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OFFICE OF THE SECRETARIAT RECORDS SECTION



ADM RICE  
Tarrytown, NY

December 9, 1999

COMMENT

Ms Jean A Webb, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 Street NW  
Washington, D.C.

99-46  
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Ms Webb

As an exporter of rice, ADM RICE uses the CBOT Rough Rice contract extensively in the management of price risk. ADM RICE is of the opinion that proposal "A" as submitted by the CBOT, allowing for a combination of 10 stained and lightly stained kernels with a maximum of five stain, is a positive change to the CBOT Rough Rice contract. We are of the opinion that these specifications are achievable by the industry, will not significantly impact the supply of rice in deliverable positions, the receipts will be merchantable across a large cross section of the rough rice market and will aid in cash/futures convergence.

The terms "no heat, no stain" has become a standard term in the rough rice trade destined for the export market. ADM RICE is not of the opinion that the proposal "A" will materially effect the deliverable supply of rough rice. Stained rice will occur every year as a result of improper storage and handling, we are of the opinion that a relatively insignificant percentage of the crop is affected by stain and this will not significantly reduce deliverable supplies. The ability of the rough rice market to export +800,000 Mt annually with "no heat, no stain" terms is a testament that the industries ability to supplying "no heat, no stain" rice on a year round basis. The specifications outlined in proposal "A" give the CBOT warehouseman more latitude in regard to stain than what is allowed in the standard cash trade and promotes the convergence of the cash trade and futures.

No export market readily and knowingly accepts stained rice including many of the private US #5/20 milled rice customers. The only consistent outlet for rice with stain is through Title I and Title II government programs. In normal cash trade, the rice with stain will trade at a discount to "no heat/no stain" rice creating a two tiered market for "no heat/no stain" rice and "off grade" rice which includes US #2 rice with stain. ADM Rice is of the opinion that stain limitations greater than proposal "A" will significantly limit the merchantability of CBOT receipt rice and the CBOT will continue to act as a pricing mechanism for "off grade" rice rather than reflecting the true cash trade of "no heat/no stain". Although proposal "A" will broaden the markets which receipts are merchantable to closer resemble the cash trade, the stopper of CBOT contracts will still have a degree of risk regarding stain under proposal "A" which will maintain the status of the CBOT as an origination source of last resort.

The greatest effect proposal "A" will have is on increased efficiency and transparency of cash/futures through limiting the inefficient deliveries of rough rice which has limited commercial value and by giving the proper economic incentives for the warehouseman to operate in a rational manner. Stain limitations greater than proposal "A" will result in the continued delivery of rice with limited commercial outlets resulting in a distortion of spreads and periods where cash market trades at a substantial premium to delivery equivalent. Maintaining a contract with specifications that are not suitable for a wide range of commercial uses will only maintain the monopoly franchise the warehouseman has today on stained rice which is otherwise unmerchantable in the cash market.

ADM RICE fully supports the proposal "A" as presented by the CBOT. This proposal provides a product that is merchantable in the cash market, will tighten cash/futures relationships, stop uneconomical deliveries of rice, are measurable by FGIS and increases the validity of the contract. Standards less than proposal "A" will not improve the performance of the contract and could be counter productive to the contract over the long term.

Regards,

Colby Moss  
ADM RICE