

Commodity Markets of Tomorrowland... What Happens Next?

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NGFA Chairman Tom Coyle

experiences in my career!

The NGFA, of course, manages a huge array of issues for its members. Those issues range from transportation to agricultural and trade policy. From safety, environmental and grain quality issues to feed and grain warehousing. But during the past year, none of these has been quite so dominant as the grain marketplace – both futures and cash. In that arena, we've all been looking for a little magic!

But before discussing that topic in more depth, let me acknowledge that this business is about more than just trading and markets.

People Make the NGFA

While our business principles are grounded in free enterprise, competition and fair dealing, our industry, at its core, is about the character and integrity of its wonderful people. For the NGFA, one of the unique events of the past year involved this personal side of the business. No less than seven current and former NGFA

Welcome again to the Magic Kingdom! It has been an honor to serve as chairman of our industry's premier trade Association for the past year, and I thank you for the opportunity you've given me to serve in this role for the next year.

The experience of serving in this capacity for such a respected national organization has been both humbling and enjoyable. But it also has been one of the most challenging

chairmen, as well as other industry leaders, friends and spouses, gathered in Southern California last October to celebrate the lives of two very special people – the Centennial birthday of Herb Nootbaar, who served as our Association's top industry officer from 1962 to 1964, and the 90th birthday of Al Oliver, who headed our Association's staff for more than 30 years.

Herb is deeply involved in California politics and was a primary reason that Ronald Reagan addressed the NGFA convention in 1968 in Los Angeles. Al Oliver is the person largely responsible for building the NGFA into the strong, professional organization it is today. He hired both Kendell Keith and Randy Gordon, who now manage the day-to-day affairs of the NGFA. These two past industry leaders remain part of the fabric of the NGFA, and it was an exceptional opportunity and honor to toast both of their careers and contributions to this organization.

Now let me touch on a few highlights of what your organization has been doing this past year.

What A Difference a Year Makes!

Last March, NGFA Chairman Ron Olson gave a timely presentation that reflected market situations and expectations at that time. Ron posed the questions of, "What happens if corn prices plateau at \$3 to \$4 per bushel?", or what if oil prices "explode" to a new level of \$70 per barrel?"

What a difference a year makes! Corn prices, of course, eventually would approach almost \$8 a bushel before falling back to the \$3 to \$4 range. And oil prices exceeded \$140 before returning to a trading range of around \$50 per barrel.

It seems we've lived through a lifetime in the last 12 months. A year ago, the demand for biofuels seemed to be driving a market that

seemed insatiable. Today, there are policy initiatives to expand the 10 percent fuel blending cap to shore up an ethanol industry that is running at barely 70 percent of capacity.

A year ago, the ability for firms in the industry to buy physical grain through contracts and to hedge grain purchases seemed to be limitless. But then, increased volatility



and corrections in financial markets contributed to credit squeezes that caused borrowing needs for many of our members to

explode to four or five times normal. Forward contracting dried up almost completely at one stage. And a few firms got blown out of hedges because of huge margin calls.

What comes next?

In the current environment, we have seen sizeable firms in both ethanol and other grain-consuming industries invoke bankruptcy as a way out. While a necessary part of any industry, bankruptcy creates more caution on both the trading industry and those who lend to it, and will affect the business circumstances of every company in this room today.

Seemingly, nobody has been untouched by the economic conditions we confront. I venture to say that everyone here knows a friend, relative or colleague affected in some way by the economic downturn.

So, where are we as an industry and an association?

Need for Rational Policies

In this turbulent U.S. and global economy, there is debate aplenty about the causes of the crisis and how best to extract ourselves from it. In this maelstrom, our industry is in somewhat of an enviable position.

First, we serve an indispensable role, providing the nutrition that is a basic need worldwide. Second, one of our long-term strengths has been the ability to adapt and change to unusual events, adversity and volatility – to “turn on a dime,” so to speak. Those core attributes can serve us well in the days ahead.

While we are not among those industries seeking a financial bailout, we do need the Obama administration and Con-

gress to adopt rational policies that enhance trade and support initiatives that ensure efficient marketing and distribution. As patriots, we also need to ask ourselves what our industry can do to help get this country out of the economic doldrums and put Americans back to work. Much like Walt Disney himself, our industry has the creative spirit and ingenuity to devise new or better ways of using agricultural products, promoting sustainable businesses and fostering professional development of our employees.

That does not mean we don't face our own challenges! Without question, the market volatility, the higher prices, the margin calls and the problems with convergence created a great deal of anxiety in our industry this past year. I recognize some are frustrated that solutions have not come more quickly.

But significant progress has been made. The fact this Association opened up the dialogue to not one – but multiple – committees, and proactively engaged both the CME Group and the Commodity Futures Trading Commission has led to some of the most rapid changes in futures contracts and regulatory oversight ever. Those changes, I believe, resulted largely from the NGFA's persistence in keeping these issues on the front burner and its willingness to develop and offer constructive potential policy solutions, often after arduous debate.

It's likely we will see yet more changes to try to accommodate the volumes and the fundamental needs to price and hedge grain efficiently. So we will continue to stay fully engaged in the process. But this organization's ability to respond and react quickly in a very substantive way is clearly still part of its core operating strengths.

Biofuels – Focusing on Need to Grow U.S. Agriculture

A very different situation confronts us on biofuels.

I believe the majority of our members welcome this new source of demand for grain and the higher grain volumes it generates. But let's face it – we are divided in our positions on national policy regarding biofuels. We have members that have invested substantially in ethanol and biodiesel facilities. We have other members that are trying to compete for grain for exports, and to feed animals and poultry destined for the food sector.

