

Taking care of business

*Everyone should know
the rules before
making a trade*



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Consider a country elevator that handles 3 million bushels of grain each year. This manager might write more than 100 sale contracts each year, assuming an average sale of 25,000 bushels or so each. This manager might also write as many as 500 to 800 purchase contracts each year. This elevator takes on a lot of contract

risk every day without thinking much about it.

Our industry trades massive quantities of grain by phone with little discussion about terms other than bushels, basis (or price), delivery time and sometimes about rail arrangements. It speaks well that there have been relatively few serious disputes given the dollar value of these transactions. A few unusual circumstances have generated a number of arbitration cases, including



the flood of 1993 and the Hedge to Arrive disputes of 1996.

Relationships key when trading

Long-term relationships between traders make for easier trading — both parties know what they mean, what they expect and how the other usually performs. The odds for serious misunder-

standing are relatively low in those cases, barring unusual circumstances. Continued consolidation both at the country level and at the commercial level, however, increases the contract exposure for both buyers and sellers.

A lot of young grain merchandisers are buying large quantities from country elevator merchandisers who may have moved recently as well. There's often little to no relationship between them. That's a recipe for trouble if both aren't careful.

Those same country elevator merchandisers may also be setting bids and terms for a number of satellite country stations, where other new staff will talk with farmers. More room for misunderstanding.

Know the NGFA Trade Rules

Most U.S. grain contracts are traded "Subject to National Grain & Feed Association (NGFA) Trade Rules." That's also good, in that it creates a trading standard for when buyer and seller don't discuss all the particulars. But there's a serious downside: How many grain traders have read the NGFA Trade Rules and learned what they mean? How many have read and studied the published NGFA arbitration case results?

So now we have a growing number of traders who often don't know each other well, trading increasing volumes, under rules that perhaps neither has read. And it's a sure bet that few farmers have read the trade rules. But elevators are still bound to follow the trade rules with producers if the elevator purchase contract (or confirmation) states "Subject to NGFA Trade Rules."

Multi-station country elevator operations should make sure that all satellite personnel know the rules as well. They make more binding contracts than senior management does — they just trade fewer bushels per

transaction. Make sure the satellite station people cover the appropriate terms with farmers and that written confirms are handled correctly.

Rules can provide protection

NGFA Trade Rules are carefully crafted terms, changed only after lengthy discussion among industry representatives nationwide. The rules are amended occasionally to adjust for changing technology or legal requirements, for example. E-mail required changing some rules, as did the switch long ago from boxcars to hopper cars. Other rule changes occasionally tweak wording or clarify frequently misunderstood terms.

State grain and feed associations often reprint the NGFA trade rules in their directories and



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a few state association arbitration systems are still around that use comparable rules.

Trade rules set down both obligations and protections for both buyer and seller. Many country elevator merchandisers don't realize the rules also limit what buyers can do. Trade rules don't allow for unilateral 'late shipment discounts' on a contract, for example. Country elevator sellers are also obligated to send written confirmation of the sale. (Surprised to hear those two?) NGFA's Trade Rules address these areas among others:

- Definition of shipment times (quick, prompt, "first half", etc.);

- Sending written confirmations
- Pricing terms for basis contracts
- Inspection and weight certificates
- Time allowed for final settlements
- Pricing overfills and underfills; and
- Handling late contracts.

You need to know the rules of your game! Take time to read the

NGFA trade rules, whether or not you are a member of NGFA, and keep them handy in your office. Most major companies are members and buy subject to these rules. 

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