



News & Views

A Monthly Publication Dedicated to the Feed, Seed, Grain and Farm Supply Industries of Wisconsin

Fundamentals vs Financials ■

We read this article and believe it to be one of the best at highlighting a very important issue facing every operation in our industry. It covers a subject with which managers should be aware and prepared to deal. We have been graciously granted permission to reprint it in its entirety by Diana Klemme of Grain Service Corp. of Atlanta, Ga.

As challenging as the past eighteen months have been for the grain industry, even more daunting times lie ahead. US crops are huge, but not burdensome. Global usage continues to rise in all major commodities, demanding even higher production in 2009/10. Forecast usage of world grains plus oilseeds for 2008 crop is up 2.2% versus 07, which sounds small but equates to an extra 70 million tonnes - despite record prices. And USDA's September report raised 08 world usage by 8 million tonnes since August. High prices and a slowing world economy may be slowing the *rate* of growth but that's a far cry from consumption actually declining. The positive aspect of this is it spells demand for *your* services to receive, store and ship even bigger crops in the years ahead. But with the rising demand and bigger crops come challenges. Money is one of them.

The global financial sector is in the throes of a credit crisis unseen in decades. Investment banks with lengthy pedigrees that survived the Great Depression suddenly implode; bank mergers are in the headlines daily, and the remaining firms are scrambling to de-lever, shore up capital, or merge. Bank of America's acquisition of Merrill is a classic example; the bank's asset base solves huge potential problems for Merrill. Smaller banks offering interest rates on CDs 2-4% higher than their competitors is another way of finding capital - through customer deposits. After the Lehman collapse even more investors are likely to move large portions of their portfolios into safe

sectors and out of leveraged, higher-yield instruments.

De-levering won't be as exciting as during go-go days of the past decade, and can be downright painful. (Imagine actually needing a down payment before buying a house, or actually having money on hand before buying high-end consumer goods!) In agriculture, banks are looking for better balance sheets in potential borrowers - and some will increase the working capital that grain elevators and others need to secure credit lines. This comes at a time when the need for funds has never been higher for elevators, from the combination of big crops plus high prices. The implications are huge.

The value of the US corn and soybean crops is around \$99 billion at current prices, versus \$73 billion a year ago. The increase of \$26 billion would require \$2.6 billion in additional working capital to buy the crop this year, assuming 90% financing availability. Looking back to other high price years, 1996's combined corn and soybean crop value was around \$40 billion (equivalent to \$57 billion today at 3% inflation). *Nothing* compares to this year - and we didn't even include the value of wheat, cotton and other crops! Farmers obviously don't sell everything at harvest, but it doesn't change the message: The grain industry will need not only to borrow significantly more money, but will need vastly greater capital. And if ag borrowers can only borrow 85% instead of 90% for example, that adds *another* \$5 billion to capital requirements for the grain industry.

The cream that rises to the top this year will be the grain firms that not only manage their merchandising well, but do the best job of maintaining adequate capital. We expect more consolidation in the grain industry this year, but the fallout can be more subtle. Weaker firms may survive, but be unable to hold as much ownership as

they would like, for example, adding to basis volatility. That ownership transfer happened earlier this year and could easily do so again – even if futures don't return to the record highs.

Futures may remain volatile based on the fundamentals of tight global stocks, but the turmoil in the financial sector can exaggerate the volatility. Hedge funds may exit part of their commodity holdings either to raise cash or cut margin calls, weighing on prices at the same time the market needs to buy even more acres for 2009. Some may be looking to avoid scrutiny into their business from Congress or the CFTC. Other investors may move *into* commodities, looking to diversify away from under-performing stocks. This volatility in futures is a 'cost' which in turn adds to basis volatility. When soybean futures swing in dollars rather than cents and grain is moving, basis adjusts to reflect the higher risks.

Volatility in markets and basis does create opportunities – for those with the capital, financing, space, and patience. Just don't underestimate the resources you'll need this year.

License Fees

Late last month the Department of Agriculture, Trade and Consumer Protection (DATCP) board approved the final version of a rule that will impact every grain buyer and warehouseman in the state. The rule deals with both Agricultural Producer Security (aka, the Fund or the Indemnity Fund) and what license fees are paid to the state by grain buyers and warehouse operators.

First a little history; a few years back the state budget removed almost all general tax revenue from the funding for the Trade Security Bureau at DATCP (that's the group that administers these licenses and the Fund). During these years, the department began to run a deficit based on existing fee revenue (licenses) and their operation costs. The deficit has reached a point where something had to be done to address it. The response was to adjust license fees and not filling two vacant employee positions. Given the current fee structure was developed in late 1980's when the grain and warehouse business in the

state was relatively size uniform, it was, with a few complaints, generally considered equitable to all involved. Well, the world and Wisconsin have changed. We now have nine ethanol plants, several multi-county coops, and numerous 25-car shippers, while still maintaining a sizeable number of relatively, by today's standards, small feed mills. The current fee structure has a price differential of \$300 between the largest and the smallest grain buyers in the state. Not exactly equitable in today's environment.

