

February 10th 2014

By Commission Website

Melissa Jurgens, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW.
Washington, DC 20581

Re: RIN number 3038–AD99: 17 CFR Parts 1, 15, 17, et al., Position Limits for Derivatives;
Proposed Rule, Federal Register/ Vol. 78, No. 239 / December 12, 2013

Dear Ms. Jurgens:

This letter is in response to the Federal Register notice of December 12th 2013 regarding the Proposed Rule for Position Limits for Derivatives.

These comments are submitted by Fonterra Co-operative Group, a New Zealand based multi-national dairy co-operative which employs 16,800 people involved in the processing and marketing of 2.48 million tonnes of dairy products globally. In the USA Fonterra is a joint venture partner with Dairy Farmers of America in DairiConcepts, a multimillion dollar company that employs over 500 people and processes milk through eight plants located in Iowa, Minnesota, Missouri, Pennsylvania, Wisconsin and South Dakota.

Fonterra is a major exporter of US dairy products having a number of agreements with US dairy processors and an importer of New Zealand dairy products into the USA when global dairy prices render this profitable.

Having invested significant capital and technology in the US market, Fonterra is committed to its continuing role in the US dairy industry. Fonterra has offices located around the globe including Fonterra USA, Inc., a dairy ingredients company headquartered in Rosemont, Illinois employing 60 people overseeing all import, export and domestic US operations.

Fonterra has had an active program of developing its use of risk management products in the last 5 years and uses CFTC regulated futures markets to manage price risk associated with its global operations. These markets are developing and will be an important part of the ongoing sustainability of our dairy operations given the increasing and ongoing volatility seen in dairy prices.

The dairy industry has worked hard to develop the risk management capability for farmers, processors, and end-users. The dairy industry is supportive of position limits for proper functioning and oversight of markets, but we are concerned with unintended consequences from the proposed rule on the dairy markets development.

We support the comments submitted by the Innovation Center for U.S. Dairy. Our comments and recommendations are summarized as follows:

- In order to facilitate future growth of the dairy markets, position limits should not be less than 3,000 contracts per month (spot or non-spot).

- We support using the alternative approach of establishing spot month limits at 25% of deliverable supply and support updating the spot month limits every two years.
- This method would establish the spot month contract limit for class 3 milk at 5,300 contracts.
- Do not apply the 10/2.5 formula for establishing non-spot month limits.
- To resolve the inconsistency in a higher spot month limit (e.g. 5300) than the non-spot month limit (3400), we propose applying the spot month limit to each individual non-spot month.
- Given the cash-settled nature of class III milk contracts, and minimal concern for supply manipulation, there should be no all months combined limit. If the Commission insists upon a limit, then the all months combined limit should be defined as the non-spot month limit multiplied by the number of total contract months.
- For the definition of bona fide hedging and reporting requirements, we request the Commission consider any additional reporting requirements that are in conflict with other regulatory requirements, and ensure they are aligned with existing reporting requirements.

The dairy industry has put significant effort behind developing risk management tools such as futures and options contracts at the CME. We are concerned about the potential to limit the activity of liquidity providers in dairy markets when efforts are being made to increase it. Impeding growth in those markets will result in the continued inability for our industry to use those tools. Our interest is in developing robust risk management tools for the dairy industry to manage the price volatility from an increasingly global dairy market.

We thank you for considering our comments and recommendations.

Yours sincerely,

Bruce Turner
Director Commodity Risk & Trading
Fonterra Co-operative Group Ltd