



United States
Department of
Agriculture

Farm and Foreign
Agricultural Services

Farm Service
Agency

1400 Independence
Avenue, SW
Stop 0550
Washington, DC
20250-0550

NOTICE TO THE TRADE

**BCD-121
WLED-12**

DATE: February 1, 2006
TO: All Cotton Warehouse Operators
SUBJECT: High Moisture Cotton Alert

Purpose:

To alert all cotton warehouse operators licensed under the United States Warehouse Act (USWA) and/or Approved for a Commodity Credit Corporation's (CCC) Cotton Storage Agreement (CSA) that some warehouse operators have received cotton bales for warehouse receipted storage that later inspections reveal to be water-packed.

Background:

Cotton warehouse operators expect to receive storable and merchantable cotton bales from their customers. Although restoring some of the moisture lost during ginning is a normal practice, cotton bales received with excessive moisture (> 7.5 percent) may not be storable or merchantable. When warehouses receive such cotton, the cotton bale's exterior appearance may seem storable. As weather conditions change and time passes, mold begins to form and damage becomes apparent.

The Memphis Cotton Exchange's Trade Rule 1, Clause 2 defines unmerchantable cotton as "...containing moisture in excess of 7.5 percent." USDA's Agricultural Research Service (ARS) studies currently indicate that moisture contents above 7.5 percent in stored cotton bales cause fiber quality deterioration. After a review of ARS and other research by their Quality Task Force, the National Cotton Council recommends 7.5 percent moisture content (wet basis) as the maximum moisture level for stored cotton bales, until such time as more research refines this level further.

The Agricultural Marketing Service regulations found at 7 CFR Part 28.40 defines "water-packed cotton" and "false-packed cotton." Water-packed cotton is defined as, cotton in a bale that has been penetrated by water during the baling process, causing damage to the fiber, or a bale that through exposure to the weather or by other means, while apparently dry on the exterior, has been damaged by water in the interior. False-packed cotton is defined as, cotton in a bale (1) containing substances entirely foreign to cotton; (2) containing damaged cotton in the interior with or without any indication of such damage upon the exterior; (3) composed of good cotton upon the exterior and decidedly inferior cotton in the interior, in such manner as not to be detected by customary examination; or (4) containing pickings or linters worked into the bale.

CCC does not consider water-packed or false-packed cotton bales to be eligible for marketing assistance loans. Upon the discovery of either of these conditions, CCC may determine that the cotton bales are ineligible to receive loan deficiency payments, or be pledged as collateral for marketing assistance loans and request repayment of the loan at principal plus interest.

Requested Action:

All USWA and CSA warehouse operators should be on alert for water-pack and/or false-pack cotton bales when receiving bales. The warehouse operator has the right and obligation to reject the delivery of any cotton bale the warehouse operator believes to be water-packed and/or false-packed. When the warehouse operator believes that a bale placed into storage has been water-packed and/or false-packed, the warehouse operator should attempt to ascertain the extent of the problem and should immediately notify the Kansas City Commodity Office contacts listed below:

- USWA licensed warehouse operators should contact Terry Chapman at 816-823-3205, and
- Warehouse operators that are not licensed under the USWA should contact Steve Searcy at 816-926-2528.

/s/ Bert Farrish

Bert Farrish
Deputy Administrator for Commodity Operations