



AMERICAN FEED INDUSTRY ASSOCIATION

July 16, 2008

The Honorable Harry Reid
Majority Leader
U.S. Senate
S-221 Capitol Building
Washington, D.C. 20510-7020

ATTN: David McCallum

Dear Senator Reid:

Knowing your desire to take action to enhance commodities markets oversight, and mitigate any disruptive effects speculator activity may have on energy and agriculture commodity prices, the American Feed Industry Association (AFIA) proposes the following actions Congress should take when considering legislative action to return stability to futures markets.

AFIA is one of the nation's foremost agribusiness associations, devoted exclusively to representing the business, legislative, regulatory advocacy and educational needs of the animal feed/pet food industry and its suppliers. AFIA membership includes 560 domestic and international companies, as well as state, national and regional agribusiness associations. Membership includes feed and pet food manufacturers, livestock and poultry integrators, animal health companies, ingredient suppliers, equipment manufacturers and companies which supply other products and services to feed and pet food manufacturers. AFIA members represent over 70% of the commercial feed and pet food manufactured in the United States each year.

Given feed represents approximately 70% of the on-farm cost of raising livestock and poultry, our industry plays a critical role in the safe and affordable production of meat, milk and eggs. The U.S. feed industry is the single largest purchaser and user of corn and soybeans, as well as their processed meals and byproducts. It is critical the grain, oilseed and ingredient commodity markets accurately reflect true supply and demand situations for these commodities.

The Commodities Exchange Act (CEA) provides physical commodity customers (agriculture, airlines, transportation, etc.) with a viable price discovery mechanism and a risk mitigation tool (hedging) for their long-term commodity purchases. While this process requires traditional speculator participation in markets to provide a buyer/seller relationship and market liquidity, this relationship changed in 2000 when Congress codified earlier CFTC action granting Wall Street banks an exemption from speculative position limits for hedging over-the-counter swaps transactions. These banks represent institutional investors, including pension funds, hedge funds, investment banks and university endowments. It is important to note that while these funds may be hedging their invested capital, the initial investments are speculative. AFIA strongly believes this exemption should be ended.



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There is large financial speculative interest in agricultural commodity futures markets today. In some crops, the trading on a daily basis almost meets the entire U. S. crop volume, significantly adding to price volatility. The size and influence of these large financial players was never contemplated during enactment of the original CEA. The net result is that speculator demand actually increases the more prices increase, providing unrealistic commodity price levels relative to true demand. Index speculators do not normally sell, but rather buy and hold commodity positions producing an artificial economic increase in demand and, in turn, commodity market pricing.

As a result, the physical commodity customer today is unable to attain convergence between its hedge position and the cash market. The physical purchaser is forced to borrow significant funds to cover margin calls and/or sell commodities, usually at an inopportune time, to cover these hedge costs. Thus, hedging as a risk management tool is no longer effective for its intended users.

The magnitude of inflow of index speculator funds is dramatic, as is clear from the following examples:

- Index speculators have increased investments in 25 commodities from \$13 billion in 2003 to \$260 billion in 2008
- Index speculator investments in petroleum futures have increased by 848 million barrels over the last five years, almost matching the actual increase in Chinese demand of 920 million barrels of oil in the same five-year period.
- Index speculators have stockpiled enough corn futures to fuel the entire U.S. ethanol industry at full capacity for a year.
- Index speculators have stockpiled sufficient wheat futures to supply every American citizen with all the bread, pasta and baked goods they can eat for the next two years.

This problem can be expediently corrected through legislative action, including but not limited to the following actions:

- Remove the exemption from speculative position limits granted to Wall Street banks by Congress/CFTC in 2000. This would, in one step, return all speculative investors to the same limits and close the loopholes for swaps and electronic exchanges.
- Bring all commodity trades under the CFTC authority and enforcement. This would ensure over-the-counter (OTC) and foreign exchanges, which are trading on US exchanges, are reporting all positions and held to the same established limits.
- Re-establish speculative position limits for all commodities and across all contracts, reversing a 1998 decision to eliminate large and liquid market position limits, with enforcement by the CFTC, not exchanges.
- Speculative position limits should be set by the actions of physical producers and consumers of these commodities, rather than the exchanges.



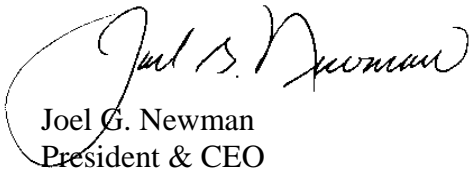
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- CFTC needs appropriate funding and staffing to fulfill its responsibilities and uniformly enforce controls over all markets.

Agriculture markets were established to provide an efficient price discovery mechanism and a hedging/risk control tool for grains and ingredients markets. These recommended changes will return the CEA to being an effective tool for the feed and livestock processing industry to effectively manage business risk.

In summary, these recommendations will remove any questions about the effect index fund speculators may be having on the markets, and will contribute significantly to protecting the energy and food security of our nation. U. S. citizens and consumers will be the beneficiaries of your proactive action on these recommendations.

Thank you for your consideration.

A handwritten signature in black ink, reading 'Joel G. Newman', is written over a circular stamp or watermark. The signature is fluid and cursive.

Joel G. Newman
President & CEO

Cc:
Sen. Richard Durbin
Sen. Tom Harkin