Comments to
Commodity Futures Trading Commission Forum
April 22, 2008

By
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Mr. Chairman, I am Chuck Coley from Vienna Georgia. I am a partner in Coley Farms which produces cotton and peanuts and also serve as president of Coley Gin and Fertilizer Company. I am here today representing U.S. cotton producers in my capacity as Chairman of the American Cotton Producers of the National Cotton Council. The ACP represents producer interests within the Council which is the national trade organization for the U.S. raw cotton industry.

We commend the CFTC for conducting this forum to address a very serious issue confronting the cotton industry. The cotton futures market is totally dysfunctional at the current time. The impact of unregulated investments by index funds and other speculators have resulted in a complete divergence of cash and futures prices. This scenario is common to grain, oilseed and cotton markets but appears more severe in cotton futures trading. As an example, synthetic cotton price increases that had no relevance to the fundamental market conditions rose over thirty percent in one day last month and continue to be highly volatile.

The New York Cotton Exchange was founded in 1870 as the first commodity exchange in this country and has served this industry well for over 100 years. The frustration shared by cotton producers stems from a cotton futures market that is now unable to discover future prices with any historical correspondence to cash prices and provide a hedging mechanism. Cotton merchants are no longer offering forward contracts to producers because of extreme price risks. A large Memphis merchant was quoted as saying their company has not bought a single bale of cotton in a month because they didn't know how to hedge it.

Likewise, producers are unable to convince their bankers to assume similar risks for their own price protection. Therefore, as cotton prices have soared and plunged over the past month, producers, along with merchants are merely bystanders.

Not only have we been on the outside of the market, we are also deeply troubled about the impact this recent price volatility has had on the liquidity of buyers. Traditional merchandising relationships between growers and buyers have ceased because price risks are too great for short hedging purposes. Growers continue to be concerned about the financial viability of buyers with whom they have previously contracted new crop sales. This situation equally applies to growers who trade with private merchants and those who belong to marketing cooperatives.

Cotton futures markets must be returned to their historical function of price discovery and risk management relative to real market conditions. Cotton producers face extreme pressures from escalating input costs which threaten their viability and yet currently have no mechanism to forward price their production at reasonable costs.

We strongly urge the CFTC to use its authority and exercise its responsibility to protect market participants against manipulation. As growers we concur with recommendations from our merchandizing segments that call for more transparency in trading. We urge CFTC to apply the same speculative limits and reporting requirements to all market participants. Consideration should also be given to increasing speculative position margins and disallowing any increase in speculative position limits. The CFTC should also urge the Intercontinental Exchange to consider expanding certification delivery points and take measures that would ease certification costs.

In spite of our concern and frustration, we are not seeking legislative or regulatory changes that bar parties from entering the market. On the contrary, we clearly understand the importance of speculative participation in a viable futures market. However it is incumbent upon the CFTC to use its authority to regulate futures markets so as to provide meaningful risk management and price discovery.

Many in the cotton industry question what the public policy position of the CFTC should be regarding futures markets. Should these markets be regulated so that their primary purpose is to facilitate the cash market by providing price discovery and risk transfer, which has been its historic role? Or should they be regulated so that their primary purpose is to provide an investment vehicle to invest in commodities without taking title to the physical commodity? Our concern is that it has become the later and that is not healthy for cotton or any commodity markets.

Unfortunately the state of the market does not allow the CFTC to evaluate its options over an extended period of time. Decisive action is needed in the short term to restore the confidence in the markets for producers and all segments to operate in this crop year. If this is not accomplished, the viability of the U.S. cotton industry is at stake.

Thank you for the opportunity to share our concerns and to participate in this forum.