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AMERICAN FEED INDUSTRY ASSOCIATION

January 22, 2008

COMMENT

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

OFFICE OF THE SECRETARIAT

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Re: *Proposed Revision of Federal Speculative Position Limits*

Dear Mr. Stawick:

I write to provide you with the American Feed Industry Association's (AFIA) position regarding the Commodity Futures Trading Commission (CFTC) proposal to increase federal speculative position limits, published November 27, 2007, in the *Federal Register*.

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 industry and its suppliers. AFIA membership includes 560 domestic and international companies, as well as state, national and regional agribusiness associations. Member firms include feed and pet food manufacturers, livestock and poultry integrators, animal health companies, ingredient suppliers, equipment manufacturers and companies which supply other products, services and supplies to feed manufacturers. AFIA members represent over 70% of the commercial feed and pet food manufactured in the United States each year.

The feed industry makes a critical and significant contribution to food safety, nutrition and the environment. 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. Rapidly rising commodity values over the last few years based upon an increasing competition for corn and oilseeds, coupled with rising export demand, have significantly increased the borrowing needs for the feed and livestock processing industry. These higher financing costs (open interest and trading liquidity) occur at a time when margins are very tight. These companies do not speculate in the markets, but manage the price risk of their future purchase commitments through the use of hedging



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instruments. The proposed revision by CFTC would result in increased price volatility and distortion of these markets.

The primary reason for position limits is to reduce potential for market manipulation. However, with significant increased commodity prices, there is more interest in these contracts as investment options. This causes a lack of convergence between the cash and futures markets, depending on the delivery period. This lack of convergence between the futures and physical markets puts the business hedger of these markets at additional exposure and risk.

The increase in speculative investments in these commodity markets demonstrates there is ample opportunity for increased participation today, and thus no reason to change position limits to stimulate participation. Increasing the speculative position limits is not necessary; in fact, increased limits will hurt end-user businesses that depend on these markets as a relative hedging tool.

AFIA is also aware the CFTC is considering providing an exemption for index funds, while classifying them as hedgers. While these funds may be hedging the invested capital, the initial investments are speculative and thus this exemption should not be allowed. This proposed revision would further distort the relationship between the financial and physical markets. AFIA will address this further in separate comments to CFTC.

AFIA opposes the Commission's recommendation to increase limits for speculators, while exempting index funds from speculative limits. Both these moves will result in increased volatility and reduced ability for the feed and livestock processing industry to effectively manage business risk. The agriculture markets were established to provide an efficient, price discovery mechanism and a hedging/risk control vehicle for the grains and ingredients markets. These functions for the end-user must be preserved in any changes considered by the CFTC.

AFIA appreciates the opportunity to provide comments. Please do not hesitate to contact me if I can provide further information or you have questions regarding the feed industry's position on this recommendation. AFIA looks forward to working with the Commission to ensure the markets remain an effective tool for the end-users.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joel G. Newman', is written over a printed name and title.

Joel G. Newman
President & CEO