COMMODITY FUTURES TRADING COMMISSION RECEIVED FOR PUBLIC RECORD

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Thomas R. Donovan
President and
Chief Executive Officer

January 5, 1999

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

COMMENT

Dear Ms. Webb:

The Board of Trade of the City of Chicago ("CBOT" or "Exchange") hereby respectfully submits this limited response to the Commodity Futures Trading Commission ("CFTC" or "Commission") with respect to its Federal Register Release ("Release"), dated November 25, 1998, issued in connection with the CBOT's October 21, 1998, submission which proposes amendments to the Exchange's Wheat, Corn, Soybean and Oat futures contracts. Specifically, the CBOT, pursuant to an informal request made by staff of the CFTC's Division of Economic Analysis, hereby responds to the following question raised by the CFTC within its Release:

> In light of recently announced plans concerning changes[1] in the ownership and/or operational control of the wheat contract's delivery facilities, what effect, if any, will the increased concentration in the control of delivery capacity resulting from theses changes have on the contract's susceptibility to price manipulation, market congestion or the abnormal movement of wheat in interstate commerce? To what extent do these changes reflect general trends in the cash market?

In addition, the CBOT would like to discuss certain aspects of the load-out terms proposed within its October 21, 1998 submission.

I. The recent announcement regarding Cargill, Inc.'s intention to purchase Continental Grain Company's Grain Merchandising Operations.

First, it should be noted that it is difficult to determine whether the proposed transaction between Cargill, Inc. ("Cargill") and the Continental Grain Company ("Continental") will be consummated in light of the anticipated level of congressional and federal regulatory scrutiny. Second, the proposed transaction, if ultimately pursued, is likely to be extremely complex and would undoubtedly take a significant amount of time to accomplish. In contrast, there is an immediate, short term need to implement the CBOT's proposed revisions to the Wheat futures contract. The CBOT's submitted contract revisions, upon CFTC approval, will immediately

[1] On March 25, 1998, Cargill, Inc. announced an agreement under which the Andersons, Inc. would lease Cargill's two grain handling facilities in Toledo/Maumee, Ohio and provide on-site management of those facilities, in addition to the Anderson's own grain-handling facilities in Toledo/Maumee. In addition, on November 10, 1998, Cargill announced the purchase of all of Continental Grain Co.'s grain merchandising operations, including Continental's existing wheat futures delivery facilities located in Chicago and St. Louis.

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improve the hedging effectiveness and price discovery performance of the Exchange's premier Wheat futures contract. In anticipation that the CFTC would expeditiously approve the revisions submitted on October 21, 1998, the CBOT delayed listing its year 2000 Wheat futures contracts and its July and December year 2001 contracts. Given the recent expiration of the December 1998 Wheat futures contracts, the CBOT is presently two years behind its listing schedule.

This situation represents a more serious threat to the viability of the CBOT's Wheat futures contract than the proposed transaction between Cargill and Continental. Therefore, the CBOT respectfully submits that its October 21, 1998 submission should be reviewed and approved on its own merits and without regard to a proposed transaction which may or may not occur.

Furthermore, if the proposed transaction is eventually consummated, we have no evidence that the resulting increase in concentration would increase the Wheat futures contract's susceptibility to price manipulation, market congestion or the abnormal movement of wheat in interstate commerce. If consummated, the proposed transaction would result in an increase in the Herfindal Index, a commonly used statistical measure of concentration, by only six percent. (See, the CBOT's analysis of wheat ownership concentration incorporated herein as Attachment 1.)

In addition, historically, wheat deliveries have occurred in Toledo. Since Continental does not presently maintain a delivery facility in Toledo, the Cargill/Continental buyout would not effect concentration in Toledo. (See, the CBOT's historical analysis of wheat deliveries incorporated herein as Attachment 2.) Toledo is a natural delivery point for soft red winter wheat due to its close proximity to the major soft wheat-producing region in the U.S. Toledo is also a major milling and export location for soft red winter wheat and, therefore, provides a relatively transparent and active market for the commodity. Because of these factors, Toledo should continue to provide the majority of the deliveries against the wheat futures contract and should be relatively unaffected by the increasing concentration which is occurring in the cash markets.

II. The Andersons, Inc. grain-handling facilities lease agreement with Cargill.

Upon information and belief, The Andersons, Inc. ("Andersons") is leasing Cargill's Conant Street, Maumee, Ohio and Edwin Drive, Toledo, Ohio delivery facilities and has agreed to provide on-site management of the facilities in conjunction with Andersons' two elevator facilities also located in Maumee and Toledo. In brief, upon information and belief, the Andersons Inc. and Cargill have an arrangement whereby Andersons will concentrate on originating grain, general elevator operations, and general administrative services, and Cargill will focus on providing worldwide grain marketing services for both parties' facilities. Apparently, the purpose of the arrangement is to capitalize on the market efficiencies that result.[2]

