



NATIONAL CATTLEMEN'S BEEF ASSOCIATION

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COMMENT

August 21, 2003

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

RECEIVED  
C.F.T.C.  
2003 AUG 22 PM 12:00

RE: Proposed Amendments to the Live Cattle Futures Contract Restricting Delivery to Cattle Born and Raised in the United States

Dear Secretary Webb,

The National Cattlemen's Beef Association (NCBA) appreciates the opportunity to comment on this proposed rule change by the Chicago Mercantile Exchange (CME). The NCBA understands that this proposed change by the CME is a direct result of the mandatory country of origin labeling law. The CME proposal modifies the live cattle contract to allow only the delivery of cattle that are born and raised in the U.S and have the documentation needed to support that claim.

The CME proposal demonstrates that the mandatory labeling law will lead to changes to beef production and marketing. This futures contract rule change is the first of many changes to come that are a result of the labeling law. It is well documented that that mandatory country of origin labeling could change, or even restructure, beef marketing and production. The General Accounting Office, in its January 2000 study of mandatory country of origin labeling pointed out that mandatory country of origin labeling for meat "would necessitate change in the meat industry's current practices." The USDA stated in January 2000 that "country of origin labeling is certain to impose at least some costs" on the beef industry. The proposed change by the CME suggests that one of these costs include the impact that changes to the futures contract have on price discovery and risk management. USDA's study further stated that the extent of country of origin labeling "costs would vary depending on the nature of the regulatory scheme and the amount of enforcement and compliance action."

USDA has discussed its regulatory approach to the mandatory labeling law in the voluntary guidelines, in presentations at the 12 official USDA listening sessions and in testimony before Congress. It is clear to NCBA that USDA will put in place a regulation that is needed to enforce the labeling statute as it currently exists. The labeling statute and accompanying regulations, as well as the statutory liability placed on participants in beef production, will lead to and cause the very changes the GAO referred to in the January 2000 report.

AMERICA'S CATTLE INDUSTRY

Denver Washington D.C. Chicago

NCBA has long recognized that mandatory labeling will cause disruptive changes. For this reason, NCBA supports an alternative approach to country of origin labeling that will avoid wholesale changes that are caused by mandatory labeling. Nonetheless, the CME is responding to the current law. Until such time as the current law is modified, changes like the CME rule change and potentially more dramatic changes to livestock processing, marketing and retailing are likely to occur—all a result of the mandatory labeling law.

Deliverable supply of cattle for the futures contract has been an issue in front of the CFTC on multiple occasions. One indice used by the CFTC to measure risk of futures market manipulation is deliverable supply of the commodity being traded. It has been the goal of NCBA to increase deliverable supply of cattle so that the futures market functions better as a tool for risk management, improved basis convergence and reduced risk of market manipulation. The CFTC, CME and cattle producers are well aware of NCBA's activity on this front. This rule change may reduce the deliverable supply of cattle, an outcome that is not consistent with our historic efforts.

Nonetheless, the CME is left in a difficult situation. Without this rule change, the CME live cattle contract may become the only outlet for cattle for which no documented origin is available. Should the futures contract become the dumping ground for cattle whose beef is non-merchantable at the retail level, the price discovery and risk management purpose of the contract will be thwarted.

The NCBA appreciates the opportunity to comment on the proposed rule change by the CME. This rule change would not be contemplated in the absence of the mandatory country of origin labeling law. This law, as predicted, will cause costly restructuring to cattle and beef risk management, marketing, and processing. The CME's proposed rule change is the first demonstrative change to occur and we are sure that there are more to come.

We urge the CFTC to maintain its historic vigilance over the live cattle futures markets, especially as changes to our industry occur during the implementation of the mandatory labeling law.

Sincerely,



Eric Davis  
President, National Cattlemen's Beef Association