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Re: CME's Proposed Amendment to Add a Seasonal Discount of $1.50/cwt on Deliveries Tendered to Worthing, South Dakota, for the October Contract Month

Dear Mr. Crafton and Mr. Clark:

Both the Ranchers Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF USA), the largest producer-only trade association representing the U.S. cattle industry, and the South Dakota Stockgrowers Association (SDSGA), representing over 1,000 South Dakota ranch families, appreciates this opportunity to comment on the CME Group's proposal to add a seasonal discount of $1.50/cwt on deliveries tendered to Worthing, South Dakota, for the October contract month.

On behalf of our respective memberships, we urge the CME Group to withdraw its proposed seasonal discount on grounds that it will disrupt competitive market forces, lock-in industry inefficiencies that would otherwise be corrected by competitive market forces, and it imposes punitive sanctions on certain fed cattle owners for no other reason than the geographic locations of their cattle feeding operations.

The proposal will disrupt competitive market forces

In a competitive fed cattle marketplace where many buyers and many sellers are dispersed over a large geographic region within which marketing channels are likewise dispersed, it is fully expected that regional and seasonal price differences will occur among and between marketing outlets. Price disparity is expected based, for example, on a particular marketing outlet's proximity to downstream packing plants, regional demand factors including the quality of a region's cattle, and attendant marketing costs. Marketing outlets possessing the most favorable price characteristics would be expected to attract the most cattle in such a competitive market. If over time a particular region persistently attracts more cattle due to its more favorable pricing characteristics, then this may precipitate a competition-based structural change within an industry (*e.g.*, other regions may attempt to become more competitive or buyers will migrate in closer proximity to supplies). Indeed, in competitive marketplaces trending price disparities are expected to cause dynamic industry changes – a function of competitive responses to ever changing supplies and demands.

Worthing, South Dakota, which annually has attracted more than 50 percent of all delivered loads of cattle since 2009 is obviously the marketing outlet (*i.e.*, delivery point) with the most favorable pricing characteristics compared to the other 12 marketing outlets, which necessarily attract less than 50 percent of all delivered cattle among and between all 12 of them. This suggests that Worthing is the most competitive delivery point throughout the year for U.S. fed cattle producers that deliver live cattle.

A competitive response to this phenomenon would be for the other 12 delivery points to become more economically attractive than they are today, or for buyers (packers that acquire the delivered cattle) to expand and/or relocate facilities closer to where today's supplies are congregating. Either of these two competitive responses would result in distributing cattle deliveries across multiple delivery points and/or a better geographical alignment between cattle supplies and packer plant capacity.

The CME Group's proposal, however, would be the antithesis of competition as it would constitute and artificial penalty imposed on producers who find the Worthing delivery point to be their most profitable delivery point. It also constitutes as a subsidy for all other deliver points that are not currently competitive with Worthing. As such, the proposed $1.50/cwt discount on deliveries tendered at Worthing for the October contract month would disrupt competitive market forces which will stymie competition.

The Proposal would lock-in industry inefficiencies that would otherwise be corrected by competitive market forces

The CME Group's proposal intends to redistribute cattle deliveries with an artificial financial penalty imposed on the industry's northern-most delivery point, which is also the most competitive delivery point. This direct penalty functions also as an artificial subsidy for all other delivery points to the south that either cannot or will not compete with the efficiencies inherent in the Worthing market. It functions in this capacity by reducing the attractiveness of the northern-most competitor by $1.50/cwt. Thus, the inefficiencies evidenced by the preponderance of annual cattle deliveries delivered to Worthing while most packer-plant capacity is located further to the south will be artificially preserved. This will effectively preclude competitive market forces from continually improving the efficiency of the U.S. fed cattle industry.

The result will be that the inefficiencies that created this perceived problem in the first place will be locked-in. However, because only one of the many symptoms will be addressed (*e.g.*, it will not address the growing price spread between north and south), more compounding problems will likely materialize in the near future.

Other serious problems likely to materialize as a result of the CME Group's proposal, which is certain to lock-in industry inefficiencies, is that the U.S. fed cattle industry would become less competitive when compared to their foreign competitors, relegating them less competitive in the global market.

The Proposal imposes punitive sanctions on certain fed cattle owners for no other reason than the geographic locations of their cattle feeding operations

For cattle feeders in the Worthing market region, Worthing is their local market and the CME Group's proposal would impose a penalty on local cattle-feeding operations that want to continue marketing their cattle at their local market. This makes no sense and constitutes an unprecedented, unfair and punitive policy targeted at northern cattle feeders in general and Worthing-area cattle feeders in particular.

Conclusion

The proposal to impose a discount at Worthing, South Dakota, will harm northern cattle producers, harm competition, lock-in industry inefficiencies and penalize Worthing area cattle feeders. The beneficiaries of this proposal appear only to be fed cattle buyers that have, for whatever reason, resisted long-term competitive market signals that suggest more packing capacity is needed in the north and perhaps less capacity is needed in the south.

For the forgoing reasons, we respectfully urge the CME Group to withdraw its proposal to add a seasonal discount of $1.50/cwt on deliveries tendered to Worthing, South Dakota, for the October contract month.

Sincerely,

Gerald Schreiber
Marketing Committee Chair
R-CALF USA

Vaughn Meyer
Marketing Committee Chair
South Dakota Stockgrowers Association