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Consejería Agroalimentaria para EUA

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Washington, D.C. August 22, 2003

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

COMMENT

Re: CME Live Cattle Amendments: Government of Mexico's Comments

Dear Secretary Webb:

On behalf of the Government of Mexico, we are providing comments on the Chicago Mercantile Exchange's "Proposed Amendments to the Live Cattle Futures Contract Restricting Delivery to Cattle Born and Raised in the United States," 68 Fed. Reg. 135 (July 15, 2003).

First, we would like to thank you for extending the comment period for these proposed changes, which will have serious international trade implications. As we mentioned in our preliminary comments, these amendments will have a negative economic impact on Mexico's cattle producers as well as U.S. importers and feed lot owners in Texas, Colorado, New Mexico and Arizona, among other states.

It is our belief that the proposed amendments are premature, considering that the issue of country of origin labeling is unresolved at this time. Final U.S. Department of Agriculture (USDA) regulations have not yet been issued. Furthermore, the U.S. House of Representatives recently passed an amendment to the FY 2004 Agriculture Appropriations bill which would delay implementation of mandatory country of origin labeling for livestock for one year beyond the September 30, 2004 statutory deadline for implementation. Given this timetable, the proposed rule change is inappropriate.

The following comments address the "potential impact on available deliverable supplies" and the "susceptibility of the futures market to manipulation" as a result of the proposed amendment. We believe that excluding Mexican cattle from the Exchange would restrict available deliverable supplies and would make the futures market susceptible to manipulation. Shipments of live cattle from Mexico to feedlots in the United States are an important part of North American trade in live cattle. In 2001, Mexico shipped 1.1 million head to the United States (Department of Commerce, U.S. Foreign Trade Statistics) in response to U.S. demand, pointing to the integrated nature of the North American market among Mexico, Canada, and the United States. Due to the integrated nature of this market, U.S. feed lots and importers, as well as Mexican producers, would be harmed by these amendments.

The amendments would require that "*all cattle delivered on the futures contract must be born*

1911 Pennsylvania Ave. NW, Washington, D.C. 20006 EUA
Tel.: (202) 728-17-23 Fax: (202) 728-17-28

and raised exclusively in the United States, and the seller must provide supporting documentation that conforms to industry standards at the time of delivery." Like the mandatory country of origin labeling provision of The Farm Security and Rural Investment Act of 2002 (COOL), implementation of these amendments would be inconsistent with U.S. international obligations under the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), which include obligations on national treatment and disciplines on technical barriers to trade.

These amendments are even more drastic than the COOL. By excluding non-U.S. cattle from being delivered on future contracts, even if labeled according to the COOL regulation, these amendments would clearly be inconsistent with the national treatment provisions of the WTO and the NAFTA. An outright requirement that "*all cattle delivered on the futures contract must be born and raised exclusively in the United States*" violates WTO and NAFTA.

These amendments would result in a price depressing effect on Mexican cattle and appear to be an effort by the U.S. industry to gain a price advantage through a U.S. government action. These amendments go beyond the step of requiring labeling to an outright prohibition which would allow manipulation of the market to obtain a competitive advantage. These amendments would impede the movement of Mexican cattle, and have a price depressing effect on the Mexican cattle market. This would work against integration of the North American market and other U.S-Mexico cooperative efforts.

Additionally, a problem of perception from the U.S. cattle industry may arise. No U.S. cattleman would think about buying foreign cattle if there is the possibility that the cattle to be delivered as a result of futures contracts could be rejected or found not acceptable because of the proposed amendments. Cattlemen will no longer look for sources of high quality cattle outside the U.S. at a time when there are sanitary problems to be solved in Canada, the largest supplier of steers to lot feeders in the U.S.

We believe that these amendments undermine NAFTA, at a time when the elimination of tariffs on almost all of the agricultural trade between Mexico and the U.S. has caused widespread concern about the effects of trade liberalization. This action could jeopardize the bilateral relationship, the multilateral round of liberalization in the WTO, and it is contrary to the commitment by both Administrations to resolve trade disputes.

At a time when the Government of Mexico is working with cattle producers to address potential impacts of globalization and NAFTA in their industry and to avoid any derailment of our commitments, these amendments would undermine programs which are assisting the development of the livestock sector in Mexico, and also involve producers of corn, sorghum and other staples linked to livestock production.

The *Programa de Estimulos a la Productividad Ganadera* (PROGAN) "Stimulus Program for Cattle Productivity" is a clear example of how the Mexican Government has been working to provide the necessary tools for this transitional period. PROGAN's is a 4-year program whose goal is to bring competitiveness to cattle production in Mexico, through technology, and reconversion of non-competitive crops to grasslands. These actions will require feed producers in Mexico to switch from corn and sorghum to grasses which will bring better incomes, and a steady supply for the livestock sector. Through such programs we intend to increase cattle output and to reduce production of corn and sorghum in Mexico, thus indirectly benefiting U.S. exports of feed grains to Mexico. Recently, under this program, the State of Tamaulipas, the largest producer of sorghum, switched 77 thousand hectares from grains to grasslands.

PROGRAN provides funds up to 1.5 billion pesos (150 million dollars) to allow Mexican producers to facilitate the switch from corn and sorghum to grasses. But were the proposed measure to become effective, it would cause uncertainty in the market for cattle and uncertainty in meat prices. Perceived problems from the importation of grains from the U.S. will prevail.

Additionally, the Mexican Government is heavily investing, through its marketing branch, ASERCA, in the futures market to bring stability in commercial operations, specifically for Mexican cattle.

In summary, these amendments would have serious negative economic impacts on the North American cattle market, and we believe that the policy change is ill-advised.

We trust that this proposal will not be implemented. If you have any comments please feel free to contact us.

Sincerely,

Enrique Lobo Niembro
Agricultural Minister
Embassy of Mexico

cc: Robert B. Zoellick, U.S. Trade Representative
Sharon Bomer, Director of Agricultural Affairs and Technical Barriers to Trade
Congressman Robert W. Goodlatte
Congressman Henry Bonilla
Agriculture Secretary Anne Veneman
Under Secretary J.B. Penn