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February 4, 2003

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

Dear Ms. Webb: COMMENT

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:

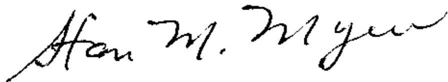
- Is taking delivery the least costly means of acquiring the commodity?
- Is making futures delivery a better alternative than selling the commodity in the cash market?
- Are the positions held by the largest long trader(s) greater in size than deliverable supplies not already owned by such trader(s)?
- 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 not be approved.

Sincerely,



Stan M. Myers
Vice President
Bartlett Cattle Company

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

November 4, 2002

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

Dear Ms. Webb:

We strongly support the Chicago Mercantile Exchange's (CME) decision to decrease from 600 to 300 contracts the speculative position limit, for the Live Cattle Contract, applicable to positions held in the expiring contract month from the close of business on the business day following the first Friday of the contract month to the business day preceding the last five trading days of the expiring month (here after referred to as spot month speculative trading limit).

In June 1998, the speculative trading limit was increased to 600 contracts from 300 contracts. Cattle feeders and livestock associations, including the National Cattlemen's Beef Association (NCBA) and the Kansas Livestock Association (KLA) opposed this increase. Cattle feeders felt that the doubling of the spot month speculative trading limit would greatly increase the leverage of the long speculative trader relative to deliverable supply and increase the demand for deliveries, all to the detriment of the convergence of cash and futures to predictable and economically defined values (here after referred to as convergence).

In January 2000, the CME submitted to the Commodity Futures Trading Commission (CFTC) a proposal to increase from 600 to 900 the spot month speculative trading limit. Twenty-six comments were submitted by cattle feeders, livestock associations including NCBA, KLA and the Texas Cattle Feeder Association, commodity brokers, bankers and packers. Not one comment was submitted in support of this proposal. Opposition centered on declining economically deliverable supplies due to existing weight specifications becoming more restrictive as slaughter weights of cattle increase, feeders inability to increase deliverable supply by including heifers in the delivery process, the limited capacity of the live delivery system and lack of convergence. Responding to the overwhelming opposition and the clearly defined threat to the usefulness of the Live Cattle Contract as a viable risk management tool for producers the CME withdrew this proposal.

Since January 2000, cattle slaughter weights have increased dramatically, and the CME has publicly voiced concerns about the capacity of, or danger of encountering bottlenecks associated with, its live delivery system. Heifers have not been considered for inclusion in the delivery process and convergence in the delivery period has become an ever-increasing problem. Lack of convergence during the delivery period has discouraged use of the contract by short hedgers and packers offering to contract with producers for deferred delivery. Lack of convergence has discouraged the use of the contract by long hedgers who seldom perceive the contract to be trading at economically determined values, and in general provides confusing and misleading information to the price discovery process.

The current Live Cattle Contract specifications simply do not represent the product being produced. For this reason the selling of Live Cattle contracts is not a good offset, or hedge, for the price risk of owning live cattle. The purchase of Live Cattle contracts is not a good substitute, or hedge, for the future purchase of cash cattle. The speculator will not trade a contract, long or short, whose value is not determined by the economic consideration of the contract specifications. Futures contracts were established to provide producers and users, of a product, the ability to manage price risk. Recent financial losses in the cattle industry would indicate that the need to manage price risk has never been greater. Still, a limited number of cattle producers and users employ cattle futures to hedge price risk. Without improvements in the Live Cattle Contract, creating a viable risk management tool and increasing participation by hedgers, the contract serves no economic purpose and is not in the best interest of the public or the cattle industry.

Markets where users of a product cannot manage the financial risk of owning or contracting for the future delivery of that product by utilizing a functional futures contract must build a risk premium into each transaction. In the case of the cattle market, this ever-growing risk premium required by the packer will result in the cattle feeder receiving a lower price for finished cattle. The cattle feeder will add a risk premium that will result in a lower price being paid for cash feeder cattle and the banker will require a greater risk premium increasing the cost of production and reducing profits for all sectors.

Given the continued deterioration of the relationship between economically deliverable supply, economically deliverable capacity and the current spot month speculative trading limit, it is clear why the CME has submitted this proposal. The proposed reduction in the spot month speculative trading limit will help to promote orderly trade and liquidation, will guard against excessive leverage and influence by speculative interests, will limit excessive demand for delivery, will assist in the convergence of futures and cash, and will promote growth in the use of the contract. For these reasons the CME proposal to change the spot month speculative trading limit from 600 to 300 contracts should be strongly supported. Furthermore, the urgency with which the CME in dealing with this matter is clearly understood and necessary.

Stan M. Myers
Vice President
Bartlett Cattle Company