GRAIN & FEED ASSOCIATION of Illinois

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Statement of the
Grain & Feed Association of Illinois
To the Commodity Futures Trading Commission

The Grain and Feed Association of Illinois appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (CFTC) concerning the performance of agricultural futures contracts. Our association represents over 90% of the commercial grain storage capacity in Illinois where the "Illinois Waterway Delivery System" is centered. This issue is of vital concern to the existence of our industry. Following are our brief comments:

- The lack of convergence is harming the members of the Grain and Feed Association of Illinois. We realize you have heard from groups like the National Grain and Feed Association about the problems lack of convergence causes. Of all the proposals we heard to solve the convergence issue, raising the storage/premium charge is the only one we believe will actually help solve the problem. Some have suggested indexing the storage/premium charge to some sort of average storage rate charged by the country elevator industry however the indexing of just the storage rate is irrelevant to achieving convergence. Country elevator "storage" charges to the producer are only a portion of its revenue stream to any specific storage vessel. In the 1970s, country elevators were charging 1 to 2 cents per bushel per month while deliverable storage charges were 4.8 cents per month. This was an era when new grain storage construction cost was under 70 cents per bushel and the industry had no apparent struggles with convergence. Today, country elevators are charging in excess of 4 cents per month while the cost of new construction is near $2.00 per bushel. Our recommendation is to increase the premium/storage charge on the CME Group contracts by at least 1.5 cents per bushel per month. One could make the argument that this isn't enough but it would be a conservative start. Comments were made to the commission at its hearing that raising the storage/premium charge too much would cause an imbalance between the shorts and longs as spreads would always trade at full carry and would disadvantage the longs. This simply is not the case as the long always can stop delivery and order immediate load out at par to the futures price plus load out charges. If you extraordinarily elevated load out charges, then this argument would hold water, but this is not what anyone is advocating.

Conversely, in short supply years, there is no limit as to how high futures spreads can invert which negatively impacts the shorts. The storage/ premium charge increase should occur as soon as possible or at the latest with the July 2009 contracts.

- If the CME Group is to conduct a survey of commercial storage values as proposed, this should be accomplished as quickly as possible so the resulting changes to the premium/storage charge can be implemented without delay. This survey should include the grain industry's input for its design and should include consideration for the current cost per bushel of new construction as it relates to adequacy for return on investment.
- The Grain & Feed Association of Illinois also believe the CFTC should research whether it is appropriate to classify any reportable non-commercial traders as hedge status as opposed to speculator status with regards to margin requirements. The CFTC should also investigate whether basis swaps, OTCs, and other non traditional transactions are adequately within the scope of the agency's oversight and therefore reported accurately on the commitment of traders report as it relates to transparency and position limits.

The importance of achieving convergence for the country elevators is critical and the best way is to raise the storage/premium charge. While we know this does not guarantee convergence, it does increase the likelihood.

Thank you for allowing us to provide comments on the performance of agricultural futures contracts.