



Robert Sidman
Deputy Secretary of the Commission
Commodity Futures Trading Commission (CFTC, Commission)
Three Lafayette Center
1155 21st Street NW
Washington, D.C. 20581

December 14, 2022

Re: Agricultural Advisory Committee (AAC) Meeting¹

Submitted electronically

Dear Mr. Sidman,

The Institute for Agriculture and Trade Policy (IATP)² appreciated the opportunity to view the AAC meeting on December 7 and is grateful for the opportunity to submit these comments about the meeting and future possible topics for the AAC's consideration. IATP last wrote to the Commission in response to its Request for Information (RFI) regarding climate-related financial risk.³ A few of our responses to Commission questions concerned agricultural derivatives contracts. Save in one instance, we will not cite or paraphrase from that letter, but refer you to our answers to questions 1, 4 and 12. (IATP summarized responses from some of the 77 commenters to the RFI, some of whom threatened to sue the agency or discouraged the Commission from taking any regulatory action regarding climate-related financial risk in derivatives markets.⁴)

Comments on the AAC meeting

The following comments rely on our notes since the meeting webcast has not been archived yet and the presenters' slide decks have not yet been posted. Happily, the Chair and Commissioners' opening statements have been posted.

At the outset of the meeting Chair Rostin Behnam said, "We have an aggressive agenda for our short meeting today."⁵ However, to judge by the meeting presentations and the very short time for AAC members to ask questions and propose topics for the next AAC meeting, the wealth of information

¹ <https://www.cftc.gov/sites/default/files/2022/11/2022-24591a.pdf>

² IATP is a nonprofit, 501(c)(3) nongovernmental organization, founded in 1986 headquartered in Minneapolis, Minnesota, with offices in Washington, D.C. and Berlin, Germany. IATP participated in the Commodity Markets Oversight Coalition (CMOC) from 2009 to 2015, and the Derivatives Task Force of Americans for Financial Reform since 2010.

³ <https://comments.cftc.gov/PublicComments/CommentList.aspx?id=7279>

⁴ Steve Suppan, "CFTC asks for help on climate risk: a huge range of responses," Institute for Agriculture and Trade Policy, October 21, 2022. <https://www.iatp.org/cftc-climate-risk>

⁵ <https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement120722>

presented often was not relevant to advising the CFTC on a regulatory agenda, much less an aggressive one, or studies and data collection related to such an agenda. Rather, the overall message of the meeting seemed to be that everything in agriculture derivatives trading is under control, but further improvements are possible. This was the message that IATP took away from the Chair's characterization of recent market functioning:

Before moving forward, looking back on the last several years of historically high [price] volatility in response to the global pandemic, various extreme weather events, and geopolitical issues, the agricultural futures markets have continuously provided transparent price discovery and accurately reflected supply and demand fundamentals with [cash and futures price] convergence at expiry [of a futures contract]. Our goal should not be limited to ensuring that the derivatives markets continue to serve their risk management and price basis functions. We should examine and explore ways that we can build even greater resilience, usability, access, and availability into our markets and market structures so that the benefits can reach the widest breadth of potential users and market participants.⁶

Members of the congressional agriculture committees that review the CFTC's budget proposal and agency performance will find in this praise for futures market performance reason to support an agency that delegates its authority to exchanges according to "principles-based regulation."

Missing from the meeting: discussion about the impact of a financial liquidity drain on agricultural price discovery and risk management

However, to attract long-term market participants to trade agricultural futures contracts, discover prices through transparent bids, offers and settlements and ensure that futures prices are a reliable benchmark for forward contracting with grain elevators and what livestock auctions remain, the meeting would have benefited from a data driven assessment of the state of agricultural futures markets. Instead of inviting only Tim Andriesen, managing director of agricultural products at the Chicago Mercantile Exchange, to explain how CME price limits manage extreme price volatility and price risk, the CFTC and AAC also could have invited a commodity trade advisor with a less self-interested analysis of the state of agricultural derivatives markets.

For example, Richard Brock could have presented his analysis of agricultural markets during the past two years and into the near-term future. Analyzing the CFTC's Commitment of Traders reports for the shrinking open interest in soybean futures from March to October 2022, Brock concludes,

With very few people now playing the game, it becomes easier to understand why the soybean market can have 25 cent price ranges every day because it no longer takes much to push the market around. This is not a healthy environment for markets. All markets need liquidity to facilitate hedging and trading. That is starting to go away.⁷

If financial speculators are leaving agricultural contracts for asset classes with more price predictability and higher return on investment prospects, will commercial producers and users of agricultural

⁶ Ibid.

