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July 21, 2003

Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

COMMENT

Dear Ms. Webb:

The Chicago Mercantile Exchange (CME) has proposed amendments for the Live Cattle futures contract requiring that all cattle delivered on the futures contract must be born and raised exclusively in the United States with the seller providing industry standard supporting documentation at the time of delivery. The amendments are contingent upon the promulgation by the United States Department of Agriculture of regulations implementing Country Of Origin Labeling (COOL) requirements, which are intended to take effect on September 30, 2004. Bartlett Cattle Company submits the following comments and recommendations relative to the CME proposal.

1. Proposal to require, contingent upon the promulgation of COOL, that all cattle delivered on the Live Cattle futures contract must be born and raised exclusively in the United States.

Given the ongoing uncertainties associated with the implementation of COOL and the lack of final regulations it is important that users of the Live Cattle Contract be made aware of, and understand, any Live Cattle contract changes resulting from COOL requirements. COOL requirements are likely to result in the preservation of individual animal identity, added costs, and the alteration of business practices. These changes will be specifically associated with animals whose origins are other than the United States. Due to these changes the proposed amendment is required to prevent cattle of origins other than the United States from being inappropriately attracted to the delivery process.

The CME proposal is informative, timely, consistent with known COOL language, allows for the timely listing of contracts, and is worded to allow for the contingency of COOL postponement or repeal.

This CME proposal should be approved.

2. Impact of the CME proposal on available deliverable supplies and the consequential effects on the susceptibility of the futures contract to manipulation.

The elimination of cattle, whose origin is other than the United States, from the Live Cattle Contract delivery process, <u>should not be viewed as an insignificant reduction</u> in available deliverable supply. In the case of cattle originating in Mexico and fed in the United States, these animals are predominantly steers and are marketed at weights that fit well within current contract specifications. The Live Cattle contract applies premiums and discounts based upon live animal or carcass evaluation. Given these premiums and discounts many steers of Mexican origin have proven to be highly deliverable. Furthermore, steers of Mexican origin are predominantly fed in geographic locations where market participants have demonstrated a history of electing the delivery process when appropriate. These geographic locations are also well served by multiple delivery facilities.

For the Live Cattle Contract the relationship of available deliverable supply and the spot month speculative trading limit has been and will continue to be a fragile one (see attached comment letter of February 4, 2003 item number 8). Because of this fragile relationship, any change in available deliverable supplies should heighten concerns of market manipulation and intensify the need for oversight. For the CME, the pursuit of additional available deliverable supplies must be an ongoing endeavor.

Sincerely,

Stan M. Myers
Vice President
Bartlett Cattle Company

RECEIVED
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February 4, 2003

2003 JUL 28 PM 3: 27

Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Ms. Webb:

The Chicago Mercantile Exchange (CME) has proposed amendments to Weight Specifications, Delivery Locations, Delivery Procedures, and Speculative Position Limits for the Live Cattle Futures Contract. Bartlett Cattle Company, Inc. submits the following item specific comments and recommendations relative to the CME proposal.

1. Increase the maximum average and individual animal live delivery weight specification by 25 pounds.

   It is important that Live Cattle Contract specifications represent what the cattle industry is producing. As observed fed steer weights have increased an ever-increasing number of animals reach weights exceeding contract upper weight specification and become ineligible for delivery. This process has significantly reduced the supply of deliverable cattle. Compounded over the last several years, this reduction in deliverable supply has resulted in congestion during the spot month delivery period, diminished the value of the contract as a risk management tool, and has exposed the contract to the threat of manipulation. For these reasons, an adjustment to the live weight specification is long overdue. Furthermore, fixed contract weight specifications must be monitored in the future to assure that weight increases do not once again lead to a diminished deliverable supply as cattle weights have shown a strong trend towards increasing weights.

   This amendment should be approved.

2. Add delivery locations at Guymon and Texhoma, Oklahoma.
3. Establish penalties to be imposed, at the discretion of the United States Department of Agriculture (USDA) graders, on any buyer or seller who delays or disrupts the delivery process.
4. Grant the CME the authority to prohibit live delivery on auction days.
5. Provide for the establishment of an annual, uniform, live grading and documentation fee.

