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COMMODITY FUTURES CONTRACTS DELIVERY POINTS

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HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING AND CONSUMER RELATIONS

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

SECOND SESSION

ON

H.R. 12494

AUGUST 15, 1972

Serial No. 92-II

Printed for the use of the Committee on Agriculture

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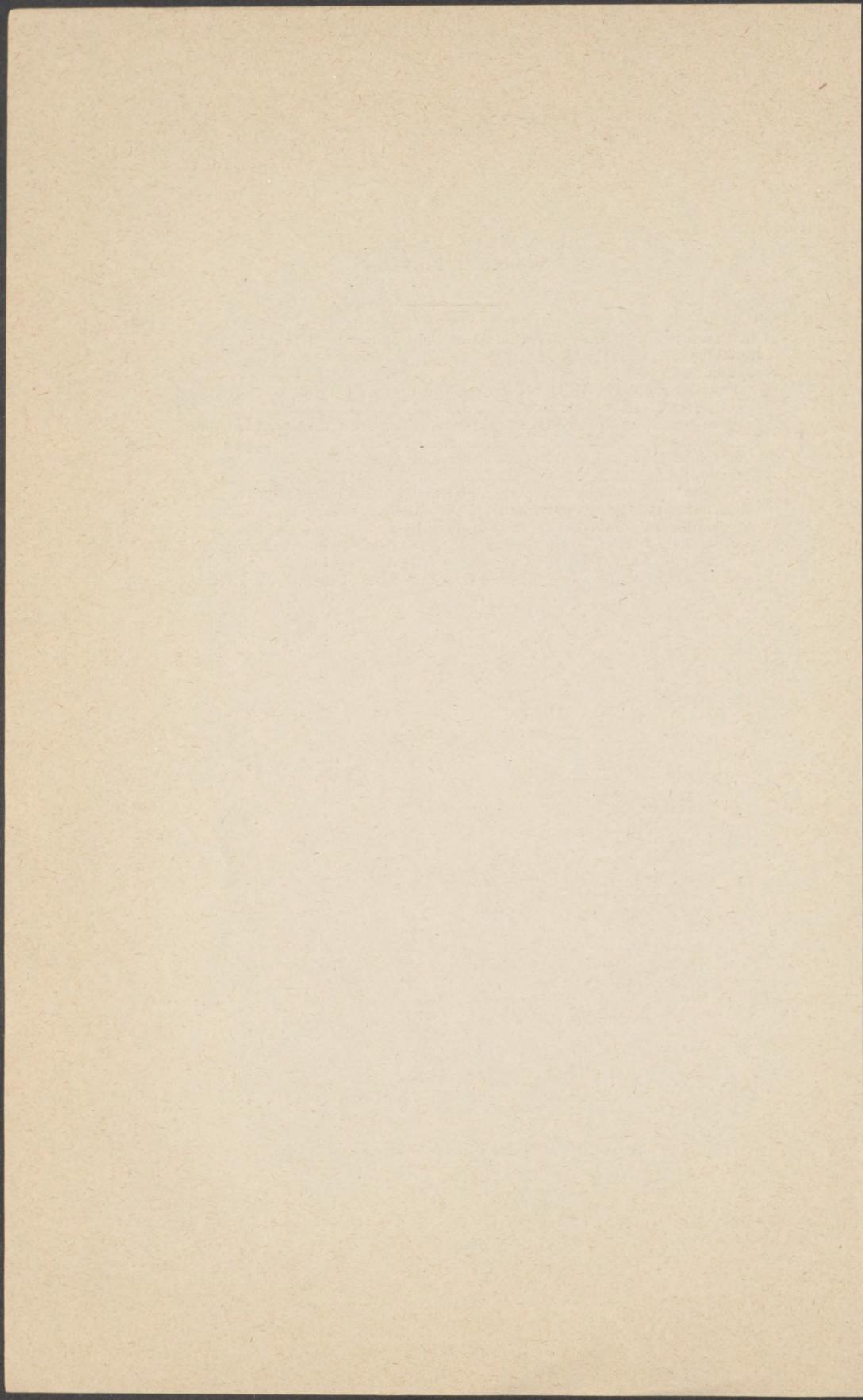
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CONTENTS

	Page
H.R. 12494, a bill to amend section 5a of the Commodity Exchange Act, as amended-----	1
Statement of:	
Frazier, John H., Jr., representing the Board of Trade of the city of Chicago, Ill-----	23
Johnson, Reuben, director, legislative services, National Farmers Union-----	20
Melcher, Hon. John, a Representative in Congress from the State of Montana-----	3
Swantz, Alexander, Associate Administrator, Commodity Exchange Authority, U.S. Department of Agriculture-----	10
Correspondences submitted to the subcommittee:	
Campbell, J. Phil, Acting Secretary, U.S. Department of Agriculture, letter of August 14, 1972, report on H.R. 12494-----	1
Scott, John W., master, National Grange, letter of August 16, 1972----	33



COMMODITY FUTURES CONTRACTS DELIVERY POINTS

TUESDAY, AUGUST 15, 1972

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING
AND CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Thomas S. Foley (chairman of the subcommittee) presiding.

Present: Mr. Foley, Mr. Sisk, Mr. Denholm, Mr. Link, Mr. Zwach, and Mr. Findley.

Mr. FOLEY. The Subcommittee on Domestic Marketing and Consumer Relations will come to order. The subcommittee meets this morning, for consideration of H.R. 12494, by Congressman Melcher of Montana, to amend section 5A of the Commodity Exchange Act designating delivery points under futures contracts.

(H.R. 12494, introduced by Mr. Melcher, and the Department's report, follow:)

[H.R. 12494, 92d Cong., second sess.]

A BILL To amend section 5a of the Commodity Exchange Act, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5a of the Commodity Exchange Act, as amended (7 U.S.C. 7a), is amended—

- (a) by striking out “and” at the end of subsection (6) thereof;
- (b) by striking out “delivery purposes.” at the end of subsection (7) thereof and inserting in lieu thereof “delivery purposes; and”; and
- (c) by adding at the end of subsection (7) thereof the following new subsection:

“(8) permit the delivery of any commodity, on contracts of sale thereof for future delivery, at such point or points and at such locational price differentials as the Secretary of Agriculture, after notice and opportunity for hearing, finds will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce: *Provided, however*, That any order issued hereunder shall not apply to then existing contracts.”

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., August 14, 1972.

Hon. W. R. POAGE,
Chairman, Committee on Agriculture, House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in answer to your request for a report on H.R. 12494, a bill which proposes to amend section 5a of the Commodity Exchange Act, as amended, to require contract markets to “permit the delivery of any com-

modity, on contracts of sales thereof for future delivery, at such point or points and at such locational price differentials as the Secretary of Agriculture, after notice and opportunity for hearing, finds will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce."

We recommend that H.R. 12494 be enacted with the amendments discussed below.

One of the major problems facing futures markets is the failure of certain of these markets to provide adequate delivery provisions. In some cases delivery is permitted at a single delivery point which is no longer a center for trading in the cash commodity deliverable on futures contracts. This creates a situation in which price manipulation becomes relatively simple. A trader by owning a substantial part of, or taking advantage of, the small amount of the commodity available for delivery at the single delivery point can establish a squeeze or a corner in the market far more easily than would be possible in a market with multiple delivery points and an adequate deliverable supply. Operations of this type affect futures prices and render the futures contracts hazardous or unreliable for hedging or price-basing purposes.

The bill would correct a portion of the problem by authorizing the Secretary of Agriculture to require contract markets to permit delivery at points where sufficient amounts of the commodity would be available and where there are adequate storage facilities, and to require proper freight differentials between the various delivery points.

Of equal importance would be an additional provision authorizing the Secretary to require proper deliverable grades and price differentials between grades. The establishment of proper delivery points and locational differentials would to a considerable extent be negated if the terms of the contract call for par delivery of a quality not available at the delivery points or provide for quality price differentials which are not in line with conditions in the cash market.

We suggest the following modifications:

Section 5a of the Commodity Exchange Act was amended by Public Law 90-258 in 1968 and now contains subsections (8) and (9). Sections (a), (b), and (c) of the bill should, therefore, be amended to read as follows:

(a) by striking out "and" at the end of subsection (8) thereof;

(b) by striking out "the Secretary of Agriculture" at the end of subsection (9) thereof and inserting in lieu thereof "*the Secretary of Agriculture; and*"; and

(c) by adding at the end of subsection (9) thereof the following new subsection:

(10) permit the delivery of any commodity, on contracts of sale thereof for future delivery, *of such grade or grades*, at such point or points and at such *quality and* locational price differentials as the Secretary of Agriculture, after notice and opportunity for hearing, finds will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce: Provided, however, That any order issued hereunder shall not apply to then existing contracts.

Proposed new or amended language is in italics.

The Department estimates that the enactment of the proposed bill would necessitate an additional appropriation of \$50,000 for a full fiscal year.

The Office of Management and Budget advises that there is no objection to the presentation of this report and that enactment of this proposed legislation would be consistent with the Administration's objectives.

Sincerely,

J. PHIL CAMPBELL,
Acting Secretary.

Mr. FOLEY. The first witness today will be the distinguished author of the legislation, Hon. John Melcher of Montana. Mr. Melcher, we will be glad to hear from you at this time.

STATEMENT OF HON. JOHN MELCHER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MONTANA

Mr. MELCHER. Mr. Chairman, on January 19 of this year, I introduced H.R. 12494 to authorize the Secretary of Agriculture to designate alternate delivery points for futures contracts traded at commodity exchanges. I requested hearings on the bill and thank you for honoring my request.

Protection against losses due to price fluctuation may be achieved through the use of futures markets to sell or buy a contract of a specified amount of a commodity for delivery at a future date. Such a practice is termed "hedging." Individual producers of agricultural products such as grain farmers, cattlemen and feeders, and grain elevators, flour mills, feed manufacturers, processors, exporters, and farmer cooperatives use the futures market primarily for this purpose. In a market free of manipulation or artificial situations, commodity traders find no necessity for making or taking delivery on their futures commitments. To the contrary, the commercial grain trade develops its own sources for acquiring raw material as well as its own outlets and does not use the futures market for either of those purposes.

Cash prices and futures prices tend to move up and down together reflecting the fact that futures contracts call for the delivery of the actual commodity during the delivery month.

The Commodity Exchange Authority has stated:

In fact, it is the opportunity to deliver that helps to keep cash and futures prices in harmony during the delivery period.

The point at which a contract is to be consummated by delivery may be as important to the purchaser as the date on which he gets delivery or the quality of the product which is delivered to him. Likewise, the seller is equally concerned about his obligation to deliver at some particular place. Obviously a futures contract would be highly unattractive to a purchaser if he might receive delivery at some point not within the normal channels through which the product customarily moves. Conversely the seller of a futures contract might incur considerable financial risk if he could be forced to move the produce which he had sold to some point determined by arbitrary rule rather than by the normal flow of the product.