The grain industry has been experiencing a general trend towards consolidation in agricultural inputs, grain acquisition, handling, transporting, and marketing. The number of

[2] Since Cargill and Andersons announced their new relationship on March 25, 1998, the subsequent Wheat futures contract expirations have been orderly, and the CBOT has no reason to believe that the participants have acted in a manner to cause manipulation, congestion, or the abnormal movement of grain in interstate commerce.

fertilizer companies, railroads, barge lines, and grain merchandisers have all decreased in the last decade. However, countering this general trend has been the emergence of precision and conservation farming, specialty and custom cropping, farmer-owned trucking, value-added processing and marketing. As noted by Andersons in its recent comment letter:

> Consolidation in the cash grain markets will continue much like trends occurring in other industries. The efficiencies of consolidation are being maximized throughout the free-enterprise system in all industries and positive results are clearly evidenced by the continued productivity gains of the free-enterprise system. The customer is the ultimate beneficiary of these gains. (See, the December 28, 1998, Andersons comment letter response to the Release.)

III. The CBOT's proposed load-out revisions.

The CBOT would like to address concerns raised by certain market participants relating to the load-out terms proposed within the CBOT's October 21, 1998 submission. The proposed amendments would require that regular warehousemen give preference in the load-out lineup to takers of delivery. This procedure was approved for barge load-out under the new corn and soybean contracts which were recently approved by CFTC. In order to provide for fair and equitable load-out of all types of delivery grain, the Exchange determined that the delivery load-out preference should apply to all modes of transportation at all locations.

The Andersons have raised a specific concern that it would be costly and impractical to remove a cash vessel from a berth partially loaded in order to load delivery stocks. However, the CBOT's load-out regulations provide the warehouseman with three days notice of its obligation to commence load-out of delivery grain. The three day notice period should be sufficient to allow a warehouseman to complete the loading of a cash vessel that is berthed at the time the warehouseman receives loading instructions for a delivery vessel.

The proposed load-out amendment is simply intended to provide quicker access to delivery stocks, thereby improving the pricing accuracy and hedging effectiveness of the futures contract.

IV. Conclusion.

The CBOT's Wheat futures contract continues to perform well and is relied upon by end users throughout the nation and the world as an essential business tool for managing risk and discovering prices notwithstanding the industry trend of increased concentration. The revisions pending before the CFTC will significantly improve the performance of the CBOT's Wheat futures contracts that are presently authorized for trading but remain unlisted in anticipation of the Exchange receiving CFTC approval of its submission. Accordingly, the CBOT respectfully requests that the CFTC approve its October 21, 1998 submission as expeditiously as possible.

Sincerely,

Thomas R. Donovan

Thomas R. Donovan

Attachment 1

Wheat Ownership Concentration
Before and After Cargill's Acquisition of Continental

Elevator	1,000 bushels Capacity (Before)	Capacity (After)	% of Capacity Share (Before)	Share (After)	Herfindal Index Share^2 (Before)	Share^2 (After)
Andersons	41,865	41,865	51%	51%	0.2595	0.2595
ADM	19,705	19,705	24%	24%	0.0575	0.0575
Cargill	5,473	17,226	7%	21%	0.0044	0.0439
Continental	11,753	-	14%	0%	0.0205	0.0000
ConAgra	3,390	3,390	4%	4%	0.0017	0.0017
Total	82,186	82,186	100%	100%	0.3436	0.3626
					6% INCREASE	

Source: CFTC

Attachment 2

CBOT Wheat Deliveries

	(1,000 Bushels)					Share of Annual Wheat Deliveries		
Year	Chicago	Toledo	St.Louis	Total	Year	Chicago	Toledo	St.Louis
83	138,105	22,455	0	160,560	83	86.0%	14.0%	0.0%
84	25,000	6,130	0	31,130	84	80.3%	19.7%	0.0%
85	25,160	10,550	0	35,710	85	70.5%	29.5%	0.0%
86	5,850	1,845	0	7,695	86	76.0%	24.0%	0.0%
87	30,385	3,650	0	34,035	87	89.3%	10.7%	0.0%
88	35,255	73,555	0	108,810	88	32.4%	67.6%	0.0%
89	4,035	61,950	0	65,985	89	6.1%	93.9%	0.0%
90	2,320	54,085	0	56,405	90	4.1%	95.9%	0.0%
91	435	129,305	0	129,740	91	0.3%	99.7%	0.0%
92	3,530	39,495	0	43,025	92	8.2%	91.8%	0.0%
93	2,865	32,485	0	35,350	93	8.1%	91.9%	0.0%
94	95	100,843	0	100,938	94	0.1%	99.9%	0.0%
95	30,855	52,715	0	83,570	95	36.9%	63.1%	0.0%
96	955	25,100	0	26,055	96	3.7%	96.3%	0.0%
97	0	95,745	0	95,745	97	0.0%	100.0%	0.0%
98	2,180	299,320	0	301,500	98	0.7%	99.3%	0.0%

Source: CBOT