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COMMENT

March 23, 2011

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Commodity Futures Trading Commission,

Food will be the next speculation bubble if we do not stop it in time. The real estate bubble of 2008 is a stark reminder of what happens when an entire market collapses. Defaults leave investors with massive losses, while over-leveraged homeowners go homeless. People can find alternatives for shelter, such as moving back in with parents for a little while, but the lack of food spurs an entirely different dynamic. Food crises are popping up all over the world, and in places such as Egypt and Tunisia, food crises have spurred civil unrest and revolution. The food bubble will be much worse than the real estate bubble, but there is a way to curtail it, by focusing on one controllable cause: speculation.

"People die from hunger while the banks make a killing from betting on food," says Deborah Doane, director of the World Development Movement. Speculation in food commodity markets is putting undue pricing stress on food prices, and it is affecting the everyday American. The FAO food index hit 215 points last month, up from 206 in November, to break the 213.5 registered in June 2008. It shows a dramatic rise in prices for food in a decade. In 2000 the index stood at 90 and did not break through 100 until 2004. While banks and investors make a killing on food speculation, 49 million American households lack consistent access to adequate food. The US government is spending $73 billion on food stamps, up 16% in 2010, to feed 14% of the US population in 2010. This has to change.

"...speculators are behind the surging prices." Olivier de Schutter, UN reporter

"Most of the business is now speculation – I would say 70-80%." - Mike Masters, fund manager at Masters Capital Management, who testified to the US Senate in 2008 that speculation was driving up global food prices

Pro speculation parties claim that speculation enables price efficiency and liquidity. While that may be true, current speculation levels are at 40-80% of the total food commodity market. A low level of speculation adds efficiency and liquidity quickly, but a high level of speculation adds little marginal value and thus contributes more to the negative effects of market de-stabilization.

Henry Kissinger said, "Who controls the food supply controls the people." Speculators currently have control. It's time to make them cede that control by discouraging over-speculation. This can be achieved through a paid membership process for speculators to participate in the commodity market. The idea is to add "skin in the game" for speculators so that they care about the long term viability and stability of the marketplace. Producers and Buyers have skin in the game because their business depends on stable prices, and ability to hedge in the commodity market provides that stability. Membership provides a lever for CFTC to control speculation levels. We recommend a 50% speculation level, but this topic requires further study. After setting the speculation level, the CFTC calculates the maximum capital influx allowed for the food commodity market, establish maximum investment allowed per investor, then portion out paid memberships to participating speculators. The suggested starting membership fee is 0.1% of invested capital per active year in the market. This provides CFTC revenue for managing the membership, an ability to screen participating speculators and prevent hoarding, and give CFTC a lever for controlling the speculation level.

Food is a basic human need. While speculators bring capital to grease the trading wheels, they should not have un-curtailed ability to affect prices while people go hungry. We urge the CFTC to consider a membership requirement for food commodities trading.

Respectfully,

Connie Kwan

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