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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.

# **Senate vote on historic financial reform critical for agriculture**

## **New rules would help address excessive speculation in agricultural futures contracts**

**MINNEAPOLIS** – The Senate’s approval of an historic financial reform bill last night is a first step toward preventing the excessive financial speculation that has wreaked havoc in agricultural commodity futures contracts over the last several years, according to the Institute for Agriculture and Trade Policy (IATP).

Most importantly for agriculture, the Senate bill requires that previously unregulated over-the-counter (OTC) trades be traded on public exchanges. Currently, OTC trades are exempt from regulatory oversight by the Commodity Futures Trading Commission (CFTC). IATP is part of the Commodity Markets Oversight Coalition working to close regulatory loopholes that allow OTC trading and excessive speculation to continue unabated. The Senate bill must now be reconciled with the House of Representatives’ “Wall Street Reform and Consumer Protection Act.”

“The Senate bill helps make the market function like a market should—in an open and transparent way, instead of like a casino where only five big financial firms know what is going on,” said IATP analyst Steve Suppan. “Excessive speculation has hurt U.S. agriculture by undermining the original purpose of commodity exchanges—to help commodity sellers and buyers manage price risk. 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. Some elevators refused to contract to buy farmers’ grain in advance, leading to a cash flow crisis on many farms.”

By requiring that nearly all trades be executed on public and regulated exchanges, the Senate bill enables the CFTC to analyze daily trade data and determine when traders have exceeded the CFTC’s commodity-specific position limits. OTC traders benefit from public exchange price data but hide the price data of their own deals, a huge and unfair trade advantage that has benefitted big financial firms. Position limits refer to the percentage of all commodity contracts open for trade during a specific trading period. Enforcing position limits enables the CFTC to prevent the excessive liquidity that induced price volatility on agriculture commodity markets during 2007–2009.

In 2008, IATP first reported on the role of big financial firms in contributing to steep food price increases in late 2007 to early 2008. Commodity prices later collapsed an aggregate of 60 percent between June and November 2008 as the insolvency of major investors, including commodity index fund dealers, led to U.S. taxpayer bailouts of Wall Street firms.

The extreme 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. The Senate Permanent Subcommittee on Investigations and the United Nations Commission on Trade and Development (UNCTAD) have reached similar conclusions on the role of excessive speculation in creating extreme volatility in agricultural and non-agricultural commodity prices.

“If the Senate and House conference committee eliminates the loopholes that enabled the crisis in both financial and commodity markets, President Obama will be able to sign a bill to make markets work for agriculture and all Americans, and not just for Wall Street and the transnational corporations that hide their deals in OTC trades,” said Suppan.

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