



PLAINS COTTON COOPERATIVE ASSOCIATION □ P. O. BOX 2827 □ LUBBOCK, TEXAS 79408 □ FAX: (806) 762-7335 □ PHONE (806) 763-8011

April 10, 2008

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

Dear Mr. Lukken:

I am a cotton producer near Floydada, Texas, and Chairman of the Board of Plains Cotton Cooperative Association (PCCA), a cotton marketing cooperative representing 25,000 member-stockholders. I am writing to urge the Commodity Futures Trading Commission to take appropriate action in light of the recent and extreme volatility in the cotton futures market on the Intercontinental Exchange (ICE). I respectfully request that this letter be included in the public record of the CFTC forum to be held on April 22.

Tremendous unregulated investments by index funds and ETF's in commodity futures contracts have led to a divergence of cash and futures prices in most agricultural commodities. The disparity is even more serious in cotton than it is in the grain complex, as cotton prices rose synthetically by over thirty percent in one day, even though the supply/demand situation is not at all tight. Though the NYCE and the NYBOT cotton futures served the industry very well for 138 years, providing price discovery and risk management opportunities, we no longer have a viable hedging mechanism today. Furthermore, cotton buyers are no longer offering forward contracts to producers because they cannot cover their price risks.

Futures markets need liquidity, and speculative participation helps provide this. We do not suggest making legislative changes that would bar parties from entering the market. Rather, we ask that the CFTC apply the same speculative limits and reporting requirements to all market participants. Traders in physical cotton may not take futures positions unjustified by their physical positions, yet index funds are not similarly limited, and they do not even have to make the same reports to the CFTC that we do. We also ask that you consider increasing speculative position margins, and that you disallow any increase in speculative position limits. The CFTC has the authority and responsibility as mandated by Congress in 1974 to protect market participants against manipulation. Clearly, the CFTC understood that there was a valid reason for limiting the size of speculative positions, yet they are not applying this to all market

participants equally in today's markets, and we believe this is contributing greatly to the current market anomalies.

In recent weeks, all segments of the U.S. cotton industry (producers, ginners, cooperatives, merchants, textile mills, warehouses, and seed crushers) have suffered from the liquidity crisis the current market has imposed on our buyers. Large merchants have stated publicly that they will no longer be willing to operate as they have for generations because the risks are simply too great if they use futures for short hedging purposes. They have also stated that they will reduce the prices they pay for agricultural products because of the increased risks, and they will be much less willing to engage in forward purchases. Some multi-generational, conservative merchant houses have suffered irreversible financial losses caused by the forced closeout of futures positions being margined to synthetic intraday price fluctuations. In short, we have lost some of our buyers, others have been seriously wounded and will be less willing to buy from us, and the futures markets have become so dangerous that producers cannot afford to participate individually or collectively. There is no way we can manage our risks without risking all of our capital, and that is an unacceptable situation.

Thus we believe it is imperative that the CFTC be proactive in regulating futures markets so they provide a means for price discovery and risk management. We think the simple first step is to apply the same position limit and reporting rules to ALL market participants. We implore you to help us restore confidence in markets which were viable hedging mechanisms for well over a century, but have become "casinos" today.

Sincerely,

A handwritten signature in cursive script that reads "Eddie Smith". The signature is written in black ink and is centered on the page.

Eddie Smith
Chairman