STATE OF NEW YORK
DEPARTMENT OF AGRICULTURE & MARKETS
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Andrew M. Cuomo
Governor

Richard A. Ball
Acting Commissioner

February 10, 2014

Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Dear Sir:

The New York State Department of Agriculture and Markets writes to express concern with how the proposed new CFTC position limits (RIN number 3038-AD99) may negatively affect the ability of dairy farmers to manage risk using dairy commodity futures.

New York is the third largest producer of milk in the country, accounting for 6.7% of total U.S milk production in 2013. The dairy industry is New York's leading agricultural sector, accounting for over one-half of the state's total agricultural receipts. The state has over 5,000 dairy farms.

Prices and margins for milk have become increasingly volatile over the past decade. Milk price collapses in 2006 and 2009 coupled with increasing feed costs have led to periods of disastrous margins and large indemnity payments by both federal and state governments. These periods have led dairy farmers and the government alike to seek alternative ways to mitigate risk from this volatility. The new dairy subtitle of the current farm bill is constructed with this in mind offering a quasi-insurance product, allowing farmers to pay set premiums and guarantee chosen margins. This type of program encourages farmers to focus on needed margins which sets the stage for more dairy farmers to consider using dairy commodity hedging as a means to also manage risk.

As interest will likely build amongst dairy farmers with dairy commodity hedging as a form of risk management, increased restrictions on bona-fide hedge exemptions need to be implemented in a strategic manner that does not nullify the provisions of the newly enacted Farm Bill.

While individual farmers may not have the required time, expertise, or capital to hedge on their own, farmer-owned dairy cooperatives allow for a pooling of resources to allow farmers access to these markets.

These organizations act on behalf of their farmer-members and use these commodity markets to manage legitimate business risk. Regulations that make it more difficult or costly for these organizations to participate in the class III milk futures market, and other dairy futures markets, will harm dairy farmers.

The participation of speculators must also be managed in a thoughtful manner. These individuals and organizations balance out the futures markets by taking positions opposite dairy farmers. Milk differs from other agricultural commodities as it must be harvested daily, year-round and is particularly perishable. Perhaps due to the uniqueness of this product, the dairy futures markets are currently relatively thin in terms of participation. As more dairy farmers become educated and interested in using futures markets to manage risk, there is a need for greater participation on the speculator side. We fear that the proposed limitations on contract numbers will negatively affect the liquidity in the class III milk futures market and the growth of all dairy futures markets to the detriment of the farmer participants. The dairy futures markets are young markets that need room to grow.

The Department supports broad efforts to curtail the manipulation of commodities markets, however the proposed one-size-fits-all approach to position limits may have unintended negative consequences on the dairy futures markets. We ask that the CFTC carefully consider differences in these various commodities, particularly the class III milk futures market in its current state, to ensure that legitimate risk management activity is not negatively impacted by the new proposed regulations.

Sincerely,

Richard A. Ball
Acting Commissioner
NYS Department of Agriculture and Markets