

Falk's Seed Farm, Inc.
1170 Hwy 9 NE
Murdock MN 56271

February 22, 2023

Letter in support of the establishment of a Grain Indemnity Fund

Chair Putnam and members of the Senate Agriculture, Broadband, and Rural Development Committee
Chair Vang and members of the House Agriculture Finance and Policy Committee

I'm Jim Falk, the president of Falk's Seed Farm, Inc., and I served on the MDA Grain Advisory Group in 2022 that resulted in the MDA report issued on February 15, 2023. I commend the staff at MDA for their professionalism in providing great detail regarding the grain buying facility failures over the last eight years, and the fact that our current statute is falling in its objective to protect Minnesota farmers. I believe that almost everyone serving on the group acknowledged that we have a serious problem, and staying the course, by doing nothing, is not an option. It was confirmed by the staff, that Minnesota ranks poorly as one of the worst states that provide farmer protections from grain buyer failures. MDA supports the establishment of a Grain Indemnity Fund, similar to what exists in 14 other states. Not everyone in the group was in agreement, but honestly there were no other real solutions offered that did not look much like what we currently have, just with higher levels of bonding and more reporting. The most recent changes to our grain buyers' law were implemented in 2020, and included more financial reporting and increased inspections, along with stiff penalties for late reporting. These changes, as discussed at our meetings, were not received very well by the industry. In 2022, only 29% of license holders were in compliance, while 49% had at least one missing item. 22% of license holders did not report, or did not report correctly. Covid-19 likely played some factor as these changes were mandated. Financial Audits and Financial Reviews are expensive and they require a lot of time from office staff to provide documents and answers to a qualified CPA firm hired to prepare the documents. It was discussed in our meeting, but not specifically listed in the report, that CPA firms qualified to do the required work for compliance were already full with existing business and the time required to complete the audit, or review can take several months. Let's be perfectly clear, these new requirements did not prevent the failure of Pipeline Foods in 2021, or Global Processing in 2022, which will result in millions of dollars of loss for our Minnesota farmers.

The report was provided to both the House and Senate committees, however, I would like to highlight a few items in the report. The link to the report is provided below:

https://www.house.mn.gov/comm/docs/QHDc3_ADIUykblahEc9Hqw.pdf

- 7 failures in 8 years
- Over \$14 million in claims against only \$1.02 million in bonds (approximately 7.29%)
- Pipeline Foods, with claims of \$5.5 million, is the largest failure and is still tied up in bankruptcy.
- Global Processing, with estimated claims over \$1 million against a \$50,000 bond, was licensed in September of 2022 and operated for less than 2 months in Minnesota before filing bankruptcy.
- Executive Summary under Conclusion regarding financial reporting states, "it was evident through three meetings that the additional cost to license holders, with no clear metrics or in-depth evaluation by the department, is not serving the intended purpose".

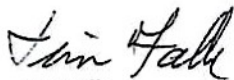
- Bonds at the current rates aren't serving the purpose they were intended to.
- Additional regulations won't solve issue with protections for sellers, but may increase cost to license holders.
- Suggestions from AG's Office:
 - Require grain buyers to maintain unencumbered assets sufficient to cover VECC (Voluntary Extension of Credit Contracts)
 - Include VECCs in bond coverage
 - Increase bond requirements
 - Change the time when title passes to better protect farmers by allowing them to retain title in grain until they are paid
 - Require grain buyers, particularly those buying with VECCs, to affirmatively report financial problems
 - Require independent reports on solvency issued by certified accountants that are made publicly available to farmers
 - Companies that have missed any payment on a VECC are prohibited from issuing any new VECCs until they make good
 - PACA-analog

The items listed under "Suggestions from AG's Office" are not going to be well received by the industry in my opinion, and even if implemented, would likely fall short of the protections provided by the establishment of a grain indemnity fund.

The evidence in the report is clear to me that bonds are not going to be the answer because they don't cover the delayed price, or price later options that many farmers use to manage their income from year to year. Bonds disappear as an expense item for existing grain buyers in good standing with a grain indemnity fund in place. This save the industry a lot of money that appears to pay only a fraction of what is needed to protect farmers. The idea that more reporting will somehow fix the problem, doesn't seem logical, when in 2022 Global Processing filed bankruptcy within two months of getting their grain buyers license.

