



**mailing address** P.O. Box 259, Bakersfield, CA 93302-0259  
**street address** 1900 E. Brundage Lane, Bakersfield, CA 93307  
**telephone** 661.327.5961  
**facsimile** 661.861.9870  
**e - mail** staff@calcot.com  
**internet** www.calcot.com

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OFFICE OF THE SECRETARIAT

April 4, 2001

## COMMENT

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Ms. Jean A. Webb, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre 21<sup>st</sup> Street N. W.  
Washington, D.C. 20581

Reference: Proposed Amendments to the New York Cotton Exchange  
#2 Futures Contract Concerning Micronaire, Strength and  
Old Crop Cotton

Dear Ms. Webb:

Calcot is a cotton-marketing cooperative that markets cotton for 1,800 members who grow almost 50 percent of the cotton grown in the states of Arizona and California. We are in agreement with, and very supportive of, the proposed amendments related to strength and "old crop" cotton.

We are, however, very opposed to the amendment concerning micronaire.

Our opposition to the amendment concerning micronaire is based upon the very firm belief that the discount for 4.8 and 4.9 micronaire would severely reduce income for growers, without commensurate value being accorded to the cotton trade. The reason for this belief is rooted in the following points:

1. The discount for micronaire 4.8 and 4.9 would not only apply to cotton certificated for tender, but the discount would inevitably be incorporated in purchase contracts that would cover all production. Currently, just about all export contracts for premium micronaire cotton specify the range of 3.5 to 4.9. Redefining by the New York Cotton Exchange of the "premium micronaire" range from 3.5-4.9 to 3.5-4.7 would inevitably lead to a change in the perception of the "premium micronaire" range from 4.9 down to 4.7, and negatively impact the opportunity for growers to get a premium price for their 4.8 and 4.9 micronaire, as they traditionally have been able to do. About 40 percent of all U.S. cotton is exported, and in Arizona and California, about 80 percent of the cotton is exported. Due to this fact, a discount for 4.8 and 4.9 cotton would be especially deleterious for Far Western growers, without any compensating features.
2. The percentage of the U.S. cotton crop classed in the 4.8 and 4.9 category varies from year-to-year, but has not shown an upward trend in the past four years. In 1997, 13.7 percent of the U.S. crop was classed 4.8 and 4.9 micronaire; in 1998

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it was 9.2; in 1999, 14.0; and in 2000, 10.6 percent. These relatively low percentages indicate the 4.8-4.9 micronaire cottons are not an overly burdensome factor in the market. Also, it is worth noting that, with the exception of the 1998/99 and 1999/00 seasons, the average annual micronaire of the U.S. crop since the 1993/94 season has been consistently around a 4.3 average.

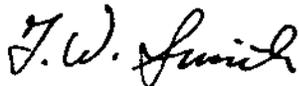
3. One of the objectives of the trade is to penalize cotton producers for 4.8 and 4.9 micronaire, in hopes that producers will put pressure on seed breeders to develop varieties with lower micronaire. Progress in this direction is already occurring: a recent meeting in Memphis between the executive committee of the American Cotton Growers and the major cotton breeders brought out reports that breeders have made and are making significant progress towards varieties that had lower micronaire, along with good yields.
4. Growers are particularly sensitive about additional quality categories that cause price discounts. Growers complain that they can never get premiums--they only get discounts and, in time, the discounts only get larger. I believe that if there is any perceived problem with 4.8 and 4.9 micronaire, it is already getting resolved, and it does not appear prudent to allow the trade to saddle growers with a permanent discount category.

I realize there is a question whether the micronaire issue fits within the core principles for designated contract markets. However, at the time of the establishment of the Commodity Futures Trading Commission in 1973, it was argued that CFTC should be required to effect specified changes in its rules and practices, as determined necessary for the protection of persons producing, handling, processing, or consuming any commodity traded for future delivery.

In my opinion, the micronaire issue falls in the category of protecting cotton growers from unduly being penalized because of a temporary situation that has a relatively small impact on the contract. Also, the additional penalty for old crop cotton will tend to clear cotton from certificated stocks, so that undesirable cotton will not be perpetuated on the contract through the practice of "decert-recert," as it has for the past three years.

Thank you for your consideration of these viewpoints.

Sincerely



T. W. Smith  
President