To address this issue and the deficit, DATCP proposed the rule change. The rule proposed fee increases that raise the minimum paid for each license (grain dealer and warehouse) and impose a potential maximum of \$10,000 for each license. There will be a couple dozen small grain buyers that may actually see license fee reductions of between \$100 and \$200, but the majority of license holders will see fees at least 50% higher than current levels and, in some cases, multiples higher. One large coop member currently is paying slightly over \$2,000 in fees annually and their costs will undoubtedly go to the combined \$20,000 max.

We understand the argument of the current fee inequality. We are also concerned that Wisconsin may be pricing itself out of the market for new entrants to our industry. We are aware Wisconsin's producer's pockets aren't bottomless pits, because that's who will eventually end up paying these fees. We are additionally, and most importantly, concerned about passing ever-increasing program fees directly onto the producer and industry without any tangible cost containment or reduction plans in the program itself.

We haven't even addressed the increased assessment fees for the Fund in this writing. We will, however, have full discussion of the issues at the upcoming District Meetings. Please refer to the enclosed flier for registration and location information. We hope to see you there.

Somebody Asked ■

Q.: Our office recently received a mailer from a company offering to register our company's truck drivers for something called TWIC. Is this "legit?" And what's TWIC?

A.: The Transportation Security Administration was directed by Congress, through the Maritime Transportation Security Act, to develop a system for controlling access to secure areas of ports to enhance security. To this end, they will issue a biometric (fingerprint) security credential, the Transportation Worker Identification Credential (TWIC), to individuals with unescorted access to secure areas of port facilities and vessels.

So how does this impact someone hauling grain to a barge-loading facility on the Mississippi or Illinois Rivers or Milwaukee? It should first be pointed out that, yes, barge-loading areas of the river system are "ports" and covered by this law. Beyond that, it begins to get tricky and where we don't have definite answers yet. Note in the requirement listed above, the TWIC will be required of anyone with *unescorted access to secure areas* of a port. So what is a "secure area of a port?" This will be determined on a port-by-port basis by the local Captain of the Port.

So you could have the situation exist in which one Port Captain determines the truck dump at one barge house is a secure area and 50 miles away, another barge truck dump isn't a secure area. (An individual facility's in-house developed Security Plan will hopefully serve as a template for Captains of the Port to make secure/non-secure decisions, but there are no guarantees.) So drivers (including farmers) delivering to the first location with the more restrictive "secure" definition would be required to get TWIC's, and those delivering to the second, wouldn't be required to do so. You can instantly see the complications and issues that will ensue.

Beyond those points, the cost per driver of getting a TWIC, which is good for five years, is \$132.50. The dates for compliance with the law are different for the various port areas of the country. For example,

Lake Michigan ports have an October, 31, 2008, date, while ports along the Upper Mississippi have a January 13, 2009, compliance date. Again, there's a whole lot up in the air regarding how this rule will be applied, so we're suggesting companies that deliver to ports should contact their buyers and find out the specifics, if they are known, that apply to that specific location. Even though it's six to eight weeks to process and receive a TWIC, we're not suggesting that employers run out and buy TWIC's for all their drivers at this point. Wait a few weeks to let this program find some definitive answers before you spend the money and time. As more information becomes available, we'll keep you updated.

WASA Directory Update ■

The annual association directory has been sent out. If you have not yet received your copy, please contact the WASA office.

Looking Down the Road ■

District Meetings

Sept. 23 **Comfort Inn, Mineral Point**
Tuesday

Sept. 24 **Holiday Inn Express, Ft. Atkinson**
Wednesday

Sept. 25 **Leicht Library, West Salem**
Thursday

Sept. 30 **Sleep Inn Conference Center,
Eau Claire**
Tuesday

Oct. 1 **Best Western Midway Hotel,
Wausau**
Wednesday

Oct. 2 **Machine Shed, Appleton**
Thursday

Please refer to the insert or call the WASA office for directions or specific locations of the meetings listed above.

Sept. 30 **WASA Grain Grading School**
Kalahari Resort, Wisconsin Dells

Route:

- General Manager
- Feed Department
- Grain Department
- Agronomy
- Safety Director
- Personnel
- _____

WASA Board of Directors

Tom Lefeber, President
(920) 773-2505

John Van De Wiel, Vice-President
(608) 744-2287

Lim Lamp, Secretary/Treasurer
(920) 674-8513

Doug Cropp (608) 882-2620

Erik Huschitt (608) 329-3900

Tim Lange (608) 676-2255

Bob O'Donnell (608) 838-4354

Dennis Schultz (715) 654-5134

David Wiederholt (608) 739-3103

WASA Staff (608) 223-1111

John Petty, Executive Director

RB "Bob" Willder, Loss Control Dir.

Denise Poindexter, Office Manager

***Upcoming
WASA District Meetings***

Tues, Sept 23 at Comfort Inn, Mineral Point

Wed, Sept 24 at Holiday Inn, Ft. Atkinson

Thurs, Sept 25 at Leicht Library, West Salem

*Tues, Sept 30 at Sleep Inn Conf. Center,
Eau Claire*

*Wed, Oct. 1 at Best Western Midway Hotel,
Wausau*

Thurs, Oct. 2 at Machine Shed, Appleton

More details inside