



September 2018 Newsletter

In This Issue:

- Message from MGFA Executive Director Bob Zelenka
- Did Safari Hunter Kill a Co-op? Lawyer Says Minnesota Elevator Manager Stole More Than \$2 Million
- AFIA Disappointed by USTR's Additional Tariffs on Chinese Imports
- Market Facilitation Program Methodology Explained
- Association Magazine - Fall Edition
- Enhancing Soybean Storage Starts With Harvest Moisture
- MGFA Sustaining Sponsor Spotlight – Dorsey & Whitney
- Mark Your Calendar For The MGFA "Grain Convention" 2019, scheduled for March 4-6 at the Double Tree by Hilton, Bloomington!

Message from MGFA Executive Director Bob Zelenka



Dear MGFA Members,

Today, I am announcing my retirement as Executive Director of the Minnesota Grain and Feed Association, effective March 31, 2019. Some of you may have seen my retirement notice in the Mill & Elevator News member magazine sent out late last week. It has certainly been an honor and a privilege to serve this association, which was known as the Farmers Elevator Association of Minnesota when I started back in 1981. The MGFA Board has chosen my executive assistant, Laura Lemke, to succeed me in the position of Executive Director. Laura, in her 12 years with the association, understands what this position requires and has a good working knowledge of the issues impacting this industry. I am very confident in her ability to "hit the ground running" and I will be working closely with her during this transitional period.

Obviously, a lot has changed in this grain elevator and feed mill industry over my 38 years managing this association and representing the interests of its members. My tenure began during the worst farm crisis since the Great Depression. Since then, I've witnessed an industry in consolidation mode, continued rail line abandonments, the introduction of larger and larger unit trains, the advent of the CRP, PIK program, the rise of ethanol, droughts, floods, a challenging regulatory environment, mind boggling central notification system, Hedge-to-Arrive fallout, continued consolidation and much, much more. Speaking of consolidation, when I started in 1981, there were 275 local cooperative grain elevator firms and 447 privately owned elevator and feed mill "firms" operating in Minnesota. Today, through mergers, consolidations, purchases and closures, that number has come down to 68 local co-op elevator "firms", with over 200 branch locations (and counting) and approximately 165 privately owned facilities.

I also had the privilege getting to know a lot of interesting people in the broad agricultural community, as well as some exceptional people working as elevator and feed mill managers, owners, employees and directors. Through it all, I dedicated my career to representing the interests of this industry the best I could. I also worked hard at managing an association that would continually offer meaningful education, timely information and effective legislative and regulatory representation. But the time has come for me to move on to my next adventure.

My 38 years with the association has offered me some great personal development and career opportunities. I had the opportunity to be an active member and past president of several organizations, including the National Agricultural Association Executives' Council, the Midwest Society of Association Executives and the Minnesota Agricultural Interpretive Center – Farmamerica (Board Chair). I also currently serve on the Board of Directors for the National Grain and Feed Association and have previously served on the board of the Minnesota Agriculture in the Classroom Foundation and Minnesota Agricultural Fertilizer Research and Education Council. I completed my Master's Degree from Mankato State University while employed by the MGFA early in my tenure. I secured my insurance license and managed our in-house insurance agency, which has been providing required grain (surety) bonds for over 80 years.

In 2015, I had the honor of being recognized by a Minnesota House of Representatives official resolution, in recognition of my service and dedication to Minnesota production agriculture. In 1994, I received the prestigious Copper Top Award from the Minneapolis Convention and Visitors Bureau, for my role as chairman of the 300+ host (volunteers) committee welcoming nearly 3000 people attending the American Society of Association Executives national convention. That same year, I was honored as Member of the Year by the Midwest Society of Association Executives. Most recently, I had the distinct honor of receiving the Distinguished Service Award in front of a couple hundred professional friends at a post Farm Fest 2018 "Ag Mafia" gathering. The Ag Mafia is a loose knit group consisting of agricultural industry leaders, rural legislators, ag lobbyists and others involved in the Minnesota agricultural community.