Most commodity exchanges designate multiple delivery points but the futures markets for grain provide for a single point of delivery, usually the terminal market in the immediate area of the commodity exchange. Commodity exchanges designating multiple delivery points will permit delivery at a number of terminal markets or storage points.

Since futures trading in grain was first inaugurated in Chicago over 100 years ago, other markets in the grain producing area have greatly increased and become relatively important as terminal and processing points in the handling of grain. In the case of wheat, particularly processing and storage has increased in points scattered throughout the Middle West at the expense of Chicago. These changes in the commercial flow of grain, particularly wheat, do not necessarily impair the efficiency of Chicago as a futures market though they do

necessitate a reappraisal of currently existing conditions to determine whether adjustments are necessary to meet these changed situations. It has been demonstrated that a futures market does not have to be located within the area of production or even in the line of normal flow of the product if, in the few events where delivery is required, there are arrangements for delivery at points where the commodity is available.

After a year's negotiations, the Agriculture Department early in July accused two floor brokers of the Chicago Board of Trade with having manipulated the price of wheat futures back in May 1971. In a story in the Wall Street Journal on July 12, 1972, it was stated the Commodity Exchange Authority objected to the wheat contract because it required that such delivery take place in Chicago. The agency believes delivery at other locations should be allowed as well. The story also says:

In the past, Chicago had abundant wheat supplies on hand to supply traders' needs, but the city "no longer is a market for cash wheat and it's fairly easy for manipulators to get control of the limited supply and use it for their own advantage," Mr. Alex Caldwell, Head of the Commodity Exchange Authority, said. "In a manipulative situation, the shorts can buy the future from the person who controls the futures market, or the cash wheat from the person who controls the cash market, and it may be the same person," he said.

Mr. Caldwell added that open positions on the Board of Trade's July wheat contract, which closed July 20, totaled about 5 million bushels, yet the commodity agency counted only 14,000 bushels of deliverable wheat in Chicago earlier in that week. He didn't provide figures for corn, but said the agency is concerned that Chicago-only delivery also creates a climate for manipulation of corn positions.

The entire story that appeared in the Wall Street Journal along with some of my remarks were carried in the July 18 Congressional Record. I am making those remarks and that story a part of this statement if the chairman of the subcommittee will permit me to do so.

(The documents follow:)

[From the Congressional Record, July 18, 1972]

MANIPULATION OF WHEAT FUTURES CONTRACTS

(Mr. Melcher asked and was given permission to address the House for 1 minute, to revise and extend his remarks and include extraneous matter.)

Mr. MELCHER. Mr. Speaker, on January 19 of this year, I introduced H.R. 12494 to authorize the Secretary of Agriculture to designate alternate delivery points for settlement of futures contracts traded at commodity exchanges.

The Commodity Exchange Authority now favors the bill and will make suggestions to strengthen it. The need for its passage is becoming increasingly apparent.

I am putting in the Record at the end of this statement a story from the July 12 Wall Street Journal in regard to manipulation of May 1971 wheat futures contract which underlines the need for every futures contract to provide for delivery to some point where the actual commodity is available in adequate supply.

There is not enough wheat available in Chicago in any month to assure delivery of more than a very fraction of the quantities involved in futures contract requirements. A typical example of the misuse of this situation to manipulate futures contract values is reflected in the Journal's story. It is also reflected in a survey recently made in Chicago by the Commodity Exchange Authority show-

ing only 14,000 bushels of deliverable wheat available there compared to 5 million bushels of July wheat contracts outstanding which must be liquidated by Thursday, July 20.

I have requested the Agriculture Committee to hold hearings and move on this bill this summer.

The bill was originally inspired by manipulation of frozen pork belly contracts late last year. Wheat is only the basis of the most recent complaint. They are much too frequent. The two recent cases of manipulators and others in the past, make it apparent that alternate delivery points should be designated where there is a substantial cash market and commodity supplies and that my bill should be passed.

The Wall Street Journal article follows:

[From the Wall Street Journal, July 12, 1972]

"FARM AGENCY CHARGES BROKERS MANIPULATED WHEAT FUTURES, SEEK REVISED CONTRACTS

"WASHINGTON.—The Agriculture Department accused two floor brokers on the Chicago Board of Trade of having manipulated the price of May 1971 wheat futures. Neither the traders nor officials of the Board of Trade could be reached for comment.

"The charges named only the brokers, Edward A. Cox Jr. and George F. Frey Jr., as respondents. But Alex C. Caldwell, head of the Agriculture Department's Commodity Exchange Authority, said separately that the way the wheat contracts were drawn under Board of Trade rules made the alleged manipulation easier. Mr. Caldwell disclosed he has been negotiating with the Chicago exchange for more than a year to change the contract, but action hasn't been taken so far.

"The present contract makes it very easy for a person to manipulate the market,' the official commented. He said the agency has the power to lift the board's authority to trade wheat futures if the contract isn't improved. However, he added, the agency doesn't plan such action at this time.

"According to the department's complaint, Mr. Cox and Mr. Frey, at the start of trading May 19, 1971, owned or controlled positions in the May 1971 wheat future totaling 2.2 million bushels, or 46% of the total open interest. By 11:31 a.m. of the same day, the Cox-Frey positions represented 97% of the positions still open, the complaint said.

"From May 7 through May 18, the complaint stated, Mr. Cox took delivery of 550,000 bushels of wheat and was committed to acquire another 30,000 bushels May 19. The deliveries 'constituted all of the wheat delivered on the May 1971 wheat future up until May 19,' and with the additional commitment, gave Mr. Cox ownership or control of about '75% of the total stocks of wheat available in Chicago for delivery' on the May 1971 contract, the complaint added.

"As a result, on May 19, 'there was an insufficient supply of deliverable wheat . . . not owned or controlled by the respondents,' as well as of long May wheat futures 'held by persons other than the respondents,' the complaint continued. (A long position is an obligation to accept delivery.) As a result, short holders (who had an obligation to deliver wheat) couldn't satisfy their May contract requirements without purchasing May wheat futures or deliverable wheat from Mr. Cox and Mr. Frey, the department charged.

"The complaint further noted that the May 1971 future price ranged from \$1.615 to \$1.70 a bushel on May 19, and the contract expired that day at \$1.70—'within three-fourths of one cent of the highest price permitted' under Board of Trade rules. Between 11:31 a.m. and the May future's expiration at noon, Mr. Cox sold slightly under 1.5 million bushels and Mr. Frey 525,000 bushels, in both cases at the high price of \$1.70, the department said.

"A hearing on the complaint has been scheduled for Aug. 9.

"As the complaint reflects, commodity short buyers may cover their positions at a contract's expiration by delivering the required amount of the commodity purchased for cash or by purchasing a long position in the same amount. The Commodity Exchange Authority objects to the Chicago Board of Trade wheat contract because it requires that such delivery can take place only in Chicago. The agency believes delivery at other locations should be allowed as well.

"In the past, Chicago had abundant wheat supplies on hand to supply traders' needs, but the city 'no longer is a market for cash wheat and it's fairly easy for

manipulators to get control of the limited supply and use it for their own advantage.' Mr. Caldwell said: 'In a manipulative situation, the shorts can buy the future from the person who controls the futures market, or the cash wheat from the person who controls the cash market, and it may be the same person,' he said.

"Mr. Caldwell added that open positions in the Board of Trade's July wheat contract which closes July 20, currently total about five million bushels, yet the commodity agency counted only 14,000 bushels of deliverable wheat earlier this week. He didn't provide figures for corn, but said the agency is concerned that Chicago-only delivery also creates a climate for manipulation of corn positions."

Mr. MELCHER. The necessity for delivering grain, particularly wheat, at Chicago occasionally requires it to be diverted from normal channels of commerce and also results in abnormal price movements in the expiring futures. The situation can be changed by granting the authority to the Secretary of Agriculture that is contained in H.R. 12494.

Mr. Chairman and members of the subcommittee, that completes my prepared testimony but I would like to add a couple of remarks that I think are pertinent in your consideration of this bill.

Any commodity market group, of course, has their own ideas on how to run their own business, as well they should. However, we are dealing with a great deal of money in commodity futures trading. We are dealing with matters that have a direct bearing on a cash market.

I think what happens in the commodity exchange transcends a much deeper area than just the persons who are engaged in futures trading on that particular exchange. I would also say that it is obvious that on any given commodity exchange there can be divergent viewpoints within the group that controls what the decisions are.

You will hear testimony from representatives of one or more commodity exchanges who will say, let us not legislate here, let business take care of itself and exchanges will provide alternate points of delivery for wheat.

I have gone into some detail in my testimony, citing the recent changes on a particular contract. That is the May 1971 wheat contract on a particular commodity exchange. However, even if there is testimony rendered to you that business will take care of itself and will designate alternate delivery places for wheat it really does not solve the overall problem. That problem is trying to prevent illegal acts or acts that are unfair in commodity futures.

This bill is broad in its effect in that it would give to the Secretary representing the interests of business at large the fact that in agriculture, commodity trading in futures does have a bearing on the market. This bill would permit the Secretary to have the power to designate alternate points for various types of commodities in futures trading and do so to prevent abuse rather than wait until the abuses and irregularities occur because delivery points are not designated where there are sufficient quantities of a commodity.

That is the conclusion of my remarks. I will be glad to answer any questions.

Mr. FOLEY. Thank you very much, Mr. Melcher. Mr. Sisk, do you have any questions?

Mr. SISK. I have no questions at this time.

Mr. FOLEY. Any questions, Mr. Zwach?

Mr. ZWACH. Mr. Chairman, the witness has raised some intriguing points. I think before I have questions, I would like to hear the rest

of the witnesses. However, I have one at this time. Are you really after the designation of alternative delivery points?

Mr. MELCHER. That is correct.

Mr. ZWACH. With regard to corn, I would guess that the delivery point is now Chicago; isn't it?

Mr. MELCHER. That is my understanding, the Chicago Board of Trade.

Mr. ZWACH. Every producer in my area of western Minnesota pays for transportation to Chicago—as I understand it—whether the corn goes there or not. For instance, I have a number of neighbors who produce corn that is purchased by turkey feeders in the immediate area. Every one of those people has deducted the cost of shipping that corn to Chicago so corn is 16 or 17 or 18 cents less to the producer there than it is in Illinois or in some other area. There are some intriguing points here but I would like to listen to the other witnesses before I go into it.

Mr. MELCHER. I am not sure that my bill would alter the differential in the price of corn. The purpose of the bill would allow for various points, as needed, to be designated for delivery on futures contracts. Of course, this would be done after proper hearings.

