

## Commodity Operations

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### Background

The Farm Service Agency's (FSA) Commodity Operations mission area handles acquisition, procurement, storage, disposition, and distribution of agriculture program commodities, and administration of the U.S. Warehouse Act (USWA). It helps achieve domestic farm program price support objectives, produces a uniform regulatory system for the storage of agricultural products, and ensures the timely provision of food products for domestic and international food assistance programs and market development programs.

### Overview

The office of the Deputy Administrator for Commodity Operations (DACO) is responsible for delivering quality products and customer service in storage, handling, and final distribution of agricultural products. DACO personnel are involved in the storage, management and disposition of the Bill Emerson Humanitarian Trust that is used to meet humanitarian needs abroad.

Commercial warehouse operators, either regulated by USWA or who store commodities pledged as collateral for Commodity Credit Corporation's (CCC) marketing assistance loans, or who are owned by CCC, are required to meet certain financial standards and maintain physical warehouse

facilities capable of handling and storing agricultural products. These warehouses are examined to ensure that requirements are fulfilled.

The Kansas City Commodity Office (KCCO) provides price discovery mechanisms for commodity operations in bulk grains, cotton, oilseeds and rice. Each business day, the commodity office tracks 22 commodities in 30 terminal market locations. These terminal market prices are then "backed-off" using a system of localized market differentials to more than 3,000 locations nationwide to provide marketing loan repayment rates for each of the 22 supported commodities.

### Commodity Procurement

Commodity procurement includes supplying food assistance through domestic and foreign food aid programs. In fiscal year 2005, approximately 4.5 million metric tons of commodities valued at approximately \$1.4 billion were procured and distributed to improve the nutritional welfare of adults and children worldwide.

Commodity Operations is responsible for the procurement, transportation, and disposition of food commodities to fulfill USDA and U.S. Agency for International Development (USAID) program commitments. Private industry works in partnership with USDA and other government agencies to sup-

ply the various programs with high-quality, nutritious products that meet program requirements. Commodity Operations is called upon to quickly distribute food from warehouses and sometimes makes special purchases of food as part of disaster relief efforts. Commodity Operations also provides administrative support to USDA's Agricultural Marketing Service (AMS) for processing shipment information and making payments to vendors for commodities procured by that agency.

Under the National School Lunch Act and the Emergency Food Assistance Act of 1983, Commodity Operations provide nutritious foods to school children and others by procuring commodities such as dairy products, processed grain products, peanut products, and vegetable oil for domestic food distribution programs.

When surplus commodities are available, agency personnel aid in the donation of government-owned commodities for use in feeding programs using CCC Charter Act authority for the procurement, distribution, and invoicing of commodities on behalf of USDA's Food and Nutrition Service (FNS) and the Foreign Agricultural Service (FAS). Section 416(b) of the Agriculture Act of 1949 also allows for the donations of eligible commodities held by CCC to countries in need.

**Foreign Humanitarian and Development Assistance Programs**

Commodity Operations procures commodities on behalf of USAID and FAS for overseas humanitarian and developmental use.

**Program Descriptions**

Title I, P.L. 480 provides for government-to-government sales of U.S. agricultural commodities to developing countries on long-term concessional terms.

Title II, P.L. 480 (Food for Peace) provides for the donation of agricultural commodities to meet emergency and non-emergency needs.

Title III, P.L. 480 (Food for Development), when funded, provides for government-to-government grants to support long-term growth in agriculture and related activities in lesser developed countries.

Food for Progress provides U.S. agriculture commodities to developing countries and emerging democracies committed to introducing and expanding free enterprise in the agricultural sector under the Food for Progress Act of 1985.

Section 416(b) authorizes the donation of CCC-owned commodities in surplus of domestic program requirements to carry out programs of assistance in developing and friendly countries under the Agriculture Act of 1949.

The McGovern-Dole International Food for Education and Child Nutrition Program helps promote education, child development and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income countries.

**Dairy Price Support Program**

Under the authority of the Agricultural Act of 1949, as amended, national policies and procedures are formulated and administered through the Dairy Price Support Program. In order to stabilize domestic dairy prices as required by law, dairy products are purchased at announced prices under this program. Commodity Operations arranges for warehouse storage, transportation, handling and inspection of the dairy products until the commodities are used in domestic or foreign feeding programs or sold by CCC.

**Contract Management and Technical Support Projects**

Commodity Operations works closely with other agencies, the private sector and academia groups to develop product specifications that provide domestic and export program recipients with safe, wholesome, nutritious foods equivalent to the best in the industry. In addition, Commodity Operations works closely with academia and the packaging industry to ensure that only food grade packaging is used and types of packaging systems used

are cost-effective and adequate for the types of handling expected to occur.

**U.S. Warehouse Act**

The USWA provides owners storing commodities with reliable protection. It produces a uniform regulatory system for storage of agricultural products, provides for warehouse receipts that are evidence of ownership and can be used as loan collateral, and requires warehouse operators to accept agricultural products for storage without discrimination.

To qualify for a Federal USWA license, a warehouse operator must have a suitable and properly maintained warehouse; have a good business reputation and a minimum net worth; furnish an acceptable bond or other acceptable financial instrument; and employ qualified personnel to weigh, sample, inspect and grade agricultural products stored or handled in the licensed warehouse.

**Warehouse/Commodity Examination Operations**

Commodity Operations personnel, under the authority of the USWA and the CCC Charter Act, administer licenses and examine warehouses under the USWA, as well as State-licensed and non-licensed warehouses storing CCC-owned commodities or producer-owned commodities that are pledged as loan collateral to CCC. These examiners periodically make unannounced examinations of the storage facilities, commodities stored,

and the warehouse operator's records to ensure protection of all depositors, including the U.S. government, against potential losses in the stored agricultural products. The examinations ensure compliance with the USWA and any CCC storage agreements. These onsite examinations provide the foundation for industry-wide confidence in the integrity of USWA warehouse receipts and facilitate the orderly marketing of agricultural products. The examination functions are supported by fees collected from the warehousing industry and CCC.

In addition, because of the integrity of the federal licensing and examinations programs, USWA-approved warehouse receipts issued to depositors are widely accepted by financial institutions as loan collateral. All major commodity exchanges, such as the Chicago Board of Trade and the Kansas City Board of Trade also accept warehouse receipts for value. In fiscal year 2005, Commodity Operation's warehouse examiners performed more than 3,263 warehouse or other types of examinations protecting the assets of CCC and private depositors across the United States.

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