

World Development Movement response to the US Commodity Futures Trading Commission

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About WDM

The World Development Movement (WDM) is a UK campaigning organisation which tackles the root causes of poverty. WDM is a democratic membership organisation with 15,000 supporters and 60 local groups. We lobby governments and companies to change policies that keep people poor. WDM is registered on the Commission's Interest Representative Register and subscribes to its Code of Conduct, ID number: 94118091309-66. <http://www.wdm.org.uk>

1. The World Development Movement welcomes the Dodd-Frank Wall Street Reform Act as well as the new remit of the US Commodity Futures Trading Commissions (CFTC) to lower risk and increase transparency within the swaps marketplace. In particular, we welcome the new regulations on over-the-counter (OTC) derivatives and food commodity derivatives.
2. *Impacts of commodity derivative speculation*
WDM is campaigning for the regulation of food commodity derivatives in order to curb the destabilising impact of financial speculation on food prices which is having devastating impacts on low-income families around the world leading to deeper hunger and poverty.

Research from the World Bankⁱ, UN Rapporteur on the Right to Foodⁱⁱ, UNCTADⁱⁱⁱ, and the World Development Movement^{iv} demonstrate the driving role of financial investors and speculators in the 2007-2008 world food crisis. As outlined by these reports, it is evident that the increase in food prices in 2007-2008 was due to the financialisation of commodity markets. For example, the World Bank stated that:

"commodity related activity on the financial side can induce higher price variability in the sense of exacerbating the length and the amplitude of price cycles, as they most likely did during the 'perfect storm' of 2007/08."

3. In the EU, the European Commission will be addressing the regulation of commodity speculation during the 2011 review of the Markets in Financial Instruments Directive. Specifically, OTC regulation will be addressed in the proposal for a regulation on OTC derivatives, central counterparties and trade repositories. It is essential that there is global uniformity and consistency in these regulations to ensure an efficient global market flow, greater transparency and limit financial arbitrage.
4. WDM welcomes the Dodd-Frank Act, in particular the power of the CFTC to set position limits and increase transparency in OTC swaps.

However, we are concerned that:

- a) lobbying from the financial services industry who have a vested interest in profiting from unregulated markets could undermine effective reform.
- b) definitions within the reform and remit of the CFTC are ambiguous, leaving scope for legal challenges and attempts by financial speculators to avoid the remit of the proposed regulations

5. In order to address these issues WDM recommends that the CFTC introduces:

- A clear definition of “commercial risk” specifically that the term commercial risk should not be expanded to include financial risks for banks and hedge funds and include only those who deal with physical commodities.
- A clear definition of “position limits” which curb excessive speculation as well as market manipulation
- Specific and aggressive limits on Exchange Traded Notes and Funds and swap-based Index Funds
- Limits on individual ownership and collective ownership of trading facilities
- Reviews on the effect of high computerised / algorithm-based trading, including high-frequency trading on commodity markets and to introduce regulations if necessary

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References

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ⁱⁱ De Schutter, O. (2010), Food Commodities Speculation and Food Price Crisis. http://www.srfood.org/images/stories/pdf/otherdocuments/20102309_briefing_note_02_en_ok.pdf. accessed 02.11.10

ⁱⁱⁱ UNCTAD. (2009). Trade and development report 2009. Chapter II: The financialization of commodity markets. United Nations. New York and Geneva.

^{iv} <http://www.wdm.org.uk/food-speculation/great-hunger-lottery>

^v Baffes & Haniotis. The World Bank. (2010). Placing the 2006/08 Commodity Price Boom into Perspective. Policy Research Working Paper 5371. July 2010. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/07/21/000158349_20100721110120/Rendered/PDF/WPS5371.pdf