Mr. ZWACH. For soybeans, for instance, we have a processing plant in Mankato and another one at Dawson, Minn. Could we designate a price at those locations?

Mr. MELCHER. Where alternate points are indicated for delivery of futures trading the commodity exchange generally sets the differential. In the only type of futures trading that I have dealt with—which was cattle—the commodity exchange designated the delivery differential between Chicago and Omaha. It has been several years since I have been active in futures trading. When I was interested and active, the price differential between delivery to either Chicago or Omaha merely reflected the difference in freight between those two points.

Mr. ZWACH. That is all, Mr. Chairman, at the moment.

Mr. FOLEY. Mr. Denholm?

Mr. DENHOLM. I commend our distinguished colleague from Montana on his testimony today. He is a strong advocate for producers and ranchers all over the United States. I commend you, Mr. Melcher for your interest and judgment on the issues before the committee at this time.

Can you elaborate on how the producer is disadvantaged because he does not have alternative points of delivery? Does it cost him money? What happens to his contract on the futures agreement?

Mr. MELCHER. Mr. Denholm, I am sure that if the commodity is not available at the point of delivery in the quantity desired the person who must deliver is at an extreme disadvantage. He cannot deliver the commodity because it is short in supply in that particular delivery point and his contract calls for that commodity to be delivered on that date at that point.

Therefore, to settle the contract he might be paying more than what the actual cash price would be at a delivery point where the commodity was available in adequate supply.

Mr. DENHOLM. Is there any difference between perishable and non-perishable commodities? Is there a difference as to the delivery of livestock as opposed to wheat? Must the producer deliver on the due date of the contract?

Mr. MELCHER. The terms of the contract would call for either delivery of the contract or settlement in money.

Mr. DENHOLM. Is that always the case?

Mr. MELCHER. As I pointed out in my testimony—on a particular contract—that while there were 5 million bushels outstanding represented by that particular contract, there were only 14,000 bushels available in that given area.

Mr. DENHOLM. Are you suggesting then that delivery would be impossible?

Mr. MELCHER. At that particular time.

Mr. DENHOLM. What would that do to a producer? Does the producer then pay in money the contract difference?

Mr. MELCHER. I think perhaps you are not talking about a producer that owns contracts.

Mr. DENHOLM. Suppose a producer is hedging on the futures market. If he cannot deliver then he has to pay, does he not?

Mr. MELCHER. Do you mean if an individual producer happens to own contracts?

Mr. DENHOLM. Yes.

Mr. MELCHER. Certainly, futures trading does not hinge on whether the producers own the contracts or not, nor do they need to accept the delivery of the commodity if they are willing to settle in cash.

Mr. DENHOLM. How would they receive money?

Mr. MELCHER. I am in favor of producers using commodity markets to hedge and protect themselves but it is purely optional whether they do or do not.

Mr. DENHOLM. As far as your bill is concerned what you are providing is more options to the producer-owners of the commodity for points of delivery?

Mr. MELCHER. That is part of it but also there is a broader aspect that has nothing to do with whether producers hedge. If they never hedge, yet through calling for broader outlets a truer picture of the market is portrayed in the futures trading, then I think all producers benefit greatly from that provision.

Mr. DENHOLM. Can producers have more than one place of delivery on most contracts?

Mr. MELCHER. Certainly.

Mr. DENHOLM. They can do that now; can they not?

Mr. MELCHER. The commodity exchanges could designate additional delivery points.

Mr. DENHOLM. Do you know why that cannot be readily done if they have options at Billings, Mont., and Seattle, Wash., as well as Chicago?

Mr. MELCHER. I think we could extend to many delivery points very easily. I don't think a designation of delivery points should just be made at a number of points just to scatter it around. The bill itself requires that the Secretary, before he designates alternate points, must hold hearings and hear testimony and weigh the facts before so designating.

We would have to keep in mind that we want to work for the best interests of the particular market itself and the particular commodity. This intent would only be to assure honesty and stability in the trading of futures, rather than just designating a lot of different points to reflect a broad market.

Mr. DENHOLM. I certainly agree with you. You indicated that it might be illegal or unfair; what is presently going on if that is the case? How can we make it be improved? I am not sure that it is presently illegal but I recall that is the word that you used.

Mr. MELCHER. My attempt, through the bill, is to permit the alternate delivery points where the commodity is actually available so that those who have to settle their contracts could settle their contracts by actually delivering the commodity on the date required.

Mr. DENHOLM. Could you elaborate and explain that concept again?

Mr. MELCHER. Again, I will use the Chicago wheat example. There is not a great amount of wheat available in Chicago. If a contract were to be settled at a delivery date of August 20, 1972, the option of delivering the actual wheat required is not open to the person that must settle the contract. He is dealing in an area where the availability of the wheat is unlikely so he must settle for cash.

In the Twin Cities area, if the grain is there, he can deliver the grain. That may be to his advantage to settle the contract. If he has to do the alternative and settle the contract at Chicago and the grain is not available there and it would require quite a deal of shipping charges to deliver the grain there, then he is inclined to settle the contract in terms of money rather than having the alternate option of delivering the grain itself.

Mr. DENHOLM. I agree with you. I am very concerned about the total impact of futures on the free market pricing system and any undue influence of futures trading as a result of excessive speculation at the expense of producers.

I want to talk with you further, after the other witnesses have testified. Thank you, very much.

Mr. FOLEY. Are there any other questions, Mr. Link?

Mr. LINK. I want to associate myself with the effort of our colleague on the House Agriculture Committee. I commend him for his continuing interest in providing better returns for farmers. I commend him for his introduction of the bill and his testimony this morning.

Mr. FOLEY. Mr. Findley?

Mr. FINDLEY. I have no questions.

Mr. FOLEY. Mr. Melcher, the Chair would like to express appreciation for your very fine statement on behalf of the interest of producers. We are delighted to see you in an official capacity as well as a colleague on the committee. Thank you very much for your testimony this morning, Mr. Melcher.

Mr. MELCHER. Thank you.

Mr. FOLEY. The next witness is Mr. Alexander Swantz, the associate administrator of the Commodity Exchange Authority. He is accompanied by Mr. Ronald C. Callender, the Director of the Trading Division of the Commodity Exchange Authority. We welcome you here this morning, gentlemen.

STATEMENT OF ALEXANDER SWANTZ, ASSOCIATE ADMINISTRATOR, COMMODITY EXCHANGE AUTHORITY, ACCOMPANIED BY RONALD C. CALLANDER, DIRECTOR, TRADING DIVISION, COMMODITY EXCHANGE AUTHORITY, U.S. DEPARTMENT OF AGRICULTURE

Mr. SWANTZ. Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to appear before you to present the U.S. Department of Agriculture's position on H.R. 12494, a bill to amend section 5a of the Commodity Exchange Act. I have with me Mr. Ronald C. Callander, Director of the Trading Division of the Commodity Exchange Authority.

We recommend that H.R. 12494 be enacted with an amended provision covering deliverable grades and price differentials between grades.

A major purpose of the Commodity Exchange Act is to prevent sudden or unreasonable fluctuations in the price of commodities sold for future delivery on regulated commodity exchanges which are not due to fundamental economic factors. The act already contains certain powers to be used by the Secretary of Agriculture or the Commodity Exchange Commission to prevent manipulation of prices, market congestion, price abnormality or the abnormal movement of a regulated commodity in interstate commerce.

As this subcommittee is well aware, transactions and prices of commodities sold for future delivery are susceptible to distortion, manipulation and control and such distortion, manipulation, and control is detrimental to the public interest and the national economy. They affect futures prices and render such futures contracts hazardous or unreliable for hedging or price-basing purposes.

Price distortion, manipulation, or control is made easier, and in some cases encouraged, when the provisions of a futures contract call for delivery at a single point which is no longer a center for trading in the cash commodity deliverable on that contract.

The delivery of a commodity to fulfill a futures contract is an integral part of futures trading. The month of delivery always identifies the futures contract. Thus, when we say the May wheat future at Chicago, we immediately know that if actual wheat is required to fulfill a contract, it can be delivered at any time during the delivery period in the month of May.

In a smoothly working futures market—free of congestion and other impediments—merchants, processors and producer groups find little need either for delivering or taking delivery on their futures contracts. The nature of the commodity business is such that they prefer to develop and use their own sources of supply and sell to selected outlets on the basis of specific grades.

Nevertheless, provisions for delivery under economic conditions must exist if there is to be a relationship between cash prices and futures prices which will enable the futures markets to properly perform their economic role in the marketing of agricultural commodities.

The locational point at which a contract is to be consummated by delivery is as important to the buyer as the date on which he gets delivery or the quality of the product delivered. Likewise, the seller is equally concerned about his obligation to deliver at some particular place. A futures contract would be highly unattractive to a buyer if he might receive delivery at some point not within the normal channels through which the product customarily moves. Conversely, the seller of a futures contract might incur considerable financial risk if he could deliver only at some point not in the normal flow of the product.

In general it would appear that increasing the number of points at which delivery is permitted on futures contracts would make the contracts more attractive to the sellers, as this would tend to broaden the supply available for delivery. This carries with it the thought that a large number of delivery points would increase the uncertainty to the buyers contracts. In actual practice, these problems have been solved satisfactorily by (1) providing delivery points on channels of movement at locations where storage and transportation facilities are adequate and where the product would normally be handled in its movement from producer to consumer, and (2) by providing for appropriate price adjustments for transportation costs when the point of delivery makes such adjustments equitable and necessary.

The goal in selecting delivery points is to insure that geographic location and the supply available at such locations are properly representative of the commodity moving through regular commercial channels, and that the values truly represent the supply and demand conditions. Improper delivery points with restricted storage or holding capacity, situated outside of the normal movement of the commodity to market, or too few delivery points, will produce arbitrary supply conditions which, in turn, become reflected in the futures prices of the contract. Delivery impediments set the stage for exploitation by longs who take advantage of the tight supply situation by squeezing the market, thereby running up values so they can liquidate at manipulated prices. This type of situation creates erratic price fluctuation harmful to the producers and to the hedgers who use the market.

H.R. 12494 is concerned with delivery of any commodity for future delivery at such point or points and at such locational price differentials as the Secretary of Agriculture shall designate. With the chairman's permission, I would like to submit a table showing the number of delivery points on major markets trading in regulated commodities. This table is attached as the last two pages of my statement.

Mr. FOLEY. Without objection it will be included.

