



Mississippi State UNIVERSITY

Agricultural Economics Department
P.O. Box 5187
Mississippi State, MS 39762
(662) 325-2750
(662) 325-8777 (FAX)

Received CFTC
Records Section

RECEIVED
C.F.T.C.

'00 MAY 9 PM 1 16
OFFICE OF THE SECRETARIAT

00-13
6

May 3, 2000

COMMENT

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

Fax: 202-418-5521

Re: Proposed Amendment to the Cotton No. 2 Futures Contract Prohibiting Cotton Stocks Under Commodity Credit Corporation Loan Simultaneously Being Exchange Certified for Delivery on the Futures Contract

The Commission has requested public comments relative to three questions: (1) whether the continuation of allowing certified cotton stocks to remain under CCC loan represents a threat to orderly trading and delivery in the futures market; (2) would the proposal reduce deliverable supplies to the levels that would make the futures contract susceptible to price manipulation or distortion; and (3) is the proposal consistent with section 15 of the Commodity Exchange Act.

Number 1

There is no empirical evidence suggesting the certification of CCC loan cotton is, or ever has been, a threat to orderly trading. Thus, the Exchange's proposal was void of references to the question. The Exchange did not document any trade that suffered as a result to this subject of the current delivery process--such has not happened. The public domain lists no publically funded research project addressing this issue. The frivolous subject of the resolution precludes such funding.

Number 2

The Exchange provides no relevant information on deliverable supplies. In fact, their written paragraph on the subject is clear evidence that the resolution is without merit. Should current hedgers maintain their status quo use of the cotton futures market, then deliverable supplies would decline as simple logic implies. Yet, if current hedgers were willing to make significant

'00 MAY 9 PM 2 55
RECEIVED
C.F.T.C.

changes in their risk management strategies, then one could argue that the volume of certificatable supplies could be unchanged. Such is possible. However, such changes in risk management strategies would equally imply the same potential for reduced market volume and increased price volatility. Such a change, clearly, would put the sanctity of the cotton futures contract at risk. One would think that the Exchange should not risk contract sanctity over a resolution void of public economic merit. The resolution begs for the concentration of market power. Further, it begs for a less than a purely competitive and for a restrictive price discovery mechanism.

It is unfathomable why Exchange "locals" would as much as allow the consideration of the resolution. Why "locals" would favor contract changes that would both limit volume and increase the market concentration of specific traders is very unclear and an issue to which I cannot shed any penetrating light. Given the changing structure of futures trading one would think that "locals" would desire to increase volume. Possibly, the "locals" were not aware of the resolution.

The Exchange assumes the naive economic model of perfect competition exists in American agriculture. While perfect competition may possibly exist in the merchandising sub sector, no one would argue that it exists in the textile sector, the production sector, or within the scope of the cotton industry itself.

Number 3

It is proposals of this type that necessitate and scream for government regulation and intervention in commodity markets. No reason, social or economic, was presented for the resolution. The only economic presentation in the submission was a set of references supporting the requirement for a delivery mechanism in a futures contract. Certainly, no one has proposed that delivery is not necessary.

The "**Overview**" of the Exchange's submission describes a marketplace that pertains equally to both producers and merchandisers of US cotton. The wording of the section, possibly inadvertently, was such that possibly one might conclude that one futures participant was granted a benefit over another. Additionally, the 1986 legislation referenced by the Exchange, made significant changes in many aspects in the public policy of the United States, not just the CCC loan. Merchants were provided certain cash benefits, as were mills, and as were farmers. Since that time industry disagreements have been resolved within the industry (National Cotton Council of America). Given its formal industry status, the Exchange is aware of this. I am not aware that the Exchange, in 14 years since the birth of the legislation, has brought this matter to the discussion table of the National Cotton Council.

The Exchange suggests "concern" that cotton under loan may not be responsive to commercial market action. All physical bales of cotton in the US are responsive to commercial

Page 3
May 3, 2000

market forces and such a statement by the Exchange is totally void of any economic empirical evidence. To suggest such implies that the Exchange could be in favor of closing the No. 2 contract.

The Exchange, in "**Role of Certificated Stocks**," documents the necessity for a delivery mechanism. However, the Exchange states "... certification process provides a means of informing market participants of likely levels of delivery..." This is incorrect as their records demonstrate. That is, the mere fact of certification is poorly correlated with actual delivery. Certification does not imply "likely" delivery as stated by the Exchange. It is the threat of delivery that ensures an orderly convergence, not the correlation between the certificated stocks and actual deliveries.

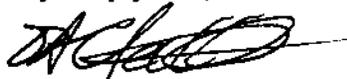
The remainder of the Exchange's submission includes numerous factually incorrect statements and/or half-truths. Specifically, I reference "**Response to Questions Raised by the Division**" Number 3,A,(1),(c), as well as 3,B,(1), (b) and 3,B,(3). Also included in this category is 3,B,(7).

It is unusual to review a document whose thesis is that an American Farmer, a producer of raw commodities, could have dominant, much less any market power, over processors or merchandisers. Clearly this is novel. Heretofore, economic concentration of market power by the producers of major raw agricultural commodities had been unknown in the literature.

It is personally disturbing that an institution with such creditable industry standing, as has been enjoyed by the New York Cotton Exchange, an institution of proven leadership in fostering producer understanding of futures markets, and an institution that has actively and effectively promoted its economic function would make such a proposal. Obviously, they will come to realize that their submission is without documentation. The request to disenfranchise the United States cotton producer, the American Farmer, from the use of the time and business honored practice of accessing the CCC loan program, and at the same time, allowing producers to keep all their marketing alternatives available is one that should receive harsh scrutiny. Additionally, legislation prohibits any disenfranchisement of a CCC commodity in the marketplace. This resolution is a godsend to academic and business schools. It will quickly be added to case study problems in business ethics. Is American agribusiness destined to become one shenanigans?

Thank you for your consideration.

Very truly yours,



OA Cleveland, Jr., PhD
Professor and Marketing Specialist