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August 24, 1999

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

COMMENT

Re: CBOT Proposed Amendments to the Rough Rice Futures Contract Modifying the Differential for Mill vs non-Mill sites

Dear Madam Secretary,

Cargill, Incorporated is a merchant and processor of agricultural commodities and other bulk products. As such, we make significant use of Chicago Board of Trade (CBOT) futures contracts for hedging a variety of price risks. We appreciate the opportunity to comment on the CBOT's Proposed revisions to their existing rough rice futures contract.

We participated in the CBOT's discussions on the rice contract and appreciated the opportunity to be included in this open forum and to have had the opportunity to provide input. We noted in a presentation made by CBOT staff with regard to the rice futures that on average, since 1993, deliveries represent 5% of total volume and 25% of total open interest. This is much higher than most agricultural commodities and reflects an immature or imperfect market. We are glad to see steps being taken to try and correct that.

We would like to address 4 various issues in our comments:

<u>1. Removing the discount for non-mill site warehouses:</u>

We are in support of this change. The market has evolved to a point where this change is logical and will increase the deliverable supplies. When the contract was initially developed this discount was more appropriate as the natural outlet for this grade of rice was a mill - the 0.15 cwt spread between the two covered the cost of moving rice from a non-mill to a mill site.

Today the market has changed. For example in 1986 paddy rice exports were nonexistent while in 1998/9 they represent 30% of total exports. Non-mill sites, as well as mill-sites, can both be origins for export shipments at the same value - there is no need for a discount on the non-mill locations. The markets recent actions support this idea - for the last year 90% of the total warehouse receipts outstanding have been mill-sites. It appears that the current non-mill site discount is discouraging delivery from these sites. This change should therefore increase the deliverable supplies by including those facilities in the normal mix.

2. Load-out rate for warehouses:
Although this is not currently a part of the CBOT's proposal we believe that a change should be made to the required load-out rate. Recent changes to other CBOT commodities have made a facility's total delivery capacity dependent upon their daily load-out rate. This is an important improvement because convergence of futures and cash is much more meaningful when the taker has a clear idea of when they will actually receive the commodity they are stopping.

We would suggest that this also be done on the CBOT rice contract limiting a facilities delivery potential to 30 days of that particular facility's loadout capacity. It would also be helpful if some provision could be added to facilitate barge loadings.

3. Rice Quality Specifications:
This is actually the key issue which needs to be addressed to improve the functionality of this contract. Current quality specifications mirror USDA #2 rice specifications which allows under the "Red rice and Damaged kernels" (which is where "stained rice" would fall) category 1.5% maximum, or about 400 kernels in 500 grams.

This is different than what both the domestic and export markets trade. Almost 100% of the normal commercial business done today is basis the specification "No Stain" - ie - zero kernels in 500 grams.

The inconsistency between the CBOT contract specifications and the normal commercial trade practices significantly limit the market usefulness to hedgers and, at times, increase the potential for manipulation.

We would strongly suggest that the CBOT adopt the same specifications on their futures contract as are normally traded in the cash markets. This would automatically increase the interest in long hedgers of using this market as its relevance to the "real" market would increase significantly. We understand that there are ongoing discussions to find a middle ground between the current specifications and what the cash market trades - we do not favor this approach and prefer to see the situation be corrected rather than simply made less bad.

4. Expanded Delivery Area:
As pointed out initially the rice market has changed and now 30% of the US rice exports are made up of this type of rice. As much of this rice moves into export channels using barge freight we believe that river facilities should be added as delivery points. This is a sensitive subject, which has been looked at in limited ways previously, but we would suggest that a thorough review of this issue be conducted to see if there are opportunities to add additional delivery capacity which would be relevant for the market, and which would not distort the historical pricing system of the market. We recommend the delivery area be enlarged to include facilities outside of the traditional Arkansas area for the purpose of including some river loading facilities.

We appreciate the opportunity to comment on the CBOT's rough rice futures contract and the changes, both those that the CBOT is now proposing and that we are suggesting ourselves. Our objective is to see this contract grow and develop into a more useful hedging tool which will in turn mean more liquidity and trading opportunities for all participants. As is evident from the high percentage of Rice Contracts offset through the delivery process vis-a-vis other CBOT ag contracts there is an opportunity for improvement.

We would encourage the CFTC to keep the "fast-track" procedure in place and approve the changes as of September 10, 1999. We would also urge the CFTC to suggest to the CBOT that some of these other issues be studied and proposals put forth for additional changes to the contract.

We would be happy to answer any questions which you may have. Thank you for considering our views.

Sincerely yours,

Jim Sutter
Vice-President, Grain and Oilseed Supply Chain Platform
CBOT Futures Manager

cc: Mr. Alistair McLuskie/Worldwide Rice Trading Manager - Cargill, Geneva
Mr. Jack Frymire/Chairman - CBOT Ag Product Development Committee