



National Grain and Feed Association

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Farm Storage Facility Loan Program
C/O Geo-Marine Inc.
2713 Magruder Blvd.
Suite D
Hampton, VA 23666-1572

Dear Sirs/Madams:

The National Grain and Feed Association (NGFA) respectfully submits this statement in response to the U.S. Department of Agriculture's (USDA) request for comments to implement the 2008 farm law's provisions that mandate expansion of a storage facility loan program.

The NGFA, established in 1896, consists of more than 950 grain, feed and feed ingredient manufacturing, grain processing, biofuels, grain exporting and other grain-related companies that operate about 6,000 facilities and handle more than 70 percent of all U.S. grains and oilseeds.

The NGFA's membership encompasses all sectors of the industry, including country, terminal and export elevators; feed and feed ingredient manufacturers; cash grain and feed merchants; biofuels companies; end users of grain and grain products, including processors, flour millers, and livestock and poultry integrators; commodity futures brokers and commission merchants; and allied industries, such as railroads, barge lines, banks, grain exchanges, insurance companies, computer software firms, and engineering and design/construct companies. The NGFA's membership also includes 35 affiliated state and regional U.S. grain and feed associations, as well as two international affiliated associations. The NGFA has strategic alliances with the Pet Food Institute and Grain Elevator and Processing Society, as well as a joint operating and services agreement with the North American Export Grain Association.

Section 1614 of the 2008 farm law mandates that the Secretary of Agriculture establish a storage facility loan program to provide funds for producers of grains, oilseeds, pulse crops, hay, renewable biomass and other storable commodities, to construct or update storage and handling facilities. The law also increases the maximum principal amount of a storage facility loan to \$500,000 and increases the loan term for eligible producers to 12 years.

The NGFA historically has opposed government-subsidized storage programs, believing they represent bad policy for several reasons. First, such programs can encourage the construction of inappropriate, unjustified or out-of-position storage facilities on-farm, and provides a government-subsidized economic disincentive to constructing commercial storage that oft-times can better serve producers' needs. Second, such programs provide a government-induced economic incentive to encourage producers to store larger quantities of stocks for longer periods of time than may be justified by the market, simply out of a desire to "use" the additional storage space. This can increase carryover stocks, which depresses farmgate prices. Third, independent research studies have shown that managing the quality of stored grain is more difficult on-farm than at commercial storage facilities, where the commodities are monitored on a continual basis and the warehouse operator bears the risk and financial liability for any deterioration in quality. USDA is well aware of past incidents in which severe quality deterioration attributable to prolonged storage has damaged grain stored on-farm. Finally, programs such as this can penalize producers and commercial warehouse operators who already have invested in storage using their own capital to meet legitimate storage needs dictated by local and regional market conditions.

Despite these overarching policy concerns, the NGFA recognizes that Congress has mandated that USDA develop and offer a storage facility loan program. In doing so, we note that Congress particularly references using this new program to focus on storage for more "unconventional" crops, such as renewable biomass, hay and other unspecified "storable commodities."

Given the increased focus of U.S. renewable fuels policy on encouraging the production and utilization of non-corn-based fuel ethanol – as articulated most recently in the U.S. Environmental Protection Agency's RFS-2 proposal – it would appear appropriate that a significant portion of new loan guarantees provided under this program should be made available for storage of renewable biomass, rather than for traditional grain and oilseed crops. Compared to the grain and oilseed storage system, the biofuels industry is a relative newcomer and is in its nascent stages in infrastructure development, including its storage, handling and distribution system. It would appear that a government storage facility loan program should be structured in a way that is consistent with the clear direction of U.S. energy and environmental policy toward promotion of renewable energy sources, rather than construction of farm bins.

Further, in reference to hay, we note that insufficient storage conditions may have exacerbated the logistical challenges of positioning hay into deficit areas during drought-induced feed emergencies in recent years, or reduced the capacity of ranchers to store hay from previous growing seasons to alleviate such emergencies in subsequent years.

