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.

CFTC should impose tough limits on Wall Street speculators

New rules could help stabilize energy and agriculture prices

MINNEAPOLIS – The Commodity Futures Trading Commission (CFTC) should act immediately to limit excessive speculation by Wall Street firms on energy derivatives trades, a move that will help address extreme volatility in both energy and agricultural markets, the Institute for Agriculture and Trade Policy (IATP) said in a comment submitted to the agency today.

The CFTC is accepting comments until April 26 on a proposed rule that would establish position limits on energy derivative contracts, which include specified crude oil, natural gas, heating oil and gasoline contracts. Position limits reduce speculation by limiting the number of derivative contracts that any one entity can hold for a contract period. Because other commodities are position-limited, the energy position exemption is colloquially known as the "Enron Loophole."

While the proposed rule applies strictly to energy derivative contracts, it will indirectly affect agriculture commodities as well. Commodity index funds bundle together non-agricultural and agricultural contracts, with the energy component being as much as two-thirds of the fund formula. Spikes and drops in energy derivative prices have roiled the much smaller agricultural contract component. In 2006–2008, index funds held about a third of all agricultural futures contracts.

"The lack of energy trade position limits has exacerbated excessive speculation and price volatility in agricultural futures contracts," said Steve Suppan of IATP. "Excessive speculation has hurt U.S. agriculture by undermining the original purpose of commodity exchanges—to help commodity sellers and buyers manage price risk. Agricultural price spikes and volatility in U.S. markets have 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."

Trading energy contracts with no position limits has brought on unwarranted price increases and volatility in heating oil, gasoline and other retail and wholesale energy products. Several loopholes, combined with a lack of effective enforcement, allowed excessive speculation to be a major factor in steep food price increases in late 2007 to early 2008. Commodity prices collapsed an aggregate of 60 percent between June and November 2008 as the insolvency of major investors, including index fund dealers, lead to U.S. bailouts of Wall Street firms.

The financial services industry is lobbying for the CFTC to hold off implementing the new rule until Congress passes financial reform legislation that the industry is fighting. The industry also argues that if the CFTC implements tight position limits, investors will simply move their trades to less-regulated or unregulated markets elsewhere.

"In the case of both agriculture and energy, our markets continue to be highly vulnerable to the actions of Wall Street speculators," said Suppan. "We need the CFTC to act now, and set a strong regulatory standard for other countries to follow around the world. We don't want a repeat of 2008, when prices were so volatile that U.S. grain elevators couldn't hedge their own risks on commodity exchanges and some refused to buy farmers' grain in advance, leading to a cash-flow crisis on many farms. "

While supportive of the CFTC's overall proposed rule, IATP additionally argued that: 1) position limits be expanded to include energy contracts in commodity index funds, and that index funds be limited to the bundling of commodities that have position limits; 2) the CFTC set position limits on "soft" agricultural commodity contracts such as cocoa, coffee and tea, which are a major source of export revenue for many developing countries.

IATP also warned about the danger of over-the-counter (OTC) trades, which are not subject to CFTC regulation, in undermining the agency's efforts to set effective position limits. IATP is part of the Commodity Markets Oversight Coalition working to close regulatory loopholes that allow OTC trading and excessive speculation to continue unabated.

You can read the full comment at www.iatp.org.

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