INSTITUTE FOR AGRICULTURE AND TRADE POLICY

PRESS RELEASE

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About IATP

Institute for Agriculture and Trade Policy works locally and globally at the intersection of policy and practice to ensure fair and sustainable food, farm and trade systems. IATP is headquartered in Minneapolis, Minnesota with an office in Geneva.

Wall Street reform bill signed today will limit excessive speculation in agriculture

New rules to curb Wall Street's influence over food and farming

MINNEAPOLIS – The Wall Street reform bill signed today by President Obama will severely restrict excessive speculation on agriculture commodity futures markets that has harmed U.S. farmers and countries battling hunger, according to the Institute for Agriculture and Trade Policy (IATP).

"This landmark bill is a first step toward preventing the excessive speculation by big Wall Street banks that has created enormous price volatility in agriculture and energy markets," said IATP commodities expert Steve Suppan. "This is an important win for farmers and rural communities whose economic futures are so tightly linked to agriculture and energy."

The bill requires the Commodity Futures Trading Commission (CFTC) to set per-commodity limits across all markets on the number of derivatives contracts that can be controlled by any one entity and its affiliates during a trading contract period. Previously, Wall Street firms and others took advantage of the "Enron loophole" and other regulatory exemptions to purchase and then sell off derivative contracts for agriculture and energy without limits, driving prices up and down.

Just as importantly, the bill requires that most derivatives presently traded "over the counter," i.e., in private deals not subject to CFTC rules and reporting requirements, be traded on public and regulated exchanges. The legislation also strengthens enforcement standards and prosecutorial resources for initiating fraud and market manipulation investigations.

"This bill will help markets work for agriculture and all Americans, not just for Wall Street and the transnational corporations that hide their deals in private markets," said Suppan. "With a return to a more transparent price setting process on public and regulated exchanges, farmers and ranchers again will be able to sell their products in advance to generate the cash flows they require for planting, livestock purchases and other farm management expenses."

Greater transparency and tougher position limits in the U.S. will also benefit many developing countries. Countries dependent on agriculture imports for food security will be able to forward contract at fairer and more predictable prices. Developing countries that rely on agricultural exports will similarly benefit from greater price predictability and stability as they forward contract sales.

The bill also requires a study of proposed mandatory trading of carbon emissions credits under CFTC authority to induce investments to meet greenhouse gas emission targets. The study will estimate the price volatility and trading volume effects of carbon trading under proposed climate change legislation. Last year, IATP reported on the risks of excessive speculation on proposed carbon markets.

"The next critical phase of Wall Street reform comes in the regulatory implementation of this bill," said Suppan. "Wall Street lobbyists and industry associations fought hard to maintain their insider privileges. This opposition will be at least as vigorous in the rule-making process."

IATP will continue to work alongside the Commodity Markets Oversight Coalition, Americans for Financial Reform and other allies to ensure effective implementation and enforcement. The implementation process with regards to agriculture will begin at an Agricultural Markets Advisory Committee meeting at the CFTC on August 5.

In 2008, IATP first reported on the role of big financial firms in contributing to steep food price increases. This dramatic price volatility not only affected U.S. agriculture, but ultimately contributed to increased hunger in many of the two-thirds of developing countries that are food-import dependent and that rely on U.S. markets for predictable purchase prices.

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