Five-Minute Oral Testimony
of R-CALF USA
to the
United States House of Representatives, Committee on Agriculture,
Subcommittee on General Farm Commodities and Risk Management
Regarding
Implementation of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Wall Street Reform Act)

February 15, 2011

Good afternoon Chairman Conaway, Ranking Member Boswell, and Members of the Subcommittee. Thank you for this opportunity to testify on the Dodd-Frank Wall Street Reform and Consumer Protection Act or "Wall Street Reform Act."

I am Bill Bullard, CEO of R-CALF USA. R-CALF USA is a national, nonprofit cattle association that represents the interests of farmers and ranchers that raise and sell live cattle.

Unlike our counterpart – the National Cattlemen's Beef Association (NCBA) – that has meatpackers seated on its governing board and tries to represent the entire beef supply chain, R-CALF USA does not represent packers and only represents the interests of actual cattle producers.

Thus, R-CALF USA is the largest cattle-producer organization that exclusively represents the economic interests of our nation's cattle farmers and ranchers.

It is critically important that this Subcommittee understand there is a clear demarcation point between the live cattle industry and the beef packing industry – a demarcation point so profound that often there is an inverse relationship between the economic prosperity in the cattle industry and economic prosperity in the beef packing industry.

The competition between the live cattle industry and beef packing industry over the price of live cattle is fierce – or so it should be in our free market system. But, it isn't today because a handful of concentrated beef packers have all but captured control over our cattle markets.

And, that's why we're here today – to discuss the necessity of implementing the significant regulatory reforms under the Wall Street Reform Act to restore robust, if not fierce, competition in a cattle market that is, today, largely controlled by four dominant meatpackers.

As a result of the meatpackers' control over the cattle markets, the U.S. cattle industry is in a state of severe crisis.

For the benefit of this Subcommittee: During just the past 10 years for which data are available, the 16 states represented by this Subcommittee's 24 Members have:

- Lost 49,850 beef cattle operations from their rural economies, representing a rate-of-loss of about 5,000 cattle operations each year;
- their combined beef cow herd was reduced by over 1.3 million cows; and,
- the volume of cattle and calf production in those 16 states has fallen by over 935 million pounds.

Nationally, the entire U.S. cattle industry is suffering the same fate:

- We've lost 40 percent of our producers since 1980;
- our herd size is now the smallest since 1958; and,
- domestic production has declined since the beginning of this decade.

This unprecedented, long-term contraction was occurring even while beef consumption was increasing and reaching 40-year highs in 2007 and 2008.

A shrinking industry unable to keep pace with domestic consumption is an industry in serious trouble, the kind of trouble that warrants sweeping changes such as those passed in the Wall Street Reform Act.

Today I will provide evidence showing that dominant beef packers are engaging in practices that are destroying the price discovery and risk management functions of the cattle futures market – practices that the Wall Street Reform Act can prevent.

In February 2006, the four largest meatpackers engaged in the coordinated action of withdrawing from the cash market for an unprecedented two weeks. Industry analysts said the packers did this to gain control over cattle prices – which they did! Cash prices fell $3.00 per cwt. during their boycott, and live cattle futures fell to multi-month lows.

The effect of this coordinated action was to destroy completely the price discovery and risk management functions of both the cattle futures market and the cash cattle market, causing direct financial harm to every cattle seller in this country.

In 2008, R-CALF USA informed Congress that this type of attack on our cattle market would only worsen unless Congress took immediate steps to restore the integrity of our damaged markets.

We didn't have to wait long before our prediction materialized.

On the last trading day in October 2009, the cattle futures market fell to $81.65 per cwt. There were no underlying market forces that warranted this break in the market, suggesting that a dominant futures trader had shorted the market. The cash price at the time was $87.50 per cwt., and we viewed this as the worst convergence we had seen in the futures market for a long time.

On February 7 of this year, the Commodity Futures Trading Commission (CFTC) announced it had ordered Newedge USA to pay a penalty of over $220,000 for engaging in unlawful futures trading activity. The CFTC found that in October 2009, Newdege exceeded the contract speculative limit for trading live cattle by over 4,000 contracts, which contracts it had purchased from JBS – the Brazilian-owned and world's largest beef packer. Newedge then sold JBS an over the counter swap in live cattle.

The CFTC took this enforcement action pursuant to the new Wall Street Reform Act, other statutes, and its regulations.

We applaud the CFTC as it is the only agency that has stepped to the plate to curb what we believe to be an ongoing, systemic abuse of the cattle futures market by dominant market participants, as was exemplified in the Newedge/JBS futures transaction.

We strongly support Title VII of the Wall Street Reform Act and urge Congress to support the CFTC's rulemaking efforts as well as to adequately fund the CFTC so it can effectively enforce the act.

The competitiveness of our cattle futures market depends on it.

Thank you.