As a result, the NGFA has taken a largely neutral position on biofuels policy, focusing instead on the need to grow U.S. agriculture to meet demand from multiple grain-consuming sectors. Our country has a huge capacity to produce grain, so this issue does not have to come down to food versus fuel – at least not today. The question is better posed as what is the

“tipping point” for growing our own fuel? We certainly recognize the bipartisan consensus behind reducing our nation’s dependence on foreign oil. And we certainly want a growth-driven business. On both counts, the success of the biofuels sector is important. But we also want a U.S. livestock, dairy, poultry and export sector that can compete for the grains we produce.

The international consequences of food policies also are important to address global relations. There may be a billion people on this planet that do not have the income stream to afford balanced or adequate diets. So what’s a rational policy to balance the needs of both biofuels and humanitarian aid programs?

One thing is certain – this industry is in the middle of the marketing stream, and has a knowledge base that can be useful in developing sound policy. We need to be involved.

Other Major Policy Priorities

Let me touch on some other important matters before the industry.

The NGFA’s agenda reflects the elevated importance of building our nation’s transportation infrastructure. We are in



full support of tax credits applied to rail transportation infrastructure. We fully support Congress moving forward with the funding of Upper Mississippi and Illinois River projects to restore the competitiveness of our inland waterways. These transportation initiatives are “jobs” programs that will have lasting value – contributing not just jobs for today, but facilitating commerce that will translate into economic growth in future generations. To achieve an economic recovery that is sustainable, a strong transportation infrastructure component must be a linchpin.

The NGFA remains extremely proactive on rail policy initiatives. It’s been 29 years since the most meaningful changes in rail policy were made by the Staggers Rail Act in 1980. This could be the year that further changes are viewed as necessary. The NGFA continues to be a force in determining what the next best course of action might be. Because we provide a forum where both carriers and shippers can discuss the options, we offer a platform that can lead to rational policy choices. We look forward to the policy interchanges that will be coming between carriers and rail customers in the next year.

On agricultural policy, the NGFA has been the principal proponent of reforming the Conservation Reserve Program so that it is more responsive to market needs. While domestic grain stocks appear to be on the rise today, international grain stocks remain at historic lows. The time may not be quite ripe yet for another push for flexibility in the CRP program. But we cannot afford to sustain the existing elements of a program developed in the mid-1980s when the world is now dramatically different, with so many demands on the grain sector for basic commodities. Demand for food, feed, fuel, exports and humanitarian assistance all deserve attention.

And we can’t unreasonably limit our ability to respond to basic grain-supply needs.

One of my biggest concerns with the new administration has been its approach to international trade. While there may



be differences in views on how much labor and environmental protections should be included in trade negotiations, neither the United States nor the rest of the world can afford to quash trade agreements, especially now! We should be doing everything possible to construct an environment for trade that will ensure it will be a lasting engine for economic growth. Yes, we do need to make sure our trading partners are not subsidizing their trading positions. But the more we close off avenues to trade...the more we try to manage trade...the more difficult it will be to pull out of this global recession. The NGFA will play a significant leadership role in this debate on trade.

The NGFA also will continue to be in the forefront as Congress and this administration consider potentially monumental changes to the regulation of food and feed safety. The most recent food safety incident involving adulterated peanut products reinforces how a single alleged bad actor can undermine the public trust and trigger a policy backlash against the entire industry.



Some truly dangerous legislative proposals are being considered that would almost certainly disrupt trade and increase business costs significantly. Make no mistake – these proposals would affect every grain elevator, feed mill, grain

processor and exporter in our industry. The NGFA has been at the table in helping draft common-sense, science- and risk-based approaches to food and feed safety, and will continue to play a leadership role.

NGFA Arbitration – A System Worth Protecting

While the past year has been demanding on the policy front, the NGFA has pursued several professional development initiatives that should yield very positive results. One of these is our first venture into long-distance learning programs.

In early April, we expect to launch the first internet-based learning program developed by a trade association for feed quality assurance and regulatory compliance. NGFA Director of Feed Services Dave Fairfield has been the primary manager of this project, which we think will enhance feed company performance and feed safety for the entire animal production chain.



Finally, let me reference the NGFA's arbitration system and what it's done in the past year.

Because of the ups and downs in markets, and because of the challenges in completing contracts, 2008 was a very difficult year for resolving contract disputes. We have more than 150 arbitration cases that are active in our system today. Our arbitration system is believed to be the oldest in North

America. Not only is it the oldest, it probably is the best-performing system out there. It is completely transparent, as anyone in the world can tap into the internet to look at the complete record of cases issued during the last 10 years. Every case ever published has been offered with complete explanation of the arbitrators' rationale – and listed their names.

Yet, arbitration – even one as fundamentally sound and fair as the NGFA's – is not without critics. There is a possibility we may confront threatening legislation on this front in the next year. If that happens, expect a call from the NGFA's staff urging you to contact your congressman and senators. We can ill-afford to have a private dispute-settlement mechanism forced to close in favor of a court system that has little knowledge of grain and feed transactions.

NGFA – Attracting Industry's Top Talent

Let me close by thanking the industry, the staff and the leadership of this fine organization. We continue to attract the top talent from the business, and it only demonstrates that success breeds success. We know people who have the capacity to contribute are attracted by quality performance. We know that industry leaders have a choice of where they spend their time. The NGFA wants to be the organization of choice.

I personally appreciate your involvement in – and commitment to – the NGFA. I want your feedback if I can ever be of service. Be assured that the NGFA is committed to excellence in our work for you – our members!

Thank you, and enjoy the remainder of this convention!