verification services under the Agricultural Marketing Act.

CONCLUSION

U.S. agriculture is driven by basically the same forces shaping the U.S. economy, including globalization of markets, and advances in information, biological, and other technologies. Enormous changes have occurred in the agricultural sector through years of growth and development. Past policies designed for narrower purposes in an isolated economy simply cannot meet the current needs of our modern, rapidly expanding food and agricultural system.

Given the enormity and pace of change in American agriculture, policymakers must take stock to examine past policies and programs and, where necessary, define new goals and principles that can best guide the future growth and development of the agriculture sector into the future. According to Secretary Ann Veneman, "Our challenge... is to address the vital forces of change while at the same time modernizing the foundations of our farm and food system to ensure continued growth and development for the 21st Century."

The Department is seeking continued and increased cooperation and partnership with program beneficiaries, Congress, consumers, industry, non-government organizations, Federal and non-Federal agencies, universities, and others to determine and meet the market's needs.

Changes in marketing practices, and the need for government to examine its role as a trade facilitator, are becoming increasingly apparent in the grain and oilseed sector. The U.S. grain marketing system is adding mechanisms to differentiate products and enhance supply chain management to complement the effective movement of products through the bulk commodity market. As new and differentiated products move into the market, USDA must help those products move from buyer to seller unhindered by domestic or international trade obstacles. Industry leaders in the grain and oilseed sector believe that in 5 years, the market's needs will be significantly different than those of today. Today, USDA provides grain standards, factor testing, and standardization services to the industry. In the future, the standards will have to be more reflective of the overall market value of a product. Testing may not adequately meet all market needs, and may be supplanted or supplemented by quality management programs, such as GIPSA's proposed Process Verification Program.

All segments of the grain and oilseed sectors, from plant breeders to producers to exporters to GIPSA, must be flexible and continuously work together to understand market developments, trends, and needs, and how the public and private sectors can best work together to explore and develop programs that will facilitate the marketing of U.S. grain.