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COMMENT

November 8, 2002

Chairman James E. Newsome
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

Dear Chairman Newsome:

Just when you thought it was safe to get into the market, the Chicago Mercantile Exchange decided to help the short positions out of their predicament by restricting the number of contracts speculative longs hold in the spot month.

This knee-jerk reaction was an obvious response to the small problem that the "shorts" found themselves in with the October contract, i.e. a squeeze. The CME justifies this as an attempt to help "true" hedgers by narrowing the bases. Now who is a true hedger? The speculative short who purchases 5,500 fat cattle on the first week of the delivery month so that they can deliver those cattle to break the market? Perhaps the packer who delivers cattle from their week's kill in an attempt to force the market down? In truth, the packer should only have a long position, the cattle contract was established to allow producers to hedge and the packers to purchase. I seriously doubt it was intended to allow the packer to deliver their own cattle in an attempt to manipulate the pricing of other cattle.

The system is seriously flawed and if the CME does not quit masquerading as an impartial board and get serious about the monopolistic structure of the packing and retailing industry, eventually the cattle business will succumb. The CME should encourage the producers to use the futures contract rather than to contract or formulate the cattle directly to the packer.

I do not know if the irony of this situation is really understood by the CME, or for that matter, the packers and stockers committee. Recently, the Government voiced its disapproval of the merger of cable and satellite companies as "potentially decreasing competition and raising fees to the consumer." This is TV for Pete's sake! The average household, if it even subscribes to cable or satellite, may spend \$40 a month. The government and the business community is all fuzzed up about the merger, yet the government and the associated government agencies see nothing wrong with the way the packer and retailer use their market strength to constantly rob producers and the consumer. I wonder how many households spend \$40 a month on meat products?

If CME really wants to make the playing field more fair, they should enforce the law-- not change the rules. The CME could help the producer by stopping the contract and formulating cattle to the

cattle contract was designed. That is, the producers should use a cattle contract as a hedge and the packer should be restricted to purchasing only long position. Today the only long positions in the market are speculators because the packer use the short position cattle contract as a way to crush the live trade.

The CME should look seriously at having a contract for every month rather than every other month, and allowing heifers to be delivered against the board. The cow/calf producer is the cornerstone of the cattle business. The future contracts have a heavy influence on the price he receives. The cow/calf industry has no representation in the rule making for futures trading and this must be corrected.

The CME, Packer and Retailer need to understand that the short term high profitability to the Packer and Retailer and low cost consumer food is a long term recipe for disaster. It will be disaster not only for the producer, but also for the consumer, the Packer, and the Retailer. Has anybody purchased gas lately? We have been talking about going to war over some two bit dictator in the middle east under the guise of human rights, however, any adult who has been around at all certainly understands that the true reason we are talking about bombing the hell out of this tiny dictatorship is to protect our business interest and the oil fields. The question I would pose to the CME is what type of war are we going to have to fight for food? How many people are going to have to die? What type of expense are we going to have to incur when the vast majority of our food is grown and prepared and held hostage by foreign countries? I realize this is not a new idea or even a radical departure from what has been proposed by other people in the industry. However, I hope that the CME will look past the short term profitability for the Packer and the Retailer advantage to the consumer and low cost food items and prepare for the future. The time to do something is now, not 10 years from now when we are at the mercy of some other two bit dictator.

John Erb

