

SENATE FILE 291
BY COMMITTEE ON AGRICULTURE

(SUCCESSOR TO SF 243)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to provisions in contracts for the sale of grain
2 executed by agricultural producers and grain dealers.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SENATE FILE 291

S-3202

1 Amend Senate File 291 follows:
2 1. Page 1, by inserting after line 20 the
3 following:
4 "The department is not required to review or
5 approve a contract provided for under this section. A
6 contract executed in violation of this section is
7 voidable in an action brought in district court by a
8 party to the contract who sells grain to a grain
9 dealer."

By JOHN P. KIBBIE

S-3202 FILED MARCH 24, 1997

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1 Section 1. NEW SECTION. 203.15A NOTICE TO PRODUCERS
2 SELLING GRAIN UNDER DELAYED DELIVERY AND PRICING CONTRACTS.

3 A grain dealer shall not execute a contract with a producer
4 for the purchase of undelivered grain in which a price for the
5 grain may be established and delivery of the grain may occur
6 more than twelve months from the date that the contract is
7 executed, unless the contract is in writing and a notice
8 appears immediately above the place on the contract where the
9 producer selling the grain must sign. The notice shall be in
10 at least ten point boldface type and shall be in substantially
11 the following form:

12 NOTICE

13 THE SELLER IS CAUTIONED THAT CONTRACTING FOR THE SALE AND
14 DELIVERY OF GRAIN UNDER THIS CONTRACT IS SPECULATIVE AND
15 INVOLVES RISKS WHICH MAY INCLUDE REQUIRING YOU TO MAKE FUTURE
16 PAYMENTS TO MAINTAIN THE CONTRACT OR PROVIDE YOU WITH A LOWER
17 SALE PRICE. THIS TRANSACTION IS NOT COVERED BY THE STATE'S
18 GRAIN DEPOSITORS AND SELLERS INDEMNITY FUND. BE SURE THAT YOU
19 UNDERSTAND THE NATURE OF THIS CONTRACT AND THE ASSOCIATED
20 RISKS.

21 Sec. 2. ATTORNEY GENERAL -- DEVELOPMENT OF INDUSTRY
22 STANDARD GRAIN MARKETING CONTRACTS.

23 1. The environmental and agricultural law division of the
24 office of attorney general shall develop a model credit sale
25 contract and a model hedge-to-arrive contract intended for
26 parties to the contracts who are agricultural producers and
27 grain dealers as regulated by the department of agriculture
28 and land stewardship pursuant to chapter 203.

29 2. A model contract shall contain provisions stated in a
30 concise, easily visible form using a plain style which allows
31 the parties to understand and effectively negotiate important
32 terms and conditions of the contract, including financial
33 risks and liabilities associated with the use of that
34 contract.

35 3. The division shall develop a model contract after

1 consulting with interested persons, including the department
2 of agriculture and land stewardship, the insurance division of
3 the department of commerce, the Iowa cooperative extension
4 service in agriculture and home economics at Iowa state
5 university, and associations representing grain dealers and
6 agricultural producers.

7 4. A model contract is not required to be adopted as a
8 rule pursuant to chapter 17A.

9 5. The Iowa cooperative extension service in agriculture
10 and home economics shall make the model contracts available
11 for distribution on a statewide basis.

12 EXPLANATION

13 This bill relates to transactions involving contracts for
14 the sale of grain by producers of the grain to grain dealers
15 regulated by the department of agriculture and land
16 stewardship.

17 The bill requires that a contract executed between a
18 producer and a grain dealer contain a notice to the producer
19 if the contract allows for the delivery of grain and the
20 establishment of a price for the grain more than 12 months
21 from the date that the contract is executed. The notice must
22 warn the producer of the risks associated with the
23 transaction.

24 The bill requires that the office of attorney general
25 develop a model credit sale contract and a model hedge-to-
26 arrive contract intended for parties to such contracts who are
27 agricultural producers and grain dealers. The bill provides
28 that a model contract must be easily read and understood by
29 the parties, and contain terms and conditions which allow the
30 parties to effectively negotiate. The division is required to
31 consult with interested persons when drafting the model
32 contracts. The Iowa cooperative extension service in
33 agriculture and home economics at Iowa state university is
34 required to make the model contracts available for
35 distribution on a statewide basis.

**SENATE FILE 291
FISCAL NOTE**

A fiscal note for Senate File 291 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 291 identifies delayed delivery grain contract requirements for producers and grain dealers on contracts where the price is determined and delivery of the grain is longer than 12 months from the execution date of the contract. Requirements include that the contract must be in writing and a notice identifying potential contract risks is printed in boldface type. The notice further states the contract is not covered by the State's Grain Depositors and Sellers Indemnity Fund. A delayed delivery contract model will be developed by the Environmental and Agricultural Law Division of the Office of the Attorney General. This model will use language that is easy to understand, giving all parties full knowledge about the risks and liabilities from using a delayed delivery grain contract.

ASSUMPTIONS

This legislation attempts to standardize contracts used in delayed delivery grain contracts so that all parties involved understand the risks associated with a speculative transaction.

Delayed delivery grain contracts would be regulated by the State's Grain Warehouse Bureau (GWB) in the Department of Agriculture and Land Stewardship (DALS). To ensure delayed delivery grain contracts were completed properly, the GWB would need to review all contracts during grain elevator inspections. Presently, credit sale contracts are the only type of contract reviewed during the inspection.

As a result of the extended review, grain elevator operators would need to make all contract documents available to the examiner. To expedite the review process, grain elevator operators would need to identify contracts numerically, and to organize the contracts in numerical order.

FISCAL IMPACT

The GWB estimates the extended review of contracts would require a minimum of 10 additional hours per warehouse examination. This would necessitate hiring five additional examiners to meet the expanded work load. Expenditures for FY 1998 for five examiners are \$353,765 and \$269,000 for FY 1999. This includes salaries, support, and purchases of equipment necessary to complete the inspection.

SOURCE

Department of Agriculture and Land Stewardship

(LSB 2384sv, DFK)