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September 01, 1999

Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
21st Street, NW
Washington, DC 20581

RE: Proposed Amendment to Chicago Board of Trade
Rough Rice Futures Contract Regarding Locational
Price Differentials

COMMENT

Dear Ms. Webb,

A historical review of the locational discount for the rough rice futures contract since inception of trading in New Orleans on April 10, 1981 has consistently shown discounts for non mill site locations. The original contract specifications called for multi-state, multi-location delivery with discounts based upon freight differences to the U.S. Gulf.

The current revised contract specifications with delivery locations confined to Arkansas; the leading long grain producing state, differentiate values based upon the location being a mill site or a non-mill site with a standardized discount of fifteen cents (.15cts. for non mill sites.)

The economic justification for discounts at a non mill site is based upon the ultimate worth of rough rice. With the expectation that rough rice is eventually consumed as milled rice, the logic suggests that rough rice has more value when located within a mill site versus having to be shipped from an outlying location-- that difference being the cost of freight to place the rough rice at a mill.

As marketing trends change over time so has U.S. rice trade. For several years the United States was the world's leading exporter of rice - virtually all milled rice. In the last ten years, the U.S. has lost its leading role, being replaced by both Thailand and Viet Nam. Coincidentally, within the last five years U.S. exports of rough rice have sustained a dramatic increase.

Thus, the value of rice in our delivery area of Arkansas is now being priced by milled rice demand and rough rice export demand. The result of this trend is the pricing of rough rice at the farm in Arkansas to be virtually the same price for either market which has led to this proposed amendment.. There however continues to be noticeable differences in value at the extremes of the delivery area; that is, northern Arkansas versus southern Arkansas. Most notable would be to compare the value of rough rice at a mill site in Jonesboro, Arkansas versus the major milling center of Greenville, Mississippi (just across the river bridge from southern Arkansas).

It is my contention that the sharp increase in U.S. rough rice exports is directly related to import tariffs. When reviewing the destinations for U.S. rough rice exports we observe two primary destinations, Latin America (mostly Mexico) and Brazil. Latin America demand has been consistent while the Brazil demand, although large, is sporadic.

It is also known that tariff schedules under GATT and NAFTA agreements are geared toward a declining advantage for rough rice imports by Mexico and Brazil. The object of such measures is the protection of U.S. business concerns and the American labor force. i.e. retain jobs in the U.S., not the exportation of labor or capital assets.

With this expected economic action it is also my contention that the marketing trend for U.S. rice will once again be focused upon milled rice exports, and a decline in raw rough rice exports.

In the process of price discovery via a futures contract, we attempt to standardize the terms of trade. The instrument by which we discover the price of rough rice is a warehouse receipt, meaning the rice is delivered and in- store at an approved facility. If that facility issuing the warehouse receipt is not a rice mill, the rough rice will eventually be moved to another location where it can be utilized for ultimate consumption. Contrarily, if that facility is a rice mill, the rough rice can be utilized without involving additional freight.

Thus, it is my opinion that rough rice will have greater value in a location in which is can be processed for consumption. Accordingly, it is my opinion that there should not be a change made to the existing specifications in the CBT rough rice location discount.

Respectfully,

Neauman D. Coleman

Neauman D. Coleman
Senior Vice President
Financial Advisor
Futures Specialist

P.S.

The opinions expressed herewith are solely those of Neauman D. Coleman, and not necessarily of my employer Morgan Stanley Dean Witter, Inc. These opinions are based upon my experience with rough rice futures. I personally purchased the first rough rice futures contract traded on April 10, 1981 at the New Orleans Commodity Exchange. My association with rice dates to my early childhood days on our family farm in Arkansas. I have been a member of the rough rice contract committee and am currently the rice representative on The Agriculture Advisory Committee of The Chicago Board of Trade. My expertise in rough rice futures trading is extensive, representing both long and short hedgers in virtually any hedgers needs.