



David Stawick
Secretary
Commodity Futures Trading Commission

Comment in response to proposed Reestablishment of the charter of the Agricultural Advisory Committee (FR Doc No: 2012-16006)

Steve Suppan, ssuppan@iatp.org
Institute for Agriculture and Trade Policy (IATP)

July 13, 2012

Dear Mr. Stawick,

The Institute for Agriculture and Trade Policy (IATP) is a nonprofit, 501(c)(3) nongovernmental organization, headquartered in Minneapolis, Minn., with an office in Washington, D.C. Our mission states, “The 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.” To carry out this mission, as regards commodity market regulation, IATP has participated in the Commodity Markets Oversight Coalition (CMOC) since 2009, and has submitted several comments on CFTC rulemaking, and on consultation papers of the International Organization of Securities Commissions, the European Securities and Markets Authority and the European Commission’s Directorate General for Internal Markets.

General comment

IATP has participated physically in just one meeting of the Agricultural Advisory Committee (the Committee) and followed two others via webcast. On the basis of this brief experience, our impression is that the Committee meets to discuss issues of immediate market participant concern, such as the Chicago Mercantile Exchange wheat contract design controversy and the MF Global funds segregation investigation. The Commission should reestablish the charter of the Committee to enable the Commission to continue to receive advice on such urgent and short-term issues. And, of course, the Committee will advise the Commission of issues that arise in agricultural markets as a result of Dodd-Frank implementation and enforcement.

However, IATP urges the Commission also to provide terms of reference in the reestablishment charter that would allow the Committee to provide the Commission with advice on longer term problems and issues that may be cross-cutting with other CFTC advisory committees.

Prominent among these longer-term issues is how long-term weather patterns will affect the estimates of physically deliverable supply that are the basis for setting spot month position limits. It is not necessary for the Commission to make a determination about the effects of climate change on agricultural production and transportation. However, to fulfill the normative objectives and public interest provisions of the Commodity Exchange Act, it would be prudent for the Commission to seek advice on long-term trends and issues in agricultural production and transportation.

Jerry Hatfield, the director of the U.S. Department of Agriculture's National Laboratory for Agriculture and the Environment, has said, "We're going to have to rethink our entire agronomic system to determine how to deal with climate change."ⁱ Just as climate change will require agronomic redesign, so too may it require rethinking about how to estimate physically deliverable supply, and recalibrate the position limits based on those estimates. The heat and other climate events that are afflicting U.S. crops presently, like the heat that impeded Mississippi River barge traffic in in 1988, are likely to be recurrent factors that will affect physically deliverable supply and challenge both the CFTC and bona fide hedgers.ⁱⁱ

The CFTC presently does not have a scientific advisor. The Committee could serve occasionally as forum for the Commission to receive information relevant to carrying out its statutory obligations and to promoting longer-term thinking about risk management. For example, agronomists, climatologists, logistics experts, and other researchers, both U.S. and international, could provide useful background at Committee meetings on the long-term problems in estimating physically deliverable supply for the contracts regulated by the Commission.

Furthermore, the terms of reference for reestablishing the Committee should allow it to meet jointly with other CFTC advisory committees to consider cross-cutting issues. For example, the Committee could meet with the Technology Advisory Committee to discuss research and market participant views on how High-Frequency Trading (HFT) and rules to regulate HFT are affecting agricultural price volatility and price discovery.ⁱⁱⁱ Similarly, the Committee may wish to meet jointly with the Global Markets Committee to discuss how the implementation of the cross-border provisions of Dodd-Frank is affecting price discovery and price volatility in agricultural swaps, futures and options contracts. In sum, the Commission should provide for terms of reference to allow joint advisory committee meetings on cross-cutting issues.

Conclusion

IATP appreciates the opportunity to comment on the terms for reestablishing the Agricultural Advisory Committee and looks forward to participating in the Committee's activities.

ⁱ Cited in Mark Hertsgaard, *Hot: Living Through the Next Fifty Years on Earth*, Houghton Mifflin Harcourt, 2011, 196.

ⁱⁱ For a longer-term outlook (i.e., 2050) than the Commission may wish to consider, see M. Wehner et al, "Projections of Future Drought in the Continental United States and Mexico," *Journal of Hydrometeorology*, December 2011, 1359-1377.

ⁱⁱⁱ E.g., David Bicchetti and Nicolas Maystre, "The synchronized and long-lasting change on commodity markets: evidence from high-frequency data," Munich Personal RePEc Archive, March 2012. <http://mpira.ub.uni-muenchen.de/37486>