(The tables follow :)

NUMBER OF DELIVERY POINTS AND LOCATION FOR MAJOR REGULATED COMMODITIES AND
MARKETS AS OF AUG. 1, 1972

Market and commodity	Number of delivery points	Location of delivery points
Chicago Board of Trade:		
Wheat, corn, soybeans.....	1	Chicago.
Oats.....	2	Chicago, Minneapolis-St. Paul.
Soybean meal.....	20	Points in Illinois, Indiana, Iowa, Ke ntucky, Missouri, Ohio, with basis Decatur, Ill.
Soybean oil.....	30	Points in Illinois, Indiana, Iowa, Kentucky, Minnesota, Missouri, Nebraska, with basis Decatur, Ill.
Chicago Mercantile Exchange:		
Grain sorghums.....	4	Amarillo, Hereford, Lubbock, Plainview.
Eggs (shell).....	118	130 packing plants in Alabama, Arkansas, California, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Washington, Wisconsin, with par at Chicago, Ill.
Potatoes.....	2	Pocatello, Nampa.
Live beef cattle.....	4	Omaha, Sioux City, Peoria, Guymon.
Live hogs.....	7	Peoria, Sioux City, Kansas City, St. Joseph, East St. Louis, St. Paul, Omaha.
Frozen pork bellies.....	36	55 warehouses in Colorado, Georgia, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, Ohio, Oklahoma, Texas, Wisconsin, with par at Chicago, Ill.
Citrus Associates of the New York Cotton Exchange:		
Frozen concentrated orange juice.....	16	Citrus section of Florida.
Kansas City Board of Trade: Wheat, grain sorghums.		
Wheat.....	1	Kansas City.
Minneapolis Grain Exchange: Wheat.....		
Wheat.....	2	Minneapolis/St. Paul, Duluth/Superior.
New York Cotton Exchange: Cotton (Contract No. 2).		
Cotton.....	5	New Orleans, Greenville, Memphis, Galveston, Houston.
New York Mercantile Exchange:		
Potatoes (Maine).....	Various	Shipping points in Maine.
Imported frozen, fresh boneless beef.....	3	New York, Philadelphia, Tampa.
Pacific Commodities Exchange, Inc.: Coconut oil.....		
Coconut oil.....	3	San Francisco, Los Angeles, New York.
Wool Associates of the New York Cotton Exchange:		
Fine and crossbred wool.....	7	Boston, Minneapolis, Kansas City, Columbus, Charleston, San Angelo, Salt Lake City.

Mr. SWANTZ. One can note that most futures markets except the grain markets have more than one locational point where deliveries can be made. The wheat, corn, and soybean markets at Chicago, for example, have only Chicago as the delivery point.

The Department is on public record against the present wheat contract at Chicago mainly because of the delivery point provisions. For some years we have been concerned with the series of "squeeze" situations that have prevailed in the Chicago market that we consider are violative of the Commodity Exchange Act and its price manipulation provisions or which represent price distortions. Such situations have developed mainly because the tight supply condition, which the single delivery point fosters, invites exploitation. Chicago is no longer a real terminal market for wheat and the supply at Chicago, the only delivery point, has not been large enough to support the needs of the market. I am sure the committee has heard of the 1963 May wheat future on which Cargill was charged and found guilty of price manipulation.

We recently issued a complaint charging price manipulation in the 1971 May wheat future on the Chicago Board of Trade. We allege that two traders took advantage of a limited supply situation in Chicago to cause artificial prices.

Although the supply of deliverable corn and soybeans in Chicago in recent years has not been as limited as the deliverable supply of wheat, the end of the marketing season in these two commodities, when there is a close supply-demand balance, also calls for a broader supply base.

We feel that the addition of other delivery points would protect the contracts in these two commodities from developing tight supply conditions in the delivery period.

This bill would correct a gap in the Department's authority over delivery points and deliverable grades.

The Secretary has adequate authority in this area when a board of trade proposes a new futures contract or wants to amend the terms of a contract. Section 5 of the act directs the Secretary to designate a board of trade as a "contract market" when, and only when, such board of trade provides for the delivery of commodities upon the terms and conditions and at a delivery point or points approved by the Secretary. We used this authority recently to get a market to select seven delivery points in seven different States—all in the normal marketing channel for wool—as delivery points for a new wool contract. The Department also has authority over questions of delivery points and deliverable grades when an exchange wants to amend its contract terms because the Secretary must approve any changes in exchange rules connected with contract terms.

The problem that can be corrected by this bill arises when an existing futures contract has not been updated to reflect changed marketing conditions. If the Department now concludes that additional delivery points are needed to prevent price distortions or to reduce the possibility of price manipulation in a market, the only courses of actions we have are (1) to encourage the exchange to change the contract terms voluntarily or (2) to take the drastic action of canceling the designation of the exchange to conduct trading in that commodity.

We can illustrate this situation by taking the futures contract for wheat on the Chicago Board of Trade as an example. This contract was first approved for trading by the Secretary on May 3, 1923. At that time the contract called for a single delivery point in Chicago, and it still does. In 1923, Chicago was a major terminal market and directly in the normal marketing channels for wheat, but this is not true today. The CEA has urged the exchange to study how the contract terms might be improved and to take steps to make the needed changes in the contract. We have done what we could to have the exchange amend the wheat contract, short of taking steps to revoke the exchange's designation as a contract market. That drastic step would halt all trading in wheat futures and deprive the marketing system of the hedging and price-basing services of that market.

We favor the enactment of this bill with our proposed amendment as a desirable and necessary remedy to a situation of this kind.

We recommend an addition to the proposed bill which would authorize the Secretary of Agriculture, after appropriate public hearings, to require such deliverable grades and price differentials between grades as will tend to prevent or diminish price distortion or price manipulation. The establishment of proper delivery points and locational differentials would be of little use to the market if, for example, the terms of the contract call for par delivery of a quality not available at the delivery points or provide quality price differentials which are not in line with conditions in the cash market.

This proposed amendment concerning deliverable grades and grade differentials would provide the Secretary with the authority he would

need to handle problems connected with the delivery process that lead to price distortion or price manipulation.

In our legislative report we suggest a minor editorial change to have the proposed subsection identified as (10) because section 5a (7 U.S.C. 7a) of the Commodity Exchange Act was amended by Public Law 90-258 in 1968 and now contains subsections (8) and (9).

As a final point, Mr. Chairman, we would like to mention that this bill requires the Department to go through the process of holding public hearings and receiving testimony from all interested persons on a question of proper delivery points and proper deliverable grades. The Department would have to, and of course would, consider all evidence and testimony of the exchange and the commodity trade involved in arriving at a decision. At the same time, an exchange still has its present authority—and responsibility—to solve these problems on their own, and we would encourage them to do so.

This bill will, however, enable the Department to have more authority in reviewing the provisions of existing futures contracts to insure that contract markets permit delivery at points where adequate supplies of proper deliverable grades of a commodity are available. With this needed authority, we will be better equipped to achieve the objectives of the Commodity Exchange Act.

Mr. Chairman, that concludes our statement. We will be happy to answer any questions you or members of your subcommittee may have on this issue.

Mr. FOLEY. Thank you very much, Mr. Swantz. Are there any questions for Mr. Swantz? Mr. Sisk?

Mr. SISK. Mr. Swantz, in connection with the matter that you illustrated regarding the wheat contract—which I believe dates back to 1923—I note in some testimony which apparently we will be hearing in a few minutes, a statement by Mr. Frazier of the board of trade, regarding some studies that they have going on.

To what extent has the Department discussed with the Chicago Board of Trade the changes in this wheat contract? Have your office and the Department been urging these people, over a period of time, to make these changes?

Mr. SWANTZ. Yes, sir.

Mr. SISK. What generally has been the attitude of the exchange? How do they justify a situation in effect for 50 years or 49 years? Since Chicago is no longer a central delivery point for cattle and many other things, I don't understand. Do they seem to be arbitrary in their operation?

Mr. SWANTZ. Mr. Sisk, let me say this. This contract has not been out of date for 49 years.

Mr. SISK. I recognize that but we are talking about a contract that is approximately that old.

Mr. SWANTZ. It has been within the last few years that the problem has become more crucial. We have urged the Exchange to look at this. At this point, the only thing we can do is urge them. We have discussed it with the officials of the exchange. They have undertaken studies to see what delivery points might be added. It is a complex issue in that various members on the Board may have different interests in which points should be designated.

It has taken them considerable time to try to resolve these issues and study it and come up with a board action which would make that change. As I understand it, they are ready to take formal action soon on that particular contract.

Mr. SISK. Without in any way attempting to put you on the spot, based on your Department's analysis of this situation—particularly with regard to wheat—what is the Department's general view in regard to possible alternative delivery points at this time, 1972? Would you make any comment on that? I recognize we are speculating but I am curious to know what positions or attitudes your Department reflects in connection with possible alternatives for wheat delivery.

Mr. SWANTZ. Our basic position is that they should designate additional points. We left up to them what would fit that category.

Mr. SISK. If, perchance, this bill were enacted as written with your amendment—I believe you do propose some additional thought in connection with grades—the procedure would be then for a hearing to be held. That is, before any such designations would take place there would be a hearing. Do I understand that or, would you act without a specific request?

Let us say that there is a request for Houston or Kansas City or Denver to be designated, would there have to be a request for that particular point? How would that procedure come about if this bill became law?

Mr. SWANTZ. It would come about in two ways. One of them is that the representatives of the interests in these other cities would go to the board of trade. They would make suggestions to the board which the board of trade might or might not go along with. Some exchanges do that.

On the other hand, if all that should fail, I could visualize them coming to the Secretary of Agriculture with their proposal.

I would visualize that we would study the proposal and see if it had merit. If it did have merit and if there were a problem in this particular contract, and this would seem to correct that problem, we would meet with the board of trade and try to work it out with them and encourage them to take their own individual action on it.

Our use of this authority would be as a last-ditch effort. If for some reason or another—whether it be the internal policy of the exchange itself or any other reason—they could not bring it to a decision point, then the Secretary of Agriculture would call a hearing on the matter.

I would visualize that our own people would put in testimony at the hearing. We also would ask the exchange officials to do this. We would gather all the evidence and evaluate it. At the conclusion of the hearing, I would visualize that the board of trade itself might decide that they needed to go ahead on their own.

However, if they did not, as a last resort the Secretary of Agriculture could make a decision that they should have additional points.

Mr. SISK. In other words, what you are saying is that you would not anticipate the Secretary, on his own initiative, would initiate alternative points without specific requests from groups or areas who might desire such a change; am I right? Would you anticipate, under this bill, that the Department itself would initiate action or would it rather await requests for changes?

Mr. SWANTZ. I would think both ways, sir. There may be situations where our continual surveillance might suggest an alternative. If the Board of Trade would not act on its own, we might be in the situation where the Secretary might want to call a hearing on it.

Mr. SISK. That is all I have, Mr. Chairman.

Mr. FOLEY. Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman. Mr. Swantz, on page 4, in the second paragraph of your statement, you make this statement:

One can note that most futures markets except the grain markets have more than one locational point where deliveries can be made. The wheat, corn, and soybean markets at Chicago, for example, have only Chicago as the delivery point.