I was appointed by the Commissioner of MN/DOT to serve on the Minnesota Freight Advisory Committee, a position I still hold. I am a member of the Minnesota Department of Agriculture Seed Program Advisory Group and serve as a member of the Southern Minnesota Center of Agriculture Advisory Board, based at South Central College.

In addition to my duties as MGFA Executive Director, I was intimately involved in creating and managing the Midwest Shippers Association for seven years (with its focus on specialty grains) and managing the Northwest Feed Manufacturers Association for several years. I was also fortunate enough and honored to travel the world promoting Minnesota agriculture, joining Governors' Ventura, Pawlenty and Minnesota Commissioners of Agriculture on agricultural trade missions to China, Japan, Thailand, Mexico, Canada, Vietnam and Cuba.

Prior to my employment with the Minnesota Grain and Feed Association, I spend 5 years as a transportation and land-use planner with the Region Nine Development Commission based in Mankato. While at Region Nine, I was responsible for facilitating, what turned out to be, a successful \$22 million rehabilitation of the Milwaukee Road rail line running from Alden to Jackson Minnesota, now operated by the Canadian Pacific Railroad. **It was work on this project that got me noticed by a member of the MGFA board, who encouraged me to apply (along with 80 others) for the position of Executive Director and the rest, as they say, is history.**

I hope to visit with many of you before I go, while Laura and I travel the State over the next few months. In the mean-time, I want to thank you, the member, for your strong support and the confidence you have shown me over these years! I also want to thank the MGFA Board of Directors, who through the years provided great support, input and guidance for me and for the association. I'd like to thank my staff over the years for their dedication shown to the mission of the association and to the best interests of the membership. Lastly, I'd like to thank my wife for her unwavering support of my career and the role she has played in annual convention planning and execution.

Thank you for the opportunity to serve this great industry!

With Best Regards,

Bob Zelenka, Executive Director

Did Safari Hunter Kill a Co-op? Lawyer Says Minnesota Elevator Manager Stole More Than \$2 Million

By Mikkel Pates / Agweek Staff Writer on Sep 17, 2018

ASHBY, Minn. — The investigation is only starting into how much Jerome "Jerry" Hennessey could have stolen from the Ashby Farmers' Cooperative Elevator that he managed for many years and Hennessey himself is "nowhere to be found" the Grant County sheriff says. Much of the missing money — believed to be more than \$2 million — appears to have gone to safari guides and taxidermy. The co-op suddenly closed Sept. 14 and is for sale. Farmers who had delivered grain to the elevator will attend a meeting on Sept. 18 to talk about the status of the business and their credit sales contracts.

Jerry Hennessey was suspended without pay at a Sept. 10 board meeting. The long-time manager has not been seen by elevator staff for three weeks, and investigators are studying the books. According to a report in the Battle Lake (Minn.) Review, the 300-member co-op in an April 2018 annual meeting reported \$14.5 million in sales in the previous year. That included \$2.8 million for grain handling and total local profits of \$238,977. Things started to unravel when the elevator failed to pay an operating loan with Colorado-based CoBank due Sept. 1, according to Erik Ahlgren, a Fergus Falls, Minn., lawyer who was called in to help sort matters out.

The last hunt

Hennessey had been general manager since at least 1989, succeeding Fred Risbrudt. Hennessey enjoyed a good reputation among colleagues at other elevators, who declined to be quoted by name. He became well known in the region for what one business person called "big, extravagant, far-away hunts." He'd built a farmstead complex a few miles away, in rural Dalton, Minn., across the Grant County line into Otter Tail County.

Hennessey's home is behind trees and hidden from view off a county road. It includes a large house, flanked by two even larger buildings, equipped with large garage doors, surrounded by ponds and trees. Townspeople say they'd heard that the home is where some of Hennessey's taxidermy is housed, but most say they hadn't seen it. Hennessey had gone on an Australian safari for the last two weeks of August. He returned about Aug. 31 but reportedly didn't show up at the elevator during the Labor Day week.