The statute obviously exists to protect farmers from not being paid when a grain buyer defaults, as was the intent years ago. I looked back at older statutes from 1982 and found that Section 1 PURPOSE. Stated: *The grain industry is an important source of revenue for many of Minnesota's citizens, and the regulation of grain buyers is consistent with the public welfare.*

I support the establishment of a Grain Indemnity Fund as proposed by the Minnesota Department of Agriculture.



Jim Falk
Falk's Seed Farm, inc.
President



Website: soykointernational.com

2493 380th Street Gary, MN 56545. Tel: 218-356-8214 or 701-793-0785 , Fax: 218-356-8218

February 23, 2023

I support the establishment of a Grain Indemnity Fund as proposed by the Minnesota Department of Agriculture.

A handwritten signature in blue ink, appearing to read "Jade In".

Jade In
SOYKO INTERNATIONAL, INC
Title: *President/CEO*

E-Mail: jadein@soykointernational.com

HC International, Inc

Focused >>> Dedicated >>> Trusted

1336 25th Ave S. Suite 205
Fargo, North Dakota 58103 USA
701-850-0340

February 23, 2023

To whom it may concern:

In reviewing the MDA report issued on February 15, 2023, it appears the current system is not working on several levels.

1. The current system does not seem to catch companies that are financially stressed in a timely manner.
2. When there is bankruptcy, producers are not adequately covered.

The states that have Grain Indemnity Funds have proven to be effective.

I support the establishment of a Grain Indemnity Fund as proposed by the Minnesota Department of Agriculture.

Sincerely,

Curt Petrich

Curt Petrich
HC International Inc
President



Stony Ridge Foods, Inc.
715 Atlantic Ave. • Benson, MN 56215
Phone: 320-842-3401 • Fax: 320-842-3403

February 25, 2023

Minnesota Department of Agriculture
Grain Licensing
Plant Protection
625 Robert St. North
Saint Paul, MN 55155

Re: Current Grain Licensing Requirements & Indemnity Fund

To Whom It May Concern:

I support the establishment of a Grain Indemnity Fund if the current reporting system is reduced to a compilation report. The report would be done by a CPA with clear metrics that are given by the MDA.

Joe Wroblewski
Stony Ridge Foods
General Manager

J & J Grain LLC
9901 Highway 23 NE
Foley MN 56329

February 27, 2023

I support the establishment of a Grain Indemnity Fund as proposed by the Minnesota Department of Agriculture

A handwritten signature in black ink, appearing to read 'John Schafer', written in a cursive style.

John Schafer
J&J Grain LLC
Owner

Perennial Promise Grower's Cooperative

1499 30th St. SE

Buffalo MN 55313

February 28, 2023

Letter in support of the establishment of a Grain Indemnity Fund

Chair Putnam and members of the Senate Agriculture, Broadband, and Rural Development Committee

Chair Vang and members of the House Agriculture Finance and Policy Committee

I am Carmen Fernholz, the president of Perennial Promise Growers Cooperative, a newly organized coop here in Minnesota established to assist farmers in growing but more importantly marketing the new intermediate wheat grass called Kernza.

I commend the staff at MDA for their professionalism in providing great detail regarding the grain buying facility failures over the last eight years, and the fact that our current statute is failing in its objective to protect Minnesota farmers.

PPGC supports the establishment of a Grain Indemnity Fund, similar to what exists in 14 other states. The failure of Global Processing in 2022, directly impacted some of us in the coop. I am also personally aware of other organic farmers who were severely financially impacted by the Pipeline Foods bankruptcy.

Bonds are not going to be the answer because they don't cover the delayed price, or price later options that many farmers use to manage their income from year to year. Bonds disappear as an expense item for existing grain buyers in good standing with a grain indemnity fund in place. This saves the industry a lot of money that appears to pay only a fraction of what is needed to protect farmers. The idea that more reporting will somehow fix the problem, doesn't seem logical, when in 2022 Global Processing filed bankruptcy within two months of getting their grain buyers license.

We, the Board of Directors of PPGC fully support the establishment of a Grain Indemnity Fund as proposed by the Minnesota Department of Agriculture.



Carmen Fernholz

Perennial Promise Growers Cooperative

President