Would you give other examples of commodities that have just one outlet?

Mr. SWANTZ. Yes sir, the New York Cotton Exchange.

Mr. ZWACH. That relates only to cotton.

Mr. SWANTZ. Also, the Chicago Mercantile Exchange delivers potatoes at Pocatello, Nampa.

We tried, in our table, to give you examples.

Mr. ZWACH. Yes; I see you have it in the table. How would additional outlets help the producer of these commodities—the farmer? This is my major concern. The people who sweat for the products and go through all the work. How would this help the producer?

Would it give him the opportunity for a better price?

Mr. SWANTZ. It would help him in two ways. One of them is, of course, his prices in grains are based upon the base prices of the Chicago Board of Trade.

If those prices get out of line, the producer can be hurt by that. Additional delivery points would keep the prices truly reflecting supply and demand. He would benefit that way.

The other way is if the producer, himself, were hedging and wanted to go through the delivery process. If the delivery point is in the marketing channel where his product naturally flows to market he can make delivery on the way to market. He does not have to haul it out of the way.

Mr. ZWACH. Might you designate Minneapolis as a delivery point for corn and soybeans?

Mr. SWANTZ. Sir, Minneapolis has been designated as a delivery point for oats to correct that particular problem.

Mr. ZWACH. Would this be a force act to give you some leverage to implement this without the total agreement of the Chicago Board of Trade?

Mr. SWANTZ. Yes, sir; we encouraged them and they went along with it and we got it done. What we are saying on this bill is that we can encourage them or we can put them out of business. We are looking for something in between.

Mr. ZWACH. The price of corn in the futures at Chicago is based there at zero transportation costs; is that the assumption here? As you move out, is the transportation to Chicago always added and deducted from the price to the producer?

Mr. SWANTZ. Yes, sir.

Mr. ZWACH. For instance, at Appleton, Minn.—I have been keeping a market report—last week corn was \$1.07. In Chicago, it was around \$1.20. Would you happen to know exactly what the corn price was in Chicago last week?

Mr. CALLANDER. There would have been in the area of a 13 or 14 cent difference. Sir, on August 11, the corn for the September future—which is the nearest to maturity—was at \$1.27 $\frac{5}{8}$.

Mr. ZWACH. What was the cash price?

Mr. CALLANDER. I don't have that here, sir.

Mr. ZWACH. In an elevator in my district, there was surplus corn which was selling for poultry feed. It was not going to Chicago at all. Not much of our corn goes to Chicago. Why should our producers pay transportation to Chicago on every bushel they produce and then pay transportation to the turkey feeders in Willmar or Paynesville in my area? It seems to me that this is a tremendous injustice to the producers of corn in my area. If we could designate some correction so that we charged them for transporting only the corn that they actually ship to Chicago then there would be some justice.

Now, let us go to the loan rate in Lincoln County which is 97 cents a bushel for corn. In every California county it is \$1.26 a bushel but in my district the loan to the producer has all of this transportation deducted from him. In what way would this legislation help to correct what I figure is a very grave injustice to people in my congressional district?

Mr. SWANTZ. I think the situation you describe is basically, an economic fact of life. You happen to be located in an area that is economically advantageous in the production of corn.

Mr. ZWACH. It is what?

Mr. SWANTZ. It has an economic advantage in the production of corn.

Mr. ZWACH. We have an economic advantage in the production of corn?

Mr. SWANTZ. In other words, in pricing theory, if you start with the area where they have an economic advantage—where they can produce the crop cheapest—that will be the lowest priced area. As you move out, then the prices generally increase to reflect the transportation costs. That is an economic fact of life and this bill does not go to that.

Mr. ZWACH. We are going to be getting to that as we spend our time here. If you would designate Mankato, Minn., as a delivery designation for soybeans wouldn't our soybeans go out at about 10 cents a bushel and eliminate the Chicago price?

Mr. SWANTZ. I think the probable decision would be that the price at the various delivery points would reflect different locations and would reflect higher or lower prices.

Mr. ZWACH. It would still reflect delivery to Chicago even at a new designated place?

Mr. SWANTZ. Yes; I think to work, these other locations would have to.

Mr. ZWACH. More and more of our soybeans are fed at the local level, to hogs and turkeys, and cattle and poultry. Yet, on every bushel

that is produced they pay the price to Chicago for freight and they then pay the freight on the livestock when they sell the livestock.

I can understand that when I sell my cattle I must pay the freight. However, I see no reason for paying the freight to Chicago when my product never goes to Chicago.

You can see the grave injustice that throws on the producers of my district. We are not going to rest here in Washington, until we find some answers. It is time we take a careful look at the loan rate in my county which is 97 cents when every California county has a rate of \$1.26. My district has the lowest rate in the United States.

Mr. SWANTZ. Another way of looking at it might be that anyone from your district who does move his grain to Chicago should receive more money.

Mr. ZWACH. I think he should pay the freight if he sends it to Chicago. I don't think he should have to pay if he sells it to a neighbor for feed.

Should people pay freight on a product if they do not ship it? This is the basic question involved.

Mr. SWANTZ. Sir, it is not in this bill. However, if another delivery point were designated it would have to reflect these locational price differences.

Mr. ZWACH. Who decides that corn in Appleton should be \$1.07, what sets that price?

Mr. SWANTZ. The Department of Agriculture and the industries set that. With regard to the loan rates, that would be the Department of Agriculture.

Mr. ZWACH. What about with regard to the market price?

Mr. SWANTZ. The futures market price?

Mr. ZWACH. No, not the futures, the cash price.

Mr. SWANTZ. The futures market contract would provide that that would be set by the exchange.

Mr. ZWACH. What about transportation from Appleton? Appleton producers pay freight to Chicago on every bushel they grow although very little of it is ever shipped to Chicago. That needs checking into. Thank you very much, Mr. Chairman.

Mr. FOLEY. Are there any other questions? Mr. Findley?

Mr. FINDLEY. Mr. Swantz, have other alternatives to this delivery problem been presented to you? For example, instead of placing in the hands of the Secretary the rather wide range of authority in this regard, could the law contain the provisions that the board must provide at least two or more delivery points and some language as to distance between these points? In other words, is this the only way to meet this problem?

Mr. SWANTZ. One thing that pops into my mind in requiring two delivery points is there are situations where one point may serve the needs of the contract and one may be enough.

Mr. FINDLEY. I assume that the board of trade thinks that one is enough for wheat now?

Mr. SWANTZ. No, sir; I think they recognize that they have a problem and want to designate additional delivery points.

Mr. FINDLEY. Have you or the Office of Management and Budget made any estimate as to the additional cost that this legislation might require?

Mr. SWANTZ. Yes, sir, we visualize the maximum cost would be \$50,000 per year. We would have to hire an economist and a statistician to analyze these situations and to see which situations might require some changes.

Mr. FINDLEY. It would not require the additional employment of CEA people at the delivery points?

Mr. SWANTZ. No; another cost would be the cost of holding hearings and the office of the general counsel has some costs. We visualize it would be very minimal.

In the long run we would hope it would save money in the sense that we would not have to go through price manipulation hearings.

Mr. FINDLEY. Has the CEA ever canceled a contract?

Mr. SWANTZ. In the early days of futures trading, the Chicago Board of Trade did lose its designation temporarily but since then, no. It is such a drastic action.

Mr. FINDLEY. You say temporarily. Was that a contract cancellation?

Mr. SWANTZ. It involved the right of cooperatives to be clearing members to trade and whether the board would or would not accept them. It involved their losing their designation. They appealed the matter to the court but before the thing was legally resolved, the board of trade admitted the cooperatives and they resumed trading.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. FOLEY. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman. Why are you for this bill?

Mr. SWANTZ. As I say, we only have two ways to solve this problem. One is to keep urging the exchange, writing letters, and talking to them. The other way is to put them out of business.

Mr. DENHOLM. What is the problem?

Mr. SWANTZ. In this particular case designating additional delivery points in the normal channels of trade so that people who make and take delivery can get it while it is in the normal channel of trade.

Mr. DENHOLM. Does the Department contend that there is an injustice in the trade, and if so, please explain.

Mr. SWANTZ. No, sir; that is not involved. The only thing we are concerned with here is with the tight delivery supply in Chicago it is possible for traders to attempt to manipulate that price. We want to eliminate that so that whatever rise comes out of the marketing system will truly reflect supply and demand.

Mr. DENHOLM. The Department of Agriculture has a long history of that; don't they?

Mr. SWANTZ. I don't think I can comment on that.

Mr. DENHOLM. Your response to Mr. Zwach's question indicates that you are suggesting different prices for different delivery points.

Mr. SWANTZ. The individual farmer's attempt to get a good price is a worthy effort but it really does not affect the nationwide price. The situation we are discussing here is where a couple of traders are on the Board of Trade.

Mr. DENHOLM. Then you are concerned about an unjust enrichment at somebody's expense. You previously said that was not the problem.

Mr. SWANTZ. I did not understand what you meant by unjust enrichment.

Mr. DENHOLM. If you have the authority to determine different levels of price, how will it be advantageous to producers as opposed to unfair and unjust enrichment of a few who are speculating? I want to know how you propose to control speculation?

Mr. SWANTZ. In this case, if there had been at least one other delivery point for Chicago in the normal channels of trade, there would have been more delivery on the market.

Mr. DENHOLM. Will that tend to increase or decrease prices?

Mr. SWANTZ. In this case, it would have kept the prices from going up the 9 or 10 cents that they went up in 1 day.

Sir, nobody benefits from a 1-day price action that goes 9 or 10 cents out of line. If it does anything, it forces somebody to go out of their way and bring in extra wheat and incurs extra costs that would not be beneficial.

Mr. DENHOLM. Will there be a trend to stabilize the prices to producers if we adopt the legislation?

Mr. SWANTZ. I would say that it would tend to do that because we would hope that it would eliminate these erratic prices.

Mr. DENHOLM. Thank you; that is all.

Mr. FOLEY. Are there any other questions of Mr. Swantz or Mr. Callender? We appreciate your testimony. If you could, we ask you to remain in the hearing room. There might be some technical questions that might arise. Thank you, gentlemen.

Mr. FOLEY. Our next witness is Mr. Reuben L. Johnson, the director of legislative services of the National Farmers Union. Mr. Johnson, we welcome your testimony this morning.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. JOHNSON. Mr. Chairman and members of the subcommittee, the National Farmers Union is in full support of H.R. 12494 which amends the Commodity Exchange Act to authorize designation by the Secretary of Agriculture of alternate delivery points for settlement of futures contracts traded at commodity exchanges.

We have touched base with officials of the Farmers Union Grain Terminal Association who have informed us of their support for such legislation dating back over a period of years.