When the elevator failed to make its operating loan payment, concerned CoBank officials tried in vain to reach Hennessey and then contacted the Ashby co-op board. The board in turn contracted Ahlgren, who specializes in bankruptcy trustee work and related financial issues. A co-op employee contacted Hennessey, who said he would show up at a board meeting on Monday, Sept. 10. His company pickup truck had been deposited at the elevator.

When Hennessey didn't show up at the Sept. 10 meeting, the board suspended him without pay. The board contacted Eide Bailly LLP, a Fargo, N.D., based accounting firm. By Sept. 12, Ahlgren had discovered more

than \$2 million in unauthorized checks not for business purposes. "We learned there was a big discrepancy between what the financial statements showed and what we had in the bins," Ahlgren says. The company did not have a new line of credit, so the board decided to "close the facility and to look for a successor-purchaser."

Personal transfers

Ahlgren says an initial study showed Hennessey's unauthorized checks so far go back to 2008, beginning with payments to a personal credit card at Cabela's. The spending increased in the past few years — more than \$500,000 to a taxidermist, more than \$375,000 to individuals associated with safari companies, and more than \$1.1 million to a personal Cabela's Club Visa.

Ahlgren says checks went to individuals connected to safari-style hunts Hennessey would take in places like Alaska, New Zealand and Australia. At least one of the trips, to New Zealand, appears to have included Hennessey's wife, Becky, according to a written testimonial on the safari company's website. It appears Hennessey wrote those checks himself, and, so far, there is no indication anyone else at the elevator was involved, Ahlgren says.

A May 24, 2018, article in the Minneapolis Star-Tribune described how Hennessey and a guide about five years earlier had shot a record-large bull moose on a 14-day Alaska hunt. The moose rack had an "outside spread" of 66 5/8 inches, or more than 5 1/2 feet wide, and was too valuable for the original to be displayed in public.

The International Wolf Center in Ely, Minn., was seeking a moose to display at the center. They asked Marv Gaston of Taxidermy Unlimited in Burnsville, Minn., if he knew of a moose that could be displayed there. Gaston "immediately thought of Hennessey's Alaskan souvenir." Gaston agreed to replicate the moose antlers and used a moose hide from Alaska. "We got the hide out of Alaska," Gaston told the Star-Tribune. "That was \$5,400. I'm not sure how much was paid for the replica antlers. But Jerry (Hennessey) agreed to cover the costs so the wolf center could have its exhibit."

The drop-off

Elevator officials say that instead of attending the board meeting on Sept. 10, Hennessey spent the day with a friend from Fergus Falls. The friend reported to an elevator employee that he'd spent that Monday night in a vehicle with Hennessey. On Sept. 11, Hennessey directed the friend to drop him off at a location south of Alexandria, Minn. Hennessey reportedly told the friend to leave so that he would not be able to see who might pick Hennessey up in case the friend was questioned about it. Hennessey had a backpack with him but nothing else.

On Sept. 12, the co-op filed a theft report with Grant County Sheriff Troy Langlie in Elbow Lake, who met with the board on Sept. 14 in Ashby. Langlie says he has assigned a deputy to the case, and his department is seeking to bring in the Minnesota Bureau of Criminal Apprehension and the U.S. Department of Agriculture. "It doesn't sound like the USDA is going to be able to open up a federal case on this matter, but nonetheless an agent is assisting us on some matters," Langlie says. Langlie says the department is looking at "a lot of data." "It's far too premature in this investigation to be looking at charges; no doubt that will come, the way it looks," Langlie says. "It's our understanding that he is nowhere to be found at this time. We, ourselves, have not looked for him. We don't know what we would be questioning him on, at this stage."

Covering obligations

Ahlgren says Ashby Farmers' Cooperative Elevator likely won't be able to pay obligations to farmers in full, and what they do pay will take time. The company has crime liability insurance that may only cover \$100,000 in losses "per occurrence," but it isn't clear how occurrences are counted. The company also has bonds, which farmers may be able to recover.

"The company has other assets, but we don't have enough to cover our obligations in full," Ahlgren says. He says it may be several months before any distributions may be made, which will be difficult for farmers who already are facing financial pressures due to trade wars and low commodity prices.

