



National Grain and Feed Association

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TESTIMONY OF THE NATIONAL GRAIN AND FEED ASSOCIATION

TO THE

**SUBCOMMITTEE ON GENERAL FARM COMMODITIES
AND RISK MANAGEMENT**

COMMITTEE ON AGRICULTURE

U.S. HOUSE OF REPRESENTATIVES

December 15, 2010

Good morning, Mr. Chairman and members of the subcommittee. I am Robert Jones, Senior Vice President of ABN AMRO Clearing Chicago LLC, a futures commission brokerage in Chicago. I serve on the Risk Management Committee of the National Grain and Feed Association (NGFA) and I am here today to represent the views of the NGFA.

The National Grain and Feed Association is the national nonprofit trade association that represents more than 1,000 companies that operate an estimated 7,000 facilities nationwide in the grain, feed and processing industry. Member firms range from quite small to very large, both privately owned and cooperative, and handle or process in excess of 70% of all U.S. grains and oilseeds annually. Companies include grain elevators, feed mills, flour mills, oilseed processors, biofuels producers/co-product merchandisers, futures commission merchants and brokers, and related commercial businesses.

A common thread for NGFA-member firms is that they rely heavily on efficient futures markets to provide price discovery and risk management for their commercial businesses. In particular, consistent and predictable convergence of cash and futures values is of primary importance to the NGFA. Establishing appropriate speculative position limits for the futures contracts utilized by these traditional commercial hedgers is critically important to maintaining the viability of futures contracts for risk management purposes. It also is essential in enabling our member companies to make forward contracting and other risk management tools available to farmer-customers.

We are especially glad for the opportunity this morning to discuss position limits for the enumerated agricultural commodities – that is, wheat, corn, soybeans, livestock and cotton. As

you know, federal position limits already are in place for those commodities. We believe those limits are at appropriate levels and that the process for establishing those limits has worked well. However, the Dodd-Frank Act requires that the CFTC now establish speculative position limits for all commodities, including agricultural commodities.

In the past, the NGFA generally had been supportive of occasional requests by futures exchanges to increase speculative position limits. However, futures price volatility in recent years and vastly increased participation by nontraditional participants has altered the situation and, at times, threatened the viability of exchange-traded futures for commercial grain hedgers. The rapid escalation of agricultural futures prices during 2008, and a resulting disconnect of cash and futures values, dramatically increased risks for grain purchasers/hedgers and caused extreme financial stress due to massive margining requirements. We believe that dramatically expanded participation in agricultural futures by nontraditional participants like index funds and pension funds played a role in the 2008 spike – not the only factor, but a significant one.

Today, conditions exist that could lead to a repeat of those conditions. With investment capital now seeking enhanced returns and many advisers recommending commodities as an investment vehicle, it appears the stage could be set for another investment-fueled spike in futures prices – an increase we fear will be largely unrelated to market fundamentals and could again result in extreme financial stress. If this happens, grain buyers may be forced to limit their purchases from U.S. agricultural producers, as occurred in 2008. Certainly, buyers would be forced to consider tighter limits on forward contract purchases, at the very time that many producers would like to take advantage of favorable prices.

Many members of Congress have heard from producers about wider basis levels in recent years – that is, the difference between cash bids and futures values on-exchange. We believe strongly that artificially inflated futures values, due in part to participation of nontraditional investors, have led to a disconnect between cash and futures. The commodity exchanges, notably the Chicago Board of Trade and the Kansas City Board of Trade, have worked diligently to address the disconnect and to re-establish convergence in their wheat contracts. Getting it wrong on position limits could undo progress the exchanges are making toward enhancing performance of their contracts.

For these reasons, the NGFA believes it would be imprudent for the CFTC to change current speculative position limits for the enumerated agricultural commodities. In particular, we have strong reservations about an approach that would create a combined position limit for over-the-counter instruments and futures based on open interest levels. The logic for not linking speculative position limits to open interest levels is as follows.

The majority of risk management activity involving the enumerated ag commodities utilizes futures traded on-exchange. The practical impact of a combined OTC and futures position limit likely would mean limits effectively ratcheting steeply upward for futures – attracting greater investment and boosting open interest levels – which would trigger increased position limits – leading to yet greater participation levels and increased open interest – and triggering even higher position limits – and so on. We fear the result would be a sort of perpetual motion machine leading speculative investment capital to invest in enumerated ag

commodities in ever-greater amounts, exacerbating artificially inflated futures values and leading us back to even wider basis swings.

Instead, the NGFA strongly urges the CFTC to use proper functioning of futures markets for traditional commercial users and producers as the overriding consideration in establishing position limits. That means that a reliable relationship between cash and futures must be maintained. **Convergence Matters!** Not just sometimes, but consistently and predictably.

We also urge the CFTC to be vigilant in reviewing corporate linkage issues through which investment firms or other nontraditional participants may technically comply with position limits through separate entities, while coordinating positions that would circumvent the intent of the rule. This would seem to us consistent with the Commission's intentions to monitor account ownership and control to help ensure compliance.

Mr. Chairman, all these points lead back to one very important message: enumerated agricultural futures contracts must function effectively for traditional commercial hedgers and their farmer-customers. The NGFA does not favor excluding investment capital from agricultural futures markets. In fact, we believe that a desire to invest in our industry is a good thing. It forecasts growth and economic opportunity for U.S. agriculture and agribusiness.

However, we believe Congress and the CFTC must act prudently to establish reasonable limits on investment in the enumerated ag commodities and help ensure that those relatively small markets are not overwhelmed by investment demand. Ignoring the unique characteristics of the enumerated agricultural commodities when setting position limits could have highly undesirable consequences for U.S. agricultural producers and the traditional hedgers who use these markets for price discovery and risk management.

Thank you, Mr. Chairman, for the opportunity to present the NGFA's views. I would be happy to respond to any questions.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Robert Jones
Address: 175 W Jackson Blvd, Chicago, IL
Telephone: 312-341-7705
Organization you represent (if any): National Grain and Feed Association

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

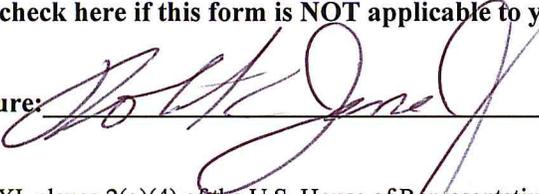
Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

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* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

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**Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. **Name:** _____
2. **Business Address:** _____

3. **Business Phone Number:** _____
4. **Organization you represent:** _____
5. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**

6. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:**

7. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.