We should like to commend the leadership of Congressman John Melcher in bringing to the attention of the members of the House Agriculture Committee the violations possible under a system where Chicago continues to be the only point of delivery in the settlement of futures contracts.

I will not go into any great detail, but would like to make reference, as Congressman Melcher did in his House floor statement on July 18, to the Wall Street Journal article dated July 12. The Journal article cites a specific example which came to the attention of Mr. Alex C. Caldwell, head of the Commodity Exchange Authority in the USDA. In this example it is shown how two parties were able to control supplies of available wheat so that those who had an obligation to deliver wheat could not satisfy their contract requirements without purchasing wheat futures or deliverable wheat from the two parties involved. The legislation before the subcommittee would pro-

vide for alternate delivery points in the settlement of futures contracts and thus would discourage abuses such as the one related in the Journal article.

We hope the subcommittee will move promptly to report the bill to the full committee and that it may pass the House and the Congress itself before the end of this, the second session of the 92d Congress.

Mr. FOLEY. Thank you very much, Mr. Johnson. Are there any questions of Mr. Johnson, Mr. Zwach?

Mr. ZWACH. Thank you, Mr. Chairman.

Mr. Johnson, in what ways do you think this would help the producers?

Mr. JOHNSON. It is difficult to try to relate the producer with these interests, as he is on his farm, to trading in futures.

Most producers don't really understand the process. Very few of them are currently using the process to hedge although, many of them could profit by doing so. The point that you raised earlier about the establishment of these loan rates which reflect freight differential cause wide variations in the loan rate. They have been of concern to us for some time.

Mr. ZWACH. I appreciate that.

Mr. JOHNSON. At one of the policy meetings in the Farmers Union, we went on record favoring a uniform loan level throughout the Nation. We came, with this, to the Department of Agriculture. The administrators of the loan program over there said this was not workable. You had to have some kind of variable here to allow for freight differential in order to get any kind of equilibrium in market prices that resulted from these loan prices.

They make a point that you have to listen to but it still does not solve the problem that you have, which is that, simply because they happen to be undesirably located in terms of their farm operation, they are penalized in paying their costs.

Frankly, I do not know what the answer to that is but I think there must be some way to get more equilibrium and still not disturb the economic forces which the administration says must be in there.

Mr. ZWACH. Wouldn't you think it would be possible to have enough differential that would just indicate the amount of grain that was actually shipped to Chicago? Would there not be a way of doing it on the amount of production that actually was shipped?

Mr. JOHNSON. In an area where you feed locally most of the production it would seem silly to set the loan rate on the theory that all production was being shipped. This would be one solution but, somebody would say, how are you going to tell how much grain stayed there and how much moved out? I think it would be desirable to have some change made in areas where it is locally used.

Mr. ZWACH. We are going to be pushing on this to see what has caused this tremendous differential.

Mr. JOHNSON. One of the great strides forward that cooperatives got was when they were permitted to become bonafide members of the commodity exchanges.

You heard some of the recitation of the history that got these cooperative associations into this position. I think, basically, in terms of my organization's interest in this bill, it, too, is to express the view of associations who tell me they are in favor of this bill. I would

assume here that there is a good likelihood that the reason that GTA is in Minneapolis is that that area would become an appointed area for wheat if this legislation was passed.

Mr. FOLEY. Are there any other questions of Mr. Johnson?

Mr. DENHOLM. I would like to commend Mr. Johnson for coming here in support of the interest of producers. I know of the excellent work of his organization. I have one question for you. Will this proposal affect the market quotations at Minneapolis and Chicago and other points of delivery? Do you foresee how this might affect the market quotations for your substations?

If there was a point of delivery at Aberdeen would that be a quoted market?

Mr. JOHNSON. It could affect market quotations. If you are talking about cash market quotations, it could but it would be indirectly. It would not do it any differently than it is done currently under the futures trading. It can, conceivably, in recognizing the economic forces to a greater degree that would exist at that cash-market point—it could influence that cash market quotation.

I do not think it would be of major impact to a country point.

Mr. DENHOLM. Thank you.

Mr. FOLEY. Mr. Link?

Mr. LINK. Thank you, Mr. Chairman.

I would like to thank Mr. Johnson for coming and expressing the wishes of the farmers. I must share, to a considerable degree, the concern that our colleagues on the committee have expressed in the matter of price differential.

It is recognized that western North Dakota and eastern Montana sustain the highest transportation costs of the movement of wheat of any other place in the United States.

Anything that your organization can do, Mr. Johnson, and anything that we, in the Congress, can do to alleviate this additional burden certainly is commendable.

The loan rate on wheat for the 1971 crop was \$1.05 in our area. That is rockbottom. This reflects the disparity between the market points. I think it is an injustice to the producers because the contribution these people make to the economy of the country are as important as those made by other people in more favored marketing price areas. I commend you for your effort.

Mr. DENHOLM. Will the gentleman yield, please? If it would provide a location different than the point of delivery then we might avoid charging every producer freight on commodities that have never been shipped.

Mr. ZWACH. Your district is next to me. We are in the same situation geographically, so your district is penalized just as is mine.

Mr. JOHNSON. I mentioned the interests expressed here about these loan rates. Our organization certainly would like to see more attention given to this area. We pledge our cooperation.

Mr. FOLEY. Mr. Johnson, I think within a few months we are going to be examining wheat certificates and other things as we consider the 1973 amendment to the Food and Agriculture Acts. I know you will be helping us then.

Thank you very much, Mr. Johnson. We certainly appreciate your appearance.

Our final witness will be Mr. John H. Frazier, appearing on behalf of the Board of Trade of the city of Chicago, Ill.

STATEMENT OF JOHN H. FRAZIER, JR., REPRESENTING THE BOARD OF TRADE OF THE CITY OF CHICAGO, ILL.

Mr. FRAZIER. I am deeply grateful for this opportunity to present the views of the Chicago Board of Trade with reference to H.R. 12494, which proposes amendments to section 5(a) of the Commodity Exchange Act, as amended.

I am a member of the Chicago Board of Trade and my livelihood depends on the fair market.

Section 5(a) of the act spells out the principal requirements imposed upon contract markets, such as prompt furnishing to the Secretary of Agriculture of all bylaws, rules, regulations and resolutions; the maintenance of records of all proceedings, providing reports, et cetera, and the enforcement of internal rules.

This proposal increases the duties of the futures market by adding the following subsection:

(8) permit the delivery of any commodity, on contracts of sale thereof for future delivery, at such point or points and at such locational price differentials as the Secretary of Agriculture, after notice and opportunity for hearing, finds will tend to prevent or diminish price manipulation, market congestion, or the abnormal movement of such commodity in interstate commerce: *Provided however*, that any order issued hereunder shall not apply to then existing contracts.

This places a degree of power in the hands of the Secretary of Agriculture, which we believe is unnecessary and could be counterproductive.

We believe that a delicate balance must exist between the desire to protect those who trade and the widest economic use of the market. Without a sufficient volume of trade, the market cannot perform the service for which it exists. Commodity price fluctuations cannot be avoided, but an adverse effect can be minimized and its role as an allocator of public resources facilitated if fluctuations can occur in a public market where factors influencing them can be assessed and anticipated.

An active and well conducted futures market is the nearest approach to perfect competition in price making that the record of economic and commercial development has to offer. Competitive price making in futures is the opposite of imperfect competition and monopoly. History teaches us that market trading, fairly and freely conducted, is a standing safeguard against those who—human nature being what it is—would much prefer to seek their advantage in special or monopolistic privileges. The commodity futures system could not have become standard commercial practice in the United States if it had not become associated with the public interest, if it had not proved its capacity—in spite of many trials and errors—to stand as a bulwark against monopolistic forces in marketing.

The Chicago Board of Trade believes fundamentally that all its contracts should be based on the following basic principle: (1) Since they must serve all segments of society, their terms of trade must be

equitable and thereby serve the public interest. (2) The futures markets must be fairly and openly conducted to avoid special economic advantage to either party to the transaction. (3) The terms of contracts must be such that the forces of supply and demand are reflected in changing prices available to everyone and possible participation in the price-making process by anyone with the requisite financial ability. (4) The contracts must provide a system of equitably shifting the risks from producers, handlers, and processors to those who wish to assume them, with the possible attendant profits and losses. This system minimizes marketing costs.

Fundamentally, the major purpose of Federal regulation under the Commodity Exchange Act is that of maintaining fair play and honest dealing in futures trading. It is of vital importance in maintaining equity in the pricing and marketing of farm products on all commodity exchanges and on all markets.

There are basic economic forces which impel futures markets to be constantly aware of the need for possible changes in the contracts. We wish to assure this committee that we are continually examining the economic forces at work through our commodity committee contract system to ascertain first whether changes are needed in the contracts, including addition of delivery points. For example, we have eliminated trading in rye futures.

Another important factor in these analyses is the change in agricultural policy. We see ahead a trend toward market prices above the loan levels and greater relative storage of grains by farmers using the loan and resale programs. This major significance factor is resulting in our experiencing greater use of futures contracts in an effort to hedge against the greater risks.

Still, another essential factor for a healthy futures market is a high degree of competition by buyers and sellers. We must be sure that the participants on both sides of a trade are adequately protected. This condition must exist in futures markets if the market is to attract participants. There must be every effort made so that the market will not be manipulated, either intentionally or unintentionally. We are not always successful. However, the record will show how few are the cases even of alleged manipulation in markets involving billions of bushels of trading activity.

Professor Lerner in his book "Economics of Control" said:

A man who does not consider himself to have any influence on the market price but who believes that the price is going to rise or is going to fall quite independently of his own actions, and who buys or sells in an attempt to make a profit, is a simple or productive speculator. We may call such an individual a speculator with a small "s". He takes a single product available at one time and turns it into a single product available at another time.

All perfectly competitive speculation is in the social interest whether the optimum division of each factor between its different products is reached or not.

Fundamentally, the activities of a large number of people can be coordinated in only two ways. One of these is by central direction which is the technique of the States; the other of these is by voluntary cooperation which is the technique of the marketplace and of arrangements involving voluntary exchanges.

If the concept of voluntary cooperation is to function, it must rest fundamentally on the proposition that both parties are beneficiaries.

If it is voluntary and reasonably well informed, the exchange can only take place when both parties benefit.

The essential feature of the well run futures market is that it enables people to operate voluntarily in extremely complex situations, with a truly competitive price visible to all.

The USDA attempts to fix loan rate differentials by counties and terminal markets and qualities are known, by those who study them carefully, to rarely reflect current market conditions. They are based on historical evaluations with some degree of noneconomic factors. Errors in setting delivery points and market differentials can cause irreparable damage to the markets. We are sure that USDA will have to hire additional personnel—not now available in USDA—to determine the differentials specified in this amendment. It will take these people years to acquire the expertise required to implement this legislation. We know just how difficult it is to find these experts.