To the extent the storage facility loan program is to be used for grain and oilseed crops, the NGFA observes that the 2008 farm law appears to provide authority to USDA under the Commodity Credit Corporation Act to allocate such loans to the construction of new storage and associated handling and drying equipment under purchase or lease arrangements with farmer-customers at federally or state-licensed commercial grain-

handling facilities, including construction of new storage under so-called “condominium” storage arrangements. “Condo” storage refers to a variety of financing arrangements whereby new storage is constructed at existing commercial facilities under written agreements with one or more producers who, in return, obtain guaranteed occupancy of a portion of the new space. These written arrangements may consist of purchase agreements, limited partnerships or long-term leases between commercial elevators and their farmer-customers for storage of specific commodities.

This would provide another option to a producer or group of producers to make their own decision on whether and where to invest in additional storage if they operate in an area with a deficit of storage capacity. It also would give producers who prefer not to construct needed storage on-farm with an opportunity to access new, dedicated storage at a privately owned or cooperative commercial facility where they have a strong commercial relationship or ownership interest.

But perhaps most importantly, this approach would enable U.S. government policy to contribute to, not undermine, one of U.S. agriculture’s strongest competitive advantages – its world-class commercial grain storage, marketing and distribution system. For more than a century, this industry has provided the efficiencies and arbitrage in grain storage, handling, merchandising and transport that have enabled U.S. farmers to compete successfully for domestic and international markets – all under a system of federal and state grain warehouse laws, regulations and inspection that preserve market integrity. This system also provides producers with the risk-management tools to help manage market risk and optimize available profit-taking during a wide range of market environments. If a government storage facility loan program is to exist, we respectfully submit that U.S. farmers will benefit most if it is linked directly to the commercial storage, handling and distribution system.

In addition to this overarching, important benefit, the NGFA believes that a policy that permits storage purchase or lease arrangements at commercial facilities offers several other persuasive advantages for producers:

- First, it would give producers the flexibility to construct new storage at locations where commodities will be “in position” where they can enter market channels more quickly, and where they have increased value to producers and to the market. This is a distinct advantage compared to having storage at more remote on-farm locations, where delays can occur in transporting the commodity to a commercial facility in a timely manner.
- Second, it would enhance the quality-management of the commodity. As noted earlier, dedicated producer storage located at commercial facilities typically is managed better to protect grain quality, an important consideration given the increased focus on food and feed safety.

- Third, it would enhance marketing opportunities for producers, allowing storage of multiple commodities and multiple qualities that might not be able to be segregated as efficiently in individual farm bins.
- Fourth, it would be more cost-effective, since the cost of building larger bins is much less on a per-bushel basis than smaller, on-farm structures. Previous cost-benefit assessments conducted by USDA have borne this out.
- Fifth, it would enable producers to haul grain directly off the combine at harvest to commercial storage, thereby reducing shrinkage and subsequent transportation and handling costs.
- Sixth, it would be more equitable to tenant farmers, who may be reluctant to build storage structures on a landlord's property, by providing them with a method to access dedicated new off-farm storage facilities under a purchase or lease arrangement.
- Finally, it would better protect CCC's financial interest, since the value of storage at commercial locations is greater than at farm bins, and is a more "saleable" asset.

Consistent with the congressional mandate, the NGFA also recommends that one-time storage-lease arrangements for a specified period of time of up to 12 years duration also be eligible for approval under this program.

In closing, the NGFA strongly urges USDA when implementing this program to take a cautious and deliberative approach to avoid disrupting or economically disadvantaging the commercial grain storage system that currently provides nearly half of total U.S. storage capacity, and on which U.S. agricultural producers depend for storing, marketing and distributing commodities into domestic and world markets.

The NGFA appreciates your consideration of its views, and would be pleased to respond to any questions you may have.

Sincerely,

Bryce Wells
Chairman
Country Elevator Committee
National Grain and Feed Association

cc: The Honorable Douglas Caruso, Administrator, USDA Farm Service Agency
The Honorable Jonathan Coppess, Deputy Administrator, Farm Programs, FSA