

Fighting for the U.S. Cattle Producer!



R-CALF
USA

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April 19, 2010

The Honorable Blanche Lincoln
Chairwoman
U.S. Senate Committee on Agriculture, Nutrition and Forestry
Washington, D.C. 20510

Re: The Wall Street Transparency and Accountability Act of 2010

Dear Chairwoman Lincoln:

On behalf of its thousands of cattle farmer and rancher members across the United States, R-CALF USA supports your decision to introduce and advance The Wall Street Transparency and Accountability Act of 2010 (the Act). We believe the Act is a significant step in the right direction to restore the principal purpose of the commodities futures market – to provide price discovery and reduce price risk for physical hedgers. The Act holds promise to accomplish this goal by strengthening derivative market oversight, transparency and stability, prohibiting abusive and disruptive practices, and authorizing aggregate position limits across all markets.

R-CALF USA specifically seeks reform of the cattle futures market to restore its original purpose of affording U.S. cattle producers a useful marketing tool void of distortion and manipulation by certain speculators and other dominant market participants. United States cattle producers sell their cattle into one of the most highly concentrated marketing structures in the U.S. economy – one that has exceeded levels generally considered to elicit non-competitive behavior and adverse economic performance.¹ Today, the four largest U.S. beef packers purchase and slaughter over 85 percent of all slaughter-ready U.S. steers and heifers.² Inherent to this high level of market concentration is substantial disparity between the economic power of the hundreds of thousands of disaggregated U.S. cattle producers (i.e., cattle sellers)³ and the economic power wielded by very few beef packers (i.e., cattle buyers).

As a result of this significant economic disparity, cattle producers, some of whom use futures markets to offset price risk, are vulnerable to any market distortions caused by beef packers that may not only participate in the futures market as physical hedgers, but as significant speculators as well. The cattle futures market is susceptible to downward price movements – in contradiction of supply/demand fundamentals, when beef packers, who may hold a physical hedging position in the market, also engage in substantial speculative short selling of the market. The effect of the beef packers' speculative short selling is to lower not only the futures market price, but also the cash spot market price, which is intrinsically tied to the futures market.

Like other commodity futures markets, the futures market for live cattle is highly susceptible to market distortion should additional liquidity be introduced in the form of excessive speculation. The remaining participants in the U.S. live cattle industry, whose numbers have

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already been reduced by an alarming 40 percent since 1980,⁴ operate on slim margins and are highly susceptible to even small changes in cattle prices.⁵ As a result, cattle producers are particularly vulnerable to financial failure caused by both market volatility and market distortions that swing prices low, even for short periods, as they are operating in an industry already suffering from a long-run lack of profitability.

R-CALF USA believes the Act should specifically authorize the Commodities Futures Trading Commission (CFTC) to make it unlawful for dominant beef packers to engage in speculative short selling of the market to effectively drive down both futures prices and cash cattle prices. Also, the Act should ensure that the live cattle futures market is dominated by physical hedgers, which can be accomplished by imposing aggregate speculative position limits across all markets. Imposing such aggregate speculative position limits across all markets would also curb the commodity indexing strategies of large institutional investors, whose strategies severely distort futures market price discovery. It would be important that speculative position limits be established by physical hedgers in the cattle futures market. Further, we believe the CFTC should be directed to restore daily market price limits to levels that minimize market volatility and reform the practice of allowing cash settlements on futures contracts in lieu of actual delivery of the commodity, a practice that effectively lowers the cattle futures price on the day of contract expiration.

We look forward to working with you and your committee to eliminate practices that cause artificial price distortions in the derivatives market and have relegated the cattle futures market to an ineffective tool for price discovery and risk management for U.S. cattle producers.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bill Bullard", with a stylized flourish at the end.

Bill Bullard, CEO

¹ See A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current, Agriculture Food and Resource Issues, 2001, at 1.

² See *United States of America et al. vs. JBS S.A. et al.*, Amended Complaint filed on Nov. 07, 2008, U.S. District Court, Northern District of Illinois, Eastern Division, Civil Action No. 08-CV-5992, (The U.S. Department of Justice alleged, “Defendants [JBS S.A. and National Beef Packing Company, LLC] plus Tyson and Cargill together purchased over 85% - nearly 24 million – of these [fed] cattle.”) at 3.

³ There were 967,000 U.S. cattle operations in the U.S. in 2007. See Farms, Land in Farms, and Livestock Operations, U.S. Department of Agriculture, National Agricultural Statistics Service, Sp Sy 4 (08) a, February 2008, at 14.

⁴ The size of the U.S. cattle industry, as measured by the number of cattle operations in the U.S., declined from 1.6 million in 1980 to 983,000 in 2005 (and, as stated *supra*, further declined to 967,400 in 2007). See Federal Register, Vol. 72, No. 152, Wednesday, August 8, 2007, at 44,681, col. 2.

⁵ A Review of Causes for and Consequences of Economic Concentration in the U.S. Meatpacking Industry, Clement E. Ward, Current Agriculture Food and Resource Issues, 2001, at 2 (“[E]ven seemingly small impacts on a \$/cwt. basis may make substantial difference to livestock producers and rival meatpacking firms operating at the margin of remaining viable or being forced to exit an industry.”).