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allenberg cotton co.

A Division of the Louis Dreyfus Corporation

JOE NICOSIA
Chief Executive Officer / President

COMMENT

May 5, 2000

Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, D.C. 20591

By fax: (202) 418-5521

Re: New York Cotton Exchange proposal to amend its cotton No. 2 futures contract Prohibiting cotton stocks under Commodity Credit loan from simultaneously being Exchange-certified for delivery on the futures contract

Dear Secretary Webb:

Allenberg Cotton Co. is a member of the New York Cotton Exchange and is one of the largest merchandisers of cotton in the United States. We are writing to strongly support the proposal of the New York Cotton Exchange to prohibit cotton held under the Commodity Credit Corporation's non-recourse loan program from being certified for delivery on the futures contract.

The value of such cotton is responsive to the price level that the USDA establishes on a weekly basis to secure its redemption from the loan. That price level, known as the Adjusted World Price (AWP), is based on offering levels for both U.S. and foreign cottons CIF Northern Europe published by a private cotton newspaper in Liverpool, United Kingdom. Through a complicated formula authorized by a regulation that is mandated by statute, the USDA uses such prices to establish a weekly value at which the cotton can be redeemed from the loan. If the cotton is not redeemed, it is forfeited to the USDA upon ten months maturity. USDA policy is to promptly catalog such forfeited cotton and sell it to the public under a bid process.

For these reasons the cotton that is held under loan is variously encumbered and may not be responsive to futures price levels. If it is allowed to be certificated for futures delivery, and such certified stocks are responsive to AWP levels and not to the economics of futures prices and board spreads, the result will be price distortions and an artificially low price to growers of cotton.

As long as the AWP is low relative to the loan rate, cotton held under loan is free from carrying charges. (The USDA absorbs the cost of carry as part of its policy to keep the cotton internationally competitive.) For this reason, owners of the cotton prefer to keep it under loan until the AWP presents the best (typically the cheapest) redemption opportunity. At that time the cotton is redeemed and the owner becomes responsible for subsequent carrying charges. Frequently this pressures the owner to bring the cotton to market.

In the past, a million bales or more has been redeemed from the loan in a single week in response to a perceived bottoming of the AWP.

On the other hand, since the owner of the cotton held under loan is seeking the best redemption value for his cotton, he may be unwilling to redeem it from the loan notwithstanding the level of the futures market. Since passage of free title is a condition of futures delivery, the owner must redeem in order to be able to perform delivery. The artificial and non-futures-market related conditions of redemption can prevent loan cotton from coming to market in response to the normal convergence of spot and futures markets at the time of delivery. We believe this is totally incompatible with the purpose and function of the futures market and that the practice of certificating cotton held under loan for futures delivery should be prohibited. This decision needs to be based on what is best for the futures contract.

Sincerely,

Allenberg Cotton Co.

Joe Nicosia

Joe Nicosia
President