"I think at the very earliest it'll be several months," he says. "I have no expectations that we'll be able to make distributions before the end of the year. It may be a year or possibly even longer before the entire matter is dealt with."

The news was met by stunned silence from the people in the town of fewer than 500. Tom Grover, the mayor of Ashby, says "any business closing in a small city is devastating" to the five or six employees, and he says the unexpected turn of events "hurts." "Hopefully, someone will come in and take it over so it doesn't close," Grover says. "We need that business." People who come to the elevator buy fuel and stop at restaurants or buy supplies at another local cooperative.

Todd Finkelson, owner of T&B's Short Stop, a convenience store and bait and tackle shop, says trust with a local business is gone. "This is going to hurt. The overwhelming response from everybody is concern for the farmers. Of course there are five employees over there, and they're all good people. Nobody expected this was going to happen, or that it was happening," he says.

Hennessey, who is 55 or 56, reportedly has four adult children, including three who live in the community. A son-in-law worked in operations at the elevator, but Ahlgren says there is no immediate indication anyone but Hennessey is responsible for the transactions. "I think part of his cover-up story was that he was doing (personal) grain trading, and that's how he was able to afford this, what is really a lavish lifestyle," Ahlgren says.

Langlie, who is in the midst of his first election challenge in a post he's held as an appointee after serving as a chief deputy, says this is the third elevator financial investigation his department has dealt with in as many years. One case in Hoffman, Minn., was three years ago and brought a lengthy investigation. Another is at Herman, Minn., and is being handled by the USDA. Neither is completed. "These are more of a data investigation," he says.

The Ashby co-op formerly was a member of the Minnesota Grain and Feed Association until 2015. Last winter, Agweek covered a seminar at their annual meeting about establishing procedures to prevent unauthorized transactions and employee fraud!

AFIA Disappointed by USTR's Additional Tariffs on Chinese Imports

The American Feed Industry Association (AFIA) shares in the disappointment with many others throughout the agriculture community on the Office of the United States Trade Representative's (USTR) announcement yesterday to impose an additional tariff of 10 percent on \$200 billion worth of Chinese imports, effective Sept. 24, 2018.

U.S. animal food manufacturers use many different types of ingredients in animal feed and pet food and depend on imports of some ingredients that have limited domestic availability. In addition, the variety of ingredients produced globally gives them more choices on where and how to source their ingredients. The United States' imposition of tariffs on Chinese products has already negatively affected the U.S. animal food industry in the way of retaliatory measures by China on U.S. products exported to China. In addition, retaliatory measures as a result of the United States' actions yesterday further escalate this trade war and continue to hinder the U.S. feed industry's ability to manufacture safe, quality and affordable feed products, as well as maintain and increase market opportunities and access in China.

Gina Tumbarello, AFIA's director of international policy and trade, stated:

"AFIA and its members value free and fair global trade and mutual respect between trading partners. Increasing tariffs on Chinese products restricts the flow of commerce, stifles fair and open competition and leads to retaliatory measures that can further harm the animal food industry. China is an important market with even greater potential, but the administration's actions are not aiding the U.S. animal food industry in securing market access, but rather, further hindering it. We encourage our trade officials to seek discussions with China to remedy concerns rather than continuing to resort to tariffs."

Market Facilitation Program Methodology Explained

Last week, USDA reported the methodology it used to calculate the payment rates for the Market Facilitation Program (MFP). USDA used an approach often employed in adjudicating trade dispute cases at the World Trade Organization. To help you quickly understand the approach, below is a summary of the steps used to calculate the payment rates for each commodity.

- Step 1: Sum the value of U.S. exports in 2017 for countries that levied retaliatory tariffs in 2018.
- Step 2: Sum the value of projected U.S. exports in 2018 to countries that levied retaliatory tariffs.
- Step 3: Subtract the product of Step 2 from the product of Step 1.
- Step 4: Divide the product of Step 3 by U.S. production in 2017.

