PCCA
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May 2, 2008

Mr. Walter Lukken
Acting Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, DC 20581

Dear Commissioner Lukken:

It was a pleasure to meet you over lunch at the CFTC Agricultural Forum on April 22nd, and we appreciate very much the Commission's willingness to accept public comments on the situations in many commodities markets.

I am writing on behalf of Plains Cotton Cooperative Association, a producer-owned cotton marketer headquartered in Lubbock, Texas. We have approximately 15,000 active producer members, and 6.6 million bales, representing 34 % of the 2007/2008 cotton crop will be processed through our system. We will actively market a large percentage of those bales, making us the largest single originator of U.S. cotton.

Our Chairman, Eddie Smith, submitted a statement on April 8, 2008, and Woods Eastland submitted a statement today on behalf of AMCOT, of which we are one of the four members. We fully concur with the contents of both of those statements, and wish to add a few more comments.

Mr. Eastland's letter referenced the statutory authorities and responsibilities of the CFTC in regulating markets. An excerpt from the Act states that the "…purpose of this chapter is to deter and prevent price manipulation or any other disruptions to market integrity…" It was clear from the hearing that, in the words of one of the Commissioners, "Something has happened in the cotton market", and there have been several calls for a CFTC investigation into the actual events leading up to the market's extreme reactions during the period from mid-February through late March. We fully support those requests for an investigation.

The purpose of my letter is to report the practical side of what has happened in the physical cotton trade as a result of those extreme moves. We hold a seat on the Cotton Contract Committee of ICE Futures, and during the last two days, I have spoken to most of the members of that committee who trade in physical cotton. In the course of those conversations, I asked these participants whether they were using the futures market as a hedge any longer, and most of them answered negatively. The common thread of these discussions was "We can't manage our risks without risking all of our capital." I can tell you that PCCA, as the largest originator of cotton in the country, has not sold any futures contracts to hedge our 2007 or 2008 production since late February for precisely this reason, even though we are an extremely well-capitalized company. Market statistics should confirm that participation in futures by true hedgers, other than liquidation of positions, has decreased dramatically since the end of February.

Thus the practical result of the "something" that happened in cotton is that our futures market no longer serves its purpose as a price discovery and risk management tool. This is tremendously prejudicial to the entire trade. Producers cannot make forward contracts, cooperatives cannot hedge marketing pools, merchants cannot hedge their positions, and textile mills cannot buy based the futures markets, all because the risks of participating in the market appear to outweigh the risks of not participating in a market that goes up synthetically by over thirty percent in one day. Between the end of February and the end of March, cotton went up and then back down by almost forty cents per pound with virtually no change in fundamental factors of supply and demand.

You asked during the hearing if participants had taken losses due to forced closeouts, and Woods Eastland answered affirmatively. We have had similar situations with our customers. Some of our merchant buyers have been forced into bankruptcy when their brokerage houses closed them out on a synthetic options value basis when they could not make intra-day margin calls which arose within a few hours of trading and were demanded payable within a matter of another hour. Some of our mill customers have defaulted on contracts because we were forced to call them for margins which they could not produce. Our producers suffer current losses when our buyers default, but the loss of future potential markets is even more severe. Because of what cotton traders saw happen in the space of a few days, they simply cannot afford to run their businesses in a traditional, conservatively hedged fashion for fear that a repetition of these extreme and unwarranted price spikes would bankrupt them in the future.

These examples are clear proof that there has been, at the very least, severe "disruption to market integrity". Various solutions have been proposed and are being actively investigated by the trade. I would like to reiterate a statement I made to you at lunch, namely that the disparity in treatment of market participants creates serious disruptions. You may recall my analogy that allowing index funds unfettered and unreportable positions in commodity markets alongside individual producers was like "putting Michael Jackson in the ring with Mike Tyson". Various other parties have made comments on your web site questioning the justification for the special treatment of index funds and ETF's, exempting them from speculative position limits and from all reporting requirements.

Our company files a report with the CFTC every week, detailing all of our futures positions and our physical positions. Yet a company like PIMCO, who claims to have 200,000 investors who "need" to participate in commodity markets as a financial investment, does not face the same requirements. This is clearly an injustice, and an anomaly that needs to be fixed. We sincerely hope the Commission will help restore order and confidence to the cotton market by requiring that virtually all participants be subject to the same spec position limits and reporting requirements.

As I told Bob from PIMCO at the April 22nd meeting, I may not have 200,000 investors to deal with, but I've got 15,000 farmers, they all have guns, and they know where I live. Thank you very much for your consideration.

Sincerely,

Wallace L. Darneille
President & CEO

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