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Richard E. Bell
President

COMMENT

November 29, 1999

VIA FACSIMILE
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TO: Ms. Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
21st Street, N.W.
Washington, DC 20581

RE: Proposed Amendments to Chicago Board of Trade
Rough Rice Futures Contract

Riceland Foods, Inc. recommends that the Commission not approve the referenced proposed amendments regarding quality specifications for delivery of rough rice against the Chicago Board of Trade's (CBOT) rough rice futures contract. The proposed amendments would reduce the quantity of stained rice permitted in rough rice deliverable on the futures contract and would prohibit delivery of rough rice which contains heat-damaged rice.

Riceland Foods, Inc. is a farmer-owned cooperative which markets rice grown by its farmer-members. Nearly 40 percent of the rice growers in the United States are members of the cooperative. Most of them, nearly 90 percent, market their rice through the cooperative on a pool basis. This means their rice is priced for them by the cooperative.

The cooperative markets 30 percent of the rough rice grown in the United States. It processes and sells 25 percent of the domestically milled rice sold in the U.S. market.

Riceland has been a supporter and user of the current rough rice futures contract since its inception many years ago. It is an important tool in marketing our farmer-members' rice. We are often the largest component of the open interest for the Chicago rough rice futures contract. If the proposed amendments are approved and implemented, we are likely to sharply reduce our use of the contract. In fact, if the proposed amendments come into force, we fear that the contract will wither away.

Contrary to the contention of the CBOT's submission to the Commission, the proposed amendments will not improve the pricing accuracy nor efficiency of the rough rice futures market. In fact, they will reduce the supply of deliverable rice

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within the delivery zone and result in substantial market distortions. This will be particularly true late in the marketing year when the rice has been stored for some time.

Riceland cannot afford being put into a position of not being able to deliver rice against the contract. This would make it very difficult to lift our hedges. Based on past experience, we would be continually chasing the market when attempting to lift.

We also object to the procedures used by the CBOT's staff in preparing and submitting the proposed amendments to the Commission. We do not believe there was adequate due process in arriving at a decision to submit the amendments. Although I am a member of the CBOT, my office has no record of receiving any official notice that the amendments were being submitted to the CBOT's board of directors for its consideration.

We believe the submissions of these amendments were driven by a few local traders at the CBOT, along with some exporters of rough rice. We do not believe that the broader interests of the industry, particularly the growers and millers, were adequately taken into account.

In the recent past some rough rice exporters used the rough rice futures contract as a cash market to originate rough rice for their export orders. In some of these circumstances they may have had difficulty with stained or heat-damaged rice. But they could have avoided these problems by placing limits on stain and heat damage in the rice being shipped to them and adjusting their purchase prices accordingly.

We would agree that the standards for stain and heat-damage could be tightened, but not to the degree in the proposed amendments. The standards in the CBOT proposal are essentially for package-quality rice. This is only a small segment of the entire market.

For stain, we recommend changing the contract specification to allow up to 25 stained kernels in total per 500 grams with a maximum of 10 kernels as identified by USDA/FGIS line slide 2.1 and 25 kernels as identified by line slide 2.2. See the following for comparison purposes:

	<u>TOTAL STAIN</u>	<u>LINE SLIDE R-2.1</u>	<u>LINE SLIDE R-2.2</u>
CBOT's Current Spec.	1.5% (300 kernel by count)	300	Unlimited
CBOT's Proposal	10	5	10
Our Suggestion	25	10	25

With regard to heat-damaged kernels, USDA/FGIS standards for U.S. Grade No. 2 or better rough rice allows for two heat-damaged kernels per 500 grams. The change proposed by the CBOT would not allow any heat-damaged kernels as identified by USDA/FGIS line slide R-2.0. Even U.S. Grade No. 1 rough rice is permitted one heat-damaged kernel per 500 grams.

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It is readily apparent from the above facts, that the CBOT proposed amendments are impracticable and would greatly reduce the supply of rough rice available for delivery within the delivery zone. With these facts in mind, we urge the Commission not to approve CBOT's proposed amendments, but return them to CBOT with a request to resubmit them after taking the broader interests of the industry into account.

We will be pleased to submit additional information as well as data supporting our reasons for objecting to CBOT's proposed amendments. Thank you for your consideration.

Richard E. Bell

Richard E. Bell
President and
Chief Executive Officer

END