MFP example for Corn:

- Step 1: In 2017, China and EU combined imported \$309 million of corn from the United States.
- Step 2: With additional 25% tariff from both countries, the combined imports from the United States is estimated to be \$117 million.
- Step 3: Estimated gross trade damage = \$309 million - \$117 million = \$192 million
- Step 4: Initial MFP rate = \$192 million/14.6 billion bushels of U.S. production in 2017 = \$0.01/bu.

USDA has announced the MFP payments will be split into two parts and producers will receive the 1st part, which represents half of the announced MFP rates, after they certify their 2018 production at their local Farm Service Agency offices. The second MFP payment will be announced, if deemed necessary, in December and may account for other factors, such as new tariff levels, regional basis effects, or other market conditions that may have mitigated some of the trade damages.

Below is USDA's press release on the methodology used to calculate the payment rates for the MFP.

USDA Details Trade Damage Estimate Calculations

(Washington, D.C., September 13, 2018) – U.S. Secretary of Agriculture Sonny Perdue today released a detailed accounting of how the U.S. Department of Agriculture (USDA) calculated estimated damage from trade disruptions. USDA's Office of the Chief Economist developed an estimate of gross trade damages for commodities with assessed retaliatory tariffs by Canada, China, the European Union, Mexico, and Turkey to set commodity payment rates and purchase levels in the trade mitigation package announced by USDA on September 4, 2018 (view at <https://www.usda.gov/media/press-releases/2018/09/04/usda-launches-trade-mitigation-programs>). USDA employed the same approach often used in adjudicating World Trade Organization trade dispute cases.

"We have pledged to be transparent about this process and how our economists arrived at the numbers they did," Perdue said. "Our farmers and ranchers work hard to feed the United States and the world, and they need to know that USDA was thorough, methodical, and as accurate as possible in making these estimates. It was a large and important task, and I thank Chief Economist Robert Johansson and his staff for their hard work."

The full description of the Trade Damage Estimation for the Market Facilitation Program and Food Purchase and Distribution Program is available at https://www.usda.gov/oce/trade/USDA_Trade_Methodology_Report.pdf.

Association Magazine - Fall Edition

The Fall edition of the MGFA member magazine Mill & Elevator News, was sent to members last week and contains some very interesting stories, event photos, member news and much more. The subscription rate for this semi-annual magazine is included with your annual membership investment. This issue includes: Member news, pertinent Industry news, a story on effective leadership, Information about the

FSMA food safety plan, the importance of goal setting, building trust, provisions of the 2017 tax act, an interesting look at the past and much more. Great reading on a rainy day like today. Check it out!

Enhancing Soybean Storage Starts With Harvest Moisture

Harvest timing can have a huge impact on soybean shatter losses and storability. Field losses, splits, and cracked seed coats increase as moisture content decreases. [Recent tariff action by the Administration will certainly lead to soybeans being stored longer than normal – maintaining quality and quantity IS your responsibility!]

A moisture content of about 13% at harvest is optimal for mitigating mechanical damage.

Shatter losses increase significantly when seed moisture falls below 11% or when mature beans undergo multiple wetting and drying cycles. Also, molds develop more rapidly in soybeans with seed coat cracks, so the amount of mechanical damage during harvest affects the beans' deterioration rate.

A moisture content of about 13% at harvest is optimal for mitigating mechanical damage.

Harvesting during high humidity, such as early morning, late evening, or in damp conditions, may reduce shatter loss and mechanical damage if the soybeans are below 11% moisture content. Moisture content can increase several points with an overnight dew or decrease several points during a day with low humidity and windy conditions. Avoid harvesting when beans are driest, such as afternoons.

The market moisture for soybeans is 13%, which is fine for storing soybeans during cool conditions. If your soybeans will be stored through winter and into the warmer weather of spring and summer, store at 11% moisture to limit mold growth and deterioration. The storage life roughly doubles for each percentage point of reduction in moisture content.

Storage Temperature

Controlling soybean temperature during storage is critical. Free fatty acid percentages, a negative characteristic, tend to increase with storage moisture, temperature, and time.

