

September 9, 2008

The Honorable Ed Schafer
Secretary of Agriculture
US Department of Agriculture
Washington, D.C.

Dear Mr. Secretary:

We are writing to ask the Department's assistance in devising a temporary means to help alleviate a possible financial liquidity crunch in the U.S. agribusiness sector later this year.

As you know, the rapid escalation of commodity prices and farm supplies earlier this summer placed severe financial stress on the traditional U.S. grain and cotton supply and marketing infrastructure. Traditional grain and cotton handlers were forced, in many cases, to double and then triple their borrowings to ensure that prudent hedges were maintained in the futures markets and farm supplies continued to be available to farmers. These increased borrowings placed significant pressure on company balance sheets, and in some cases, resulted in significant restrictions on the availability of forward contracts for U.S. farmers.

Recent retreats in commodity prices have temporarily eased the situation and grain and cotton handlers are working to restructure their balance sheets to better operate in this new, higher priced environment. This restructuring, however, will take time. Meanwhile, we are concerned that another rapid run up in commodity prices will force a liquidity crisis that could be disastrous for farmers and agribusinesses.

As the fall harvest draws near, financing needs for inventory purchases will be extremely large. The potential for the second-largest corn crop in history and fourth-largest soybean crop on record, coupled with commodity prices that still are relatively high compared to recent years, will require significantly greater financial resources for inventory and margining than in the past. If an early frost comes this fall or other factors disrupt an extremely tight supply/demand situation, commodity prices could easily be driven to much higher levels again, very quickly placing renewed strains on grain elevators, cotton and grain cooperatives, and other agribusinesses to access sufficient capital to serve their farmer-customers.

Coupled with these needs are the very high costs of crop inputs, which will require much greater financing for crop input retailers (many of whom are also grain purchasers) and producers. We fear that many agribusiness firms could run up against authorized borrowing limits, and lenders could reach the limits of their ability to manage the concentrated risks associated with such loans.

Because responding to such crisis situations is difficult on short notice, we submit that now is the time for serious discussions on ways to make additional capital available for lending to the agribusiness sector and to temporarily inject needed liquidity as conditions warrant.

We believe that the Department of Agriculture can exercise authority, such as that under the Commodity Credit Corporation Charter Act, to establish a temporary loan guarantee program that, in the event of a liquidity crunch, could be used to ensure the continued efficient marketing of U.S. farm commodities. Such a temporary program would provide loan guarantees to qualified financial institutions lending to bona fide grain and cotton hedgers and similar agribusiness entities, perhaps utilizing grain or forward contracts as collateral. With these guarantees in place, lenders would be better able to provide greater levels of financing to grain and cotton hedgers, thereby allowing those entities to continue to offer traditional and vital forward contracting arrangements as well as farm supply input financing to producers.

We encourage USDA to work with producer organizations, the agribusiness industry, agribusiness lenders, interested Members of Congress, and other stakeholders to explore this concept more fully. In addition, we encourage the Department to consider other possible initiatives to provide additional liquidity to the grain and cotton handling sectors and to enhance their ability to offer a wider range of forward contracting and other marketing options to producers.

We look forward to continuing discussions with you and your staff on these ideas.

Sincerely,

American Farm Bureau Federation
American Soybean Association
National Association of Wheat Growers
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Farmers Union
National Grain and Feed Association
National Sorghum Producers
US Rice Producers Association
USA Rice Federation