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President

April 17, 2001

COMMENT

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Ms. Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre 21st 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:

Staplcotn is a cotton marketing cooperative that markets in excess of 3,000,000 bales per year for approximately 4,500 producer/members from the states of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, and Tennessee. We are in support of the proposed amendments to the #2 Cotton Contract relating to strength and "old crop" cotton. This is because these proposed changes bring the terms of the #2 Contract in closer conformity with the cash market. In the cash market (1) most all contracts with U.S. textile mills stipulate a minimum strength per bale of 25 g.p.t., or in a few cases of 26 g.p.t.; and (2) most all U.S. textile mills will not mix two different years of growth in the same spinning plant. Therefore, once the "new" crop is begun to be spun at some point during the fall period, the spinning mill will almost never accept "old crop" thereafter, which creates a discount for that cotton.

However, we object to the proposed change for micronaire, because per bale discounts for 48 or 49 micronaire are not now in conformity with cash market trading terms. Cash market trading terms between producers and middlemen in the distribution chain are determined by the cash market terms established by the spinning mill consumers of cotton with these middlemen. The terms negotiated by the spinning mill consumer with the middlemen is the dog that wags the tail, which is the terms these middlemen eventually negotiate with producers to acquire their cotton.

Currently, almost every U.S. textile mill will accept at par bales of cotton of 48 and 49 micronaire, as long as these bales are part of a lot that averages lower micronaire. The typical lot size is a truckload – about 90 bales. Contracts for delivery in almost every case specify that any bale of 35–49 mic, or in some cases 37–49 mic, is acceptable as long as it is delivered as part of a 90 bale truckload that averages 40–44 micronaire for the 90 bales, or in some cases 40–45 micronaire. These are the almost universal terms in the cash trade. The proposed rule would create terms for the #2 Contract that would differ substantially from the cash market terms because, if AMS, USDA, quoted a cash market difference for 48 or 49 micronaire, that discount would apply to each bale of 48 or 49 micronaire delivered as part of the approximately 100 bale lot required to fulfill a futures contract. This discount would apply even if the approximately 100

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bales averaged in the 40–44 or 40–45 micronaire range that would make the cotton acceptable at par at almost any textile mill in the United States.

Of course, proponents of the change argue that if USDA could discover no cash market discount, none would exist on the #2 Contract. However, obviously by asking the question a discount would be discovered. Since spinning mill contracts are concerned with averages per 90 bale truckload, a producer soliciting bids on a 90 bale lot, of which each bale is of 35-49 micronaire, and of which a few are 48 or 49 mic, should not receive a bid reflecting any discount as long as the average of the 90 was in a range of about 40-45. This is because the spinning mill would pay the middleman par for each of the 90 bales. However, if so many bales were 48 or 49 mic that the average mic of the 90 was 46 or 47, the producer would be discounted, and the discount would be reported.

This is the problem with the proposed rule. The cash market pays par for 48 or 49 micronaire bales as long as there are not enough of them in a 90 bale lot to raise the average above 44 or 45. The Exchange wants to discount every 48 or 49 micronaire bale even if it is part of a 100 bale lot tendered against the #2 Contract whose average micronaire is not above 44 or 45. If adopted, this would change the rule to one not in conformity with current cash market practices. This would get the #2 Contract out of compliance with the underlying cash market practice, which by definition would make the contract more subject to manipulation, violating one of the core principles for a contract market.

The spinning mill consumers of cotton or the middlemen that supply them would take delivery of 48 or 49 micronaire bales at a discount, and they would then be able to receive par for these bales in the cash market. They would put them into lots with other bales so that the micronaire average of the lots fell within the desired 40-44 or 40-45 range in order to receive par. Deliverable supplies would be reduced because owners of inventory of baled cotton would not certificate and tender bales of 48 or 49 micronaire if they are discounted by the Exchange. By not certificating them they could mix them with other bales of lower micronaire to make lots that would receive par. The Exchange should bear the burden to prove (1) that there is a problem with the current practice, and (2) that the proposed change would correct the proven problem, and (3) would be in conformity with cash market practice.

Sincerely,

Woods Eastland

Woods Eastland

WEE/bb