Store soybeans during the winter near 30 degrees Fahrenheit in northern states and 40 degrees Fahrenheit or lower in southern states.

At 12% moisture, free fatty acid percentages increase slowly with storage time if the beans are kept cool. In one study, the average free fatty acid content of 12% moisture beans stored at 50 degrees Fahrenheit stayed below 0.75 % but exceeded this level after only four months when stored at 70 degrees Fahrenheit.

Cool soybeans as they go through the fall and winter to maintain quality. Aerate to keep the soybeans within 10 to 15 degrees of the average outdoor temperature during the fall.

Store soybeans during the winter near 30 degrees Fahrenheit or lower in southern states.

During the spring and summer, aerate stored soybeans to keep the temperature as cool as possibly - preferably 40 to 60 degrees Fahrenheit. These temperatures enhance soybeans' storage life, and reduce mold and insect activity.

Soybeans at 11% moisture have similar storage characteristics as wheat or corn at 13.5 to 14% moisture. Use an allowable storage time chart for cereal grains to estimate allowable storage time for soybeans.

Storage recommendations

- **Keep fans covered.** Once soybeans are cooled, cover fan and duct openings to prevent snow or moisture from blowing into the bins during winter storage. Keep fans covered during the spring and summer to limit air from warming the soybeans. Ventilate the top of the bin to reduce solar heating affecting the beans at the top of the bin.
- **Monitor stored grain regularly.** Outside temperature changes can result in temperature and moisture changes inside the bin. Monitor soybeans at least once every two weeks during winter

storage and weekly during the fall until the grain has been cooled to winter storage temperatures. Monitor the soybeans weekly during the spring and summer. Measure the grain temperature and watch for indications of problems such as condensation, insect activity, and increasing grain temperatures. Record temperature values and grain condition to help track any changes.

- **Use available tools, but don't turn everything over to automation.** Improved technology can help you better manage stored grain, but you still need to manage the grain and inspect it visually. Temperature cables allow you to monitor the stored grain temperatures at several locations, and fan controllers can operate fans according to desired air conditions. Monitor and verify that fans are operating as desired.
- **Equalize soybean moisture content.** Soybean moisture variation may lead to storage and marketing losses. Operating an aeration fan will help move moisture from wet to drier beans. Moisture movement will be minimal without aeration airflow. Initially, fans will have to run longer to equalize the moisture content than to cool the grain. The moisture will not be all the same, but it should become more uniform.

For more information, visit <https://www.ag.ndsu.edu/graindrying>.

Source: *Enhancing Soybean Storage Starts With Harvest Moisture*, **Ken Hellevang**, North Dakota State University

MGFA Sustaining Sponsor Spotlight – Dorsey & Whitney

For over 100 years, Dorsey & Whitney has lived our core values of clients, community and colleagues. We have been recognized for the superb quality of our client service, for our commitment to pro bono and other community service and for the quality and inclusiveness of our workplace.

Among our many distinguished alumni are U.S. Supreme Court Justice Harry Blackmun, noted law professor and scholar William Prosser and former U.S. Vice President and Ambassador to Japan Walter Mondale. Dozens of other Dorsey lawyers have gone on to prominent careers in business, government, politics, the judiciary and legal education.

We were formed in 1912 in Minneapolis, Minnesota, at the request of a client that is still a valued client today. We believe the longevity of our client relationships is something that distinguishes us and that speaks to the competitive edge we deliver to our clients. From the 1980s to the present, the Firm has continued to expand to meet client needs. Today, Dorsey lawyers practice in locations throughout the United States and in Canada, Europe and the Asia-Pacific region and serve clients all around the world. **The MGFA is certainly grateful to Dorsey & Whitney and the other Annual Sustaining Sponsors, for their annual contribution and support of the various programs and services provided by the association.**

Mark Your Calendar For The MGFA “Grain Convention” 2019, scheduled for March 4-6 at the Double Tree by Hilton, Bloomington!

STAY CONNECTED WITH US:

Visit our Website

