

RECEIVED
C.F.T.C.



03-10
(3)

Canadian Embassy

Ambassade du Canada

RECORDS SECTION

501 Pennsylvania Ave., N.W.
Washington, D.C. 20001

July 30, 2003

2003 JUL 30 PM 4:16

RECEIVED
C.F.T.C.

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, D.C. 20581

COMMENT

CME Live Cattle Amendments

Dear Ms. Webb,

The Commodity Futures Trading Commission (CFTC) has asked for public comment on proposed amendments that will affect live cattle futures contracts of the Chicago Mercantile Exchange (CME). We wish to point out that the comment period of 15 days is unacceptably short to allow sufficient time for communication and analysis of the proposed amendment by those that it will affect. We respectfully request that you extend the comment period to a standard 60-day comment period. We offer the following as our preliminary comments on the proposed amendment.

The *Federal Register* notice FR Doc. 03-17819 asks respondents to address the "potential impact on available deliverable supplies" and the "susceptibility of the futures market to manipulation". The Government of Canada wishes to express its concern that, if approved, the CME-proposed amendment will restrict available deliverable supplies and is an attempt to manipulate the North American live cattle market.

According to the U.S. Department of Agriculture, in 2002 Canada shipped \$10.3 billion of agri-food products to the U.S. While the U.S. shipped \$US 8.6 billion of agri-food products to Canada. Live cattle are an important part of this trade and move back and forth over borders in North America in response to North American market signals. The current lack of a country-of-origin requirement for live cattle futures contracts recognizes the integrated nature of this market among Canada, the United States and Mexico.

It is the Government of Canada's view (shared by many U.S. industry representatives) that the country-of-origin-labeling (COOL) provisions of Public Law 107-171 (*Farm Security Rural Investment Act of 2002*) are fundamentally flawed and unworkable and that, if implemented, will seriously restrict trade (see attached annex for Government of Canada concerns about COOL). The CME-proposed amendment goes beyond the COOL requirement to label, adding an additional and significant obstacle to trade that would prohibit trade outright (whereas the prospective COOL requirements allow trade to occur, albeit with significantly increased costs).

.../2

The proposed amendment requires that "all cattle delivered on the futures contract be born and raised exclusively in the United States, and the seller must provide supporting documentation that conforms to industry standards at the time of delivery." Restricting delivery on CME live cattle futures contracts to cattle that are born and raised exclusively in the United States ignores the reality that livestock and beef are traded in a North American market and affords different treatment to live animals that either originate in countries other than the U.S. or that are of "mixed origin" e.g. born in Canada and raised in the U.S. The approval and implementation of this amendment would be inconsistent with U.S. international obligations under the World Trade Organisation (WTO) Agreement and the North American Free Trade Agreement (NAFTA) which include obligations on national treatment and disciplines on technical barriers to trade.

The proposed amendment seeks to distort the market by sending the message to market participants that cattle not born and raised exclusively in the United States have a comparatively lower value because they cannot be delivered on a futures contract. Additionally, in order to act on the option to deliver - the seller must incur the cost of sorting cattle as to country of origin, as well as providing supporting documentation, as yet undefined.

An effect may be to reduce the volume of trade in live cattle futures by limiting access to live cattle futures contracts to those that handle only U.S. livestock, as defined by the CME amendment. This would have a negative effect on cross-border trade in live cattle (especially calves and yearlings), depress prices on both sides of the border and compound the damage anticipated to be imposed by the implementation of COOL.

We offer these comments without prejudice to our concern that the CME proposed amendment, if approved by the CFTC, would be inconsistent with U.S. international trade obligations and that the comment period should be extended to allow a more considered analysis of the proposed change. Ultimately, the only legitimate rule is one that recognizes and promotes the further integration of the North American meat industry.

If you require any clarification, please contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'W. R. Crosbie', with a small flourish at the end.

William R. Crosbie
Minister-Counsellor
(Economic & Trade Policy)