6. Eliminate the requirement that live-graded delivery cattle stand without water during the time interval between 9 a.m. and the time of grading.

   Proposed amendments 2 through 6 are all important factors in maintaining a viable physical delivery process. Delivery locations must exist in more than name. Delivery locations must exist as fully functional facilities ready to accommodate the delivery process when needed. The CME should be commended for proposing these amendments and encouraged to continue to work towards the establishment of an adequate number of efficient and functional delivery locations.

   These amendments should be approved.

7. Provide for the application of price differentials to the delivery of steer carcasses weighing between 950 and 1000 pounds.

   Increasing the use of accurate market based premiums and discounts will improve the ability of the contract to contribute efficient and accurate information to the price discovery process.

   This amendment should be approved.

8. Establish a spot month speculative position limit of 450 contracts which applies during the period beginning with the close of business on first notice day through the close of business of the business day preceding the last five business days of the contract month.

   Market participants including cattle feeders, brokers, bankers, packers, clearing firms, and livestock associations have addressed spot month speculative trading limits on three occasions since 1997 and as recently as November 2002. These market participants submitted comment letters to the Commodity Futures Trading Commission (CFTC) as participants in the process that resulted in the current spot month speculative trading limit of 300 contracts. The many substantive comments received by the CFTC in November 2002 should be once again reviewed as they portray a clear and well documented concern for the ability of the contract to function free of market congestion and threat of manipulation. These concerns are the result of the unbalanced relationship between a limited deliverable supply and spot month speculative trading limits.

   There is no available documentation supporting current limits, and specifically no research to support an increase in the spot month trading limit. Restoring deliverable supply that was lost as steer weights increased, reinstating a previously listed delivery location, and working to assure that delivery locations are functional are needed changes but do not support an increase in spot month trading limits. Prior to any consideration of change in the spot month speculative trading limit the performance of the contract must be observed following implementation of these proposed changes.

The Live Cattle Contract did not perform well following the increase in the spot month speculative trading limit from 300 to 600 contracts. The 600 contract limit was in affect from June 1998 through October 2002. Deliveries increased, basis variability increased, and basis weakened despite an estimate by the Chicago Mercantile Exchange that other changes implemented in June 1998 would strengthen the basis by as much as one dollar per hundred weight. Participants trading in excess of 300 contracts in the spot month did not prove to be very liquid, as they have preferred to make initial liquidations by accepting deliveries. A review of the history of contract performance for the time frame during which the 600 contract spot month limit existed reveals liquidations which were replete with instances of failure to pass basic pertinent surveillance questions including:

- Is taking delivery the least costly means of acquiring the commodity?
- Is making futures delivery a better alternative than selling the commodity in the cash market?
- Are the positions held by the largest long trader(s) greater in size than deliverable supplies not already owned by such trader(s)?
- Are the long traders likely to demand delivery?
- To what extent are the largest short traders capable of making delivery?
- Is the futures price, as the contract approaches expiration, reflecting the cash market value of the deliverable commodity?
- Is the price spread between the expiring future and the next delivery month reflective of underlying supply and demand conditions in the cash market?
- Is the basis relationship appropriate?
- Are dates actively "freshened" prior to first notice day?
- What is the justification for the constant effort to increase spot month speculative trading limits?

Furthermore, the carcass delivery option, the existence of which was used to support an increase in the spot month speculative trading limit above 300 contracts, is not functional, as half of the packers have recently declined to participate.

This issue should not be resolved by, and should not be allowed to be resolved by, a compromise (450 contracts) between the current 300 contracts spot month speculative trading limit and the clearly dysfunctional limit of 600 contracts. An appropriate limit, when contrasted with the practical deliverable supply (noting that theoretical and practical deliverable supply may be quite different) must be determined. Until it can be clearly determined and documented that spot month speculative trading limits can be increased without subjecting the contract to market congestion and the threat of manipulation, the spot month speculative trading limits should not be altered.

This amendment should <u>not</u> be approved.

Sincerely,

Stan M. Myers
Vice President
Bartlett Cattle Company

See attached: Bartlett Cattle Company comment letter of November 2002.