I wish to emphasize this concept of complexity involved in pricing commodities in a free market situation.

Recently, after considerable study and requisite analysis to meet the four objectives mentioned, we announced a revision of the oats contract, increasing the number of delivery points and setting forth the locational price and quality differentials. Also, we have recently changed the soybean meal contract. We must be sure that any change must reflect and be in harmony with the fundamental characteristics of complicated market situations, which have one universal characteristic, i.e., they are ever changing. To assure ourselves that the basic principles are met, we have used and will continue to use the best outside experts to insure viable contracts which provide—equity to all segments.

We have been analyzing the possibility of changing the wheat contract of the Chicago Board of Trade for some time. Let me share with you some of the statistical and economic complexities with which we have been wrestling. These include but are not limited to:

(1) The changes in areas of production of Soft Red wheat; (2) the changes in wheat marketing and distribution; (3) changes in availability for freight cars and the freight structure; (4) potential truck use for delivery; (5) shifting of and reduction in the number of mills utilizing Soft Red wheat; (6) changes in the use of wheat for feed; (7) changing in export demand and proximity to export channels; (8) factors affecting level of use of the futures contract; (9) price relationships between various alternative points; (10) storage and handling costs; (11) receipts and shipments over time at various points; (12) the structure of the wheat loan program.

It now appears that we will be adding Toledo, Ohio, as a delivery point for wheat. Despite the numerous complications and lengthy deliberations, we expect to make a positive announcement on this shortly.

We believe that we can best attain the desired objectives enunciated above without the mandatory requirement of H.R. 12494. We have worked and will continue to work closely with the CEA in meeting the needs of the various markets.

Gentlemen, I thank you and I will be happy to attempt to answer any questions that you might have.

Mr. FOLEY. Thank you, Mr. Frazier, are there any questions of Mr. Frazier? Mr. Sisk?

Mr. SISK. Mr. Frazier, you heard my colloquy with Mr. Swantz in reference to the wheat contract. I have noted in your statement that you have apparently looked at this for some time.

We all know that change is a major part of life but has it not been evident that a Chicago designation is a little bit foolish? Why have you been so long in making changes? Please explain why Toledo, Ohio, was chosen.

Mr. FRAZIER. Mr. Sisk, I will answer your first question first. I was a member of a special contract review committee which was set up just to constantly review every contract that we had. I suppose it was 3 or 4 or more years ago that we began working on the wheat contract.

It is extremely complex, as you have pointed out here, it has taken that long to get all sides to agree on something that is fair. No contract on the Chicago Board of Trade is any good unless it is fair to both the buyer and the seller.

If it is not fair to a speculator who wishes to buy, for example, he is not going to buy and the farmer will have no place to hedge his grain. We have to take into consideration what a change in the contract does for the farmer. We have to take into consideration what it does to the producer.

We circulate questionnaires among the people who take delivery. Their answers came back differently. We then talked to producer groups. They did not all speak with one voice.

It is an extremely complicated and difficult thing to get everyone to agree on exactly what should be done so that it is fair to all. That is the reason it has taken so much time.

Second, Toledo looks to be the best place at the present time because there is a relatively large quantity of Soft Red wheat which is grown and is tributary to Toledo. Why not Minneapolis? They already have their own futures market. There is some limitation as to where we can go. This is so extremely complex, and, I know I have not answered all of your questions but these are some of the reasons.

Mr. SISK. I appreciate the complexities and recognize the attempts to protect everyone concerned in these matters.

However, as I said, you are operating here under a contract that is some 50 years old. I note the New York Cotton Exchange provides delivery points in Dallas, Houston, and New Orleans, seemingly, a good distribution over production areas.

My only concern in connection with Chicago's Board of Trade and their provisions—because they are important in the wheat and corn field—is the fact that there are other exchanges.

As to whether or not there has been an overemphasis on one side, I think this is a concern that many have. Chicago certainly could not and has not been for many years an area that would deliver much local wheat. The basic concern of many of us is, to what extent this reflects on those who are primarily concerned with the production.

I think Mr. Zwach reflected some concerns of all growers. We recognize this bill itself is not going to be the answer to all the problems.

What I want to get is a little information. No criticism intended but maybe the Chicago board leaned over backward to be fair to everybody except the producer. I think this is the concern that we have. That was the point of my question.

Mr. FRAZIER. Mr. Sisk, first of all, in 100 years there have been only two cases that were brought forward by the CEA. The second one is only in the accusation stage.

Second, in those two cases, the price was apparently driven upward—I do not like to contradict the previous witness—but this would only have helped the producer-owner and not hurt him.

Third, there are 1,402 members on the board of trade. Many of them are independent traders or pit brokers. The category of pit broker probably outweighs any other category in our membership and, therefore, would have the most votes. They don't have any income whatever, unless there is a volume of trade moving. No volume of trade will move unless the contracts are fair. It is in the interest of most of the members to have fair contracts. If the contract is not fair, many of them will have no income.

Mr. SISK. To conclude, you do anticipate then, that the Chicago Board of Trade is seriously considering additional delivery points in connection with wheat, is that right?

Mr. FRAZIER. Yes, sir; the Chicago Board of Trade is constantly looking at additional delivery points for everything.

This is only a personal opinion, but I believe multiple delivery points for corn and beans will hurt the producer. This is my personal opinion. I have not checked with anybody on the board of trade but I am a producer myself and I believe that this would hurt the producer.

These are some of the things that come together in looking at multiple delivery points. We think we are better able to look at them than having an action taken by a future Secretary of Agriculture.

Mr. SISK. Your statement could lead to another question. As I understand it, your personal feeling is that there would be no advantage to the producer in having multiple delivery points.

Mr. FRAZIER. That is my opinion.

Mr. SISK. That is all I have, Mr. Chairman.

Mr. FOLEY. Mr. Findley?

Mr. FINDLEY. You say there are 1,402 members of the Chicago Board of Trade? How do you settle a question on delivery points? Does every member have an equal vote?

Mr. FRAZIER. Yes, sir.

Mr. FINDLEY. The question of delivery points on wheat would be ultimately brought up for vote by the entire membership?

Mr. FRAZIER. Yes, sir.

Mr. FINDLEY. Has such a proposal been made and rejected by the board in recent years?

Mr. FRAZIER. I know of no rejection, sir.

Mr. FINDLEY. You say your latitude on delivery points is limited by the existence of futures markets. Is there some reason why you cannot have a delivery from a point despite the existence of markets there?

Mr. FRAZIER. No; we could say our contract is deliverable in Minneapolis but it really would not make sense. I believe that would hurt the producer. The Minneapolis market sells early at the full shipping differential to Chicago. I would think this would not be good for that reason.

Mr. FINDLEY. Do the Kansas City and Minneapolis contracts on wheat permit more than one delivery point?

Mr. FRAZIER. No, sir.

Mr. FINDLEY. I would be glad to hear your elaboration of the comments made to Mr. Sisk to the effect that multiple delivery points might actually hurt the producer. Would you give us an example or two?

Mr. FRAZIER. Yes, sir; in this case I am speaking of my own opinion. This is not something that I have checked out with anybody at the board of trade.

As an example, if we made Champaign, Ill., a delivery point along with Chicago and if we also made Des Moines, Iowa, a delivery point along with Chicago, the large quantity of corn is always going to be delivered to the point at which it is worth the least.

Therefore, the contract is going to sink to the level of the least value of the corn or the soybeans. The position in the multiple delivery that is going to be used is the one that has the least value. The owner of corn or soybeans in Chicago—I am glossing over the freight rate differentials—is not going to deliver it in Chicago if, relatively, he can get more for the Chicago corn in one of the other multiple delivery spots.

Mr. FINDLEY. If that is true, then why should we have more than one delivery point for any commodity?

Mr. FRAZIER. I think this is one reason why we have not had more than one delivery point for pork bellies.

Mr. FINDLEY. What makes trade in pork different? Would it not be better to have one delivery point for this?

Mr. FRAZIER. I really hate to express an opinion on the deliveries of pork bellies. I am not that familiar with pork bellies.

Mr. FINDLEY. Then, what about oats? Why have a second point for oats?

Mr. FRAZIER. The reason for a second point for oats was that the oats acreage that was tributary to Chicago dropped partly because it became more lucrative to raise corn in that particular area. The large shipments of oats were not coming into Chicago and this led to tight supply after tight supply. The CEA requested the board of trade to make a multiple delivery point and they did.

Mr. FINDLEY. Would not the same conditions exist for wheat?

Mr. FRAZIER. Yes, sir; that is the reason it has been studied and is being looked at. I think that my reasoning on wheat will be the same as that on corn. I think the wheat will be delivered in the point where the wheat is worth the least and then the contract will reflect the lower value.

Mr. FINDLEY. I have one other question. On page three of your statement, I am heartened to see the statement:

We see ahead a trend toward market prices above the loan levels and greater relative storage of grains by farmers using the loan and resale programs.

I have never been a fan of nonrecourse loans. Does this mean that you think the day for nonrecourse loans is fading? Also I would like to know what relationship you see between the level of nonrecourse loan transactions and futures freight?

Mr. FRAZIER. Mr. Findley, I think we here today are on the verge of one of the most exciting and productive periods for American agriculture that our country has ever seen. I think the sale to foreign countries of wheat—which we believe in our market is \$1 billion to Russia—and the opportunities that are coming in China and possibly in India are going to put our prices up where the free market level will be above the loan level. I think we are going to just about clean out our loan wheat stocks and I think we have got a good chance of reducing our corn stocks greatly. We are going to have a very happy agricultural people because they love to produce to sell. They don't love to produce to store. I think this is the era that has begun.

Mr. FINDLEY. Sounds great to me.

Mr. FOLEY. Mr. Denholm?

Mr. DENHOLM. What have the Russian sales done to the domestic market? How has the sale affected the price of wheat in the domestic market of this country?

Mr. FRAZIER. Some weeks ago they were up \$0.40 a bushel.

Mr. DENHOLM. Do you mean the domestic market has gone up \$0.40 a bushel?

Mr. FRAZIER. Yes, sir.

Mr. DENHOLM. Where?

Mr. FRAZIER. In the cash wheat areas which were close to the Gulf. This is another personal opinion. I don't think it is overhead. I think our problem is going to be our ability to ship it and not to sell it.

Mr. DENHOLM. When we heard the testimony before the full committee by personnel of the Department of Agriculture, it was reported that the domestic market had increased \$0.30 a bushel and the exports subsidies were \$0.31 a bushel. That does not make sense to me.

Mr. FRAZIER. No, sir; I don't mean to touch the loan level. I think the cash wheat market can do it.

Mr. DENHOLM. On page 2 in your testimony you talk about perfect competition and imperfect competition and relate it to monopoly. Are producers in perfect or imperfect competition?

Mr. FRAZIER. Monopoly is imperfect.

Mr. DENHOLM. I know that producers are reportedly in perfect competition as defined in economic terms.

Mr. FRAZIER. What I am trying to say is that first of all the Board of Trade only supplies the market place. It does not buy or sell anything. The market place is the place where supply and demand factors meet and where the buyer and seller are auctioning and bidding and offering. We say when you have free competition and full competition that this is perfect competition for buying and selling.

Mr. DENHOLM. Are you opposed to different places of delivery. I understand that your present meat contracts call for delivery at Duluth as well as Minneapolis?

Mr. FRAZIER. Mr. Denholm, we are not against multiple delivery. We have multiple delivery in soybean meal and oil and now in oats. We are not against multiple delivery per se. We are against making the wrong places at the wrong differentials multiple delivery points.

Mr. DENHOLM. Now is that a value judgment?

Mr. FRAZIER. The reason we think we should be the ones is that if we make a mistake and we have a wrong differential or a wrong

delivery point we ruin that market. It is out of business. We think we are better able to determine what these differentials should be.

Mr. DENHOLM. How many members do you now have?

Mr. FRAZIER. 1,402.

Mr. DENHOLM. Are they primarily producers?

Mr. FRAZIER. No; we do have producer members and we have cooperative members that represent thousands of people. We have floor traders; we have independent traders; we have commission houses; we are exporters; we are flour millers, and we are distillers. We have foreign firms and American firms.

Mr. DENHOLM. You indicated in your testimony that it was a very complex system and a real problem.

I think every problem is an opportunity. I think we have an opportunity to improve the marketing system if we can evaluate the problem. What our producers are concerned about is manipulation, if there is manipulation. There is a need for alternative delivery points for the benefit of producers. Do you agree?

Mr. FRAZIER. Sir, to my knowledge, there is no complaint about single delivery points hurting the producer. There are two cases in 100 years. Both of those were because the price was driven up. I don't know at what year there was any problem before that.

The Board of Trade has been in business for 124 years. I really don't know too many cases in 124 years when this has really been a problem.

Mr. DENHOLM. I share your sentiments in that it is a complex system of marketing. Thank you, very much.

Mr. FOLEY. Mr Findley?

Mr FINDLEY. May I make a suggestion? Our colleague, Mr. Melcher, is not on the subcommittee but could he share the privilege of questioning the witness?

Mr. FOLEY. Certainly, does Mr. Melcher have any questions he would like to ask?

Mr. MELCHER. Yes; I have one or two. Mr. Frazier, you are part of the committee that is making the study that may come up with the suggestion of designating Toledo, Ohio, as an alternative point, is that right?

Mr. FRAZIER. No, sir; I was a member of the special contract review committee whose duty it was to review all contracts. After we looked at it, a special wheat committee was set up to examine wheat only. I am not a member of that committee.

Mr. MELCHER. However, you were a member of the committee that designated a special committee?

Mr. FRAZIER. I was a member of the special contracts committee appointed by the Chairman of the Board.

Mr. MELCHER. The functioning of that committee resulted in designating another committee to study wheat?

Mr. FRAZIER. Yes, sir; however, I am not a member of that committee.

Mr. MELCHER. In your testimony, you are indicating that perhaps Toledo will be recommended and accepted?

Mr. FRAZIER. Mr. Melcher, as Mr. Findley asked before, a change in a contract must be voted on by the entire membership. It would be

my personal opinion that it would definitely be accepted. That is my personal opinion.

Mr. MELCHER. The purpose of your testimony, in part, is not only to represent the Commodity Exchange and the Chicago Board of Trade but also to provide this subcommittee with the benefit of your thoughts. We appreciate that.

Mr. FRAZIER. I would think that the entire membership is cognizant of the problem which was caused partly by the drop in wheat acreage in the area tributary to Chicago. I think the entire membership is cognizant that it needs help and would be willing to go along with these changes.

Mr. MELCHER. It occurs to me that it is a lengthy process within the Chicago Board of Trade to make this change. However, if it is done—as you think that perhaps it will—and provides Toledo as an alternate point, it will occur to most of the wheat producers that the alternate point of designation is quite far removed from the area of production of wheat. I think it will perhaps raise thoughts in their minds that it might be an out-of-the-way place for an alternate point of delivery. I invite your comments on that because I think this hearing transcript will be very incomplete for readers from the producers' standpoint, if they cannot understand why Toledo might be designated for delivery as a second point.

Mr. FRAZIER. As I said, I am not on the committee but I believe that because Toledo is tributary to a larger producing area than Chicago, because Toledo is a poor city on the lake which gives a market out to the sea for the wheat, and because there is large storage, and because one of the largest users of soft wheat is in Toledo—I believe these points were taken into consideration. I would say, Mr. Melcher, that other points were considered too. For example, St. Louis was given great consideration.

I think I personally was a little surprised that St. Louis was not included.

Mr. MELCHER. I have no further questions, just this comment. I think this is a long, involved and tortuous process to get an agreement in the commodity exchange for an alternate delivery point and then coming up with one that seems quite far removed from the center of production.

Without disputing any of your points as to the ability for storage there or amounts of storage available there I think that if this is the result of what comes about after there is evidence of a need of change, perhaps your testimony, rather than being objectionable to the bill, proves the need of the bill.

Mr. FRAZIER. Mr. Melcher, I just wanted to repeat that the contracts on the board of trade are under constant review and study. The board of trade has only one purpose; that is, to provide a marketplace for contracts which are fair to all people. The people who are studying these contracts—many of them—have livelihoods that are dependent upon the best contract that can be beaten out. This is a task to see how we can make every contract better.

Mr. MELCHER. I do not question the validity of your statement or your sincerity at all. I only made the comment to illustrate that when you have a large number of people involved, 1,400 and some odd people, it is a very difficult procedure to get everything lined up to make a

change. Even when everything is lined up to make a change, sometimes with that great a membership—this is apparent if Toledo is accepted—a judgment is made that is not easily recognized by all the people in the production end of it as being the correct judgment. I think your function and, indeed, the functions of all the members of the board of trade is not contrary to what we want.

However, I think that perhaps our aspect here in this committee is a little bit broader in that we are very desirous that nothing interfere with the accurate portrayal of the market that would be harmful to producers.

We constantly look on what your business does that helps and is constructive to the fair and honest market.

Mr. FRAZIER. I neglected to point out that the Chicago contract is basically a red winter wheat contract. Minneapolis is basically a spring wheat contract. Kansas City is basically a hard wheat contract. This is perhaps uninfluencing from the view of the committee.

Mr. MELCHER. I surmise the same from your testimony.

Mr. FOLEY. The chair hesitates to interrupt the dialogue but we have one bell of a quorum call and Mr. Link also would like to ask a question.

Mr. LINK. You indicated you had 1,402 members of the Chicago Board of Trade?

Mr. FRAZIER. Yes, sir.

Mr. LINK. You listed the members in different categories. Is the main purpose of the selling and hedging and buying to get a seller and a buyer together and form a service?

Mr. FRAZIER. Yes.

Mr. LINK. For a commodity that exists physically, is that correct?

Mr. FRAZIER. The first part is absolutely true. Our function is to supply the marketplace. The commodity in which we trade is not necessarily a physically existing commodity. In fact, this is one of the economic functions which is filled by the marketplace, for example, when soybean planting time came this year, the farmer could look at the Chicago Board of Trade price and see that it was at an all-time high. He could then sell the soybeans that he was going to raise before they were ever in the ground.

It is our function to provide a marketplace for the sale of a commodity that is not in existence yet.

Mr. LINK. Is it supposed to represent a physical commodity?

Mr. FRAZIER. Eventually.

Mr. LINK. How many millions or billions of bushels of wheat were traded last year?

Mr. FRAZIER. I can't answer that. I can tell you that the entire volume on the Board of Trade was 88.5 billion.

The record number of contracts traded in 1 day was 7,000. However, I cannot break that down into bushels of wheat.

Mr. LINK. How much of this represented actual sales of actual bushels of wheat, physically?

Mr. FRAZIER. I do not have those figures with me.

Mr. LINK. Could you get those for the committee?

Mr. FRAZIER. Yes, sir, certainly.

Mr. FOLEY. Mr. Melcher, do you have any other questions?

Mr. MELCHER. I thank the committee for allowing me this opportunity. I have one question in regard to the Chicago Board of Trade's number of contracts and the volume of trade in wheat. It is much greater than either one of the other commodity exchanges and perhaps is greater than those other commodity exchanges combined, is this not true?

Mr. FRAZIER. It was, in fact, the Chicago Board of Trade did more business up until recently than all other commodity exchanges together. I think there were times this year when the Kansas City market became very active. I would assume that we did more business than the other two combined. However, Kansas City was doing very well.

Mr. MELCHER. Historically, the Chicago Board of Trade's reflection of the market was of greater significance despite the terms of the contracts on all wheat markets, than the other commodity exchanges?

Mr. FRAZIER. Kansas City people would like me to answer yes, but they might take me to task.

Mr. FOLEY. Mr. Frazier, thank you for your statement.

(The following letter was also submitted to the subcommittee:)

NATIONAL GRANGE,
Washington, D.C., August 16, 1972.

HON. THOMAS S. FOLEY,

Chairman, Domestic Marketing and Consumer Relations Subcommittee, House Agriculture Committee, Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange wishes to extend to you and the Domestic Marketing and Consumer Relations Subcommittee our support for H.R. 12494, a bill to amend Section 5a of the Commodity Exchange Act. We favor the intent of this bill which would authorize the Secretary of Agriculture to designate alternate delivery points for futures contracts traded at Commodity Exchanges.

We feel this bill would be of great value to the agriculture commodity producers throughout this country. After having open hearings, the Secretary of Agriculture could, if he desired, provide additional terminal points. This action would allow prices to come from a marketing system which would reflect a more accurate supply and demand situation. In addition, with the possibility of more terminal points being added, we feel that future contracts would be more attractive to the sellers as this provides for an increased supply for delivery.

We want to express our appreciation and thanks for your holding these hearings on this very important legislation. We will be glad to help you gain the support necessary for its passage.

In closing, we request that you make this letter part of the hearings record.
Sincerely,

JOHN W. SCOTT, *Master*.

Mr. FOLEY. The chairman of the subcommittee would like to thank all the witnesses for their contributions to this hearing.

The subcommittee is adjourned to meet again at 10 a.m., tomorrow for further hearings on national farm bargaining legislation.

(Whereupon, at 12:25 p.m., Tuesday, Aug. 15, 1972, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, Aug. 16, 1972.)