⁷ Richard Brock, "Crazy World," *Feedstuffs*, October 2022. <https://informamarkets.turtl.co/story/feedstuffs-october-2022/page/3/1>

commodities be able to hedge prices and trade contracts to discover prices without financial firms willing to provide enough liquidity for adequate speculation? Will one large block trade be enough to “push the market around?” AAC member Michael Ricks of Cargill suggested that the CFTC needs to study the impact of block trading in these markets. IATP agrees, particularly if block traders are injecting and withdrawing liquidity with a frequency and price effect that may warrant the Commission to examine the adequacy of its current block trading rules.

Missing from the meeting: a frank discussion of the impact of climate change on agricultural derivatives markets and rules

Brock’s analysis starts in March, with the agricultural futures price volatility attributed to the Russian invasion of Ukraine and its de facto blockade of Black Sea shipping lanes. However, the impact of climate change on agricultural production, prices and market structure will certainly be longer lasting than the price limits events of the Russian invasion, which Mr. Andriesen said had ended on March 13, just 17 days after the start of the invasion.

At the AAC meeting, the impact of climate change on agricultural derivatives contracts was approached indirectly in terms of providing financial incentives for sustainable agricultural practices. It was not clear to us how the Field to Market coalition presentation was relevant to advising the Commission’s work. The supply chain breadth of the agribusiness dominant coalition and its growth are, of course, impressive, as is the announcement that the coalition has received \$70 million from U.S. Department of Agriculture Secretary Tom Vilsack’s program to develop “climate smart commodities.” Field to Market will apply eight sustainability metrics to 66 projects in 37 states in projects ranging from 300 acres to 1.3 million acres, e.g., to plant subsidized cover crop seeds. One of the 168 Field to Market members is Practical Farmers of Iowa, whose peer-to-peer mentorship on teaching the use of cover crops is being used to expand the planting of cover crops, a good agriculture practice long resisted by many in “production agriculture.”

According to research reported in the Washington Post, cover cropped acreage has increased from 1.8% in 2011 to 7.2% of total crop acreage in Midwestern states.⁸ The researchers developed an algorithm to synthesize remote sensing data that detected the extent of cover cropped acreage. They concluded, “the increase in cover crop adoption is highly correlated to the funding from federal and state conservation programs.”⁹ This increase in cover cropping is all to the good, of course. But if the prime mover of cover crop adoption is already federal and state programs financed by taxpayers, what is the value added of taxpayer funds flowing through Field to Market to do what federal and state programs have already done? More directly, how does the production of a “climate smart commodity” affect the CFTC’s work? Will agricultural derivatives contracts include “climate smart” definitions and requirements? Will exchange estimates of deliverable supply for a contract include separate estimates for commodities deemed “climate smart” from those that are not?

⁸ Erin Blakemore, “Midwest farms are using more cover crops. Why that’s good news.” *The Washington Post*, December 10, 2022.

⁹ Qu Zhou et al, “Recent Rapid Increase in Cover Crop Adoption in U.S. Midwest Detected by Fusing Multi-Source Remote Sensing Data,” *Geophysical Research Letters*, first posted November 7, 2022.
<https://agupubs.onlinelibrary.wiley.com/doi/full/10.1029/2022GL100249>

USDA announced the recipients of “climate smart” grants primarily to a who’s who of agribusinesses. It is not at all clear what a “climate smart commodity” (CSC) is. IATP noted of the \$3.5 billion grant program, “There is no current market, label or recognized standard. USDA suggested only that a CSC must reduce greenhouse gas emissions or sequester carbon. No details about how much GHG must be reduced, how long carbon must be sequestered, or how efforts might be measured and by whom.”¹⁰ We noted that several “climate smart commodity” grants went to carbon emissions offset credit developers, such as TruTerra and Indigo. If the purpose of presenting a “climate smart commodity” grantee’s projects to the CFTC is to describe future underlying assets for agriculture-based emission offset derivatives contracts, Field to Market’s presentation did not clearly articulate that purpose.

Will the CFTC have to modify its rulebook, e.g., regarding its oversight of exchange descriptions of the underlying assets of agricultural derivatives, if climate smart commodity contracts trade on Commission regulated markets? If climate smart commodities are primarily a means to create emissions offset credits to trade on voluntary markets with standards and legal definitions set by private organizations, how will such markets and standards affect legally and economically carbon credit contracts already traded under Commission oversight?

While “climate smart commodity” grantees are designing and carrying out their research projects, market participants are struggling to respond to the immediate, likely reoccurring and near-term market impacts of climate change. At the AAC meeting, representatives of the National Feed and Grain Association outlined the vulnerabilities of grain transportation to the drought that has shrunk the navigable Mississippi River basin, decreased the loading capacity of barges by 25-30% and increased the cost of barge freight rates to all-time highs. Emergency river dredging and temporary closings of portions of the river are among the short-term technical fixes to enable barge traffic to proceed to grain export facilities in New Orleans. Furthermore, commented Joe Barker of the National Council of Farm Cooperatives, the barge traffic jam problems have to be solved to ship fertilizer northward in time for spring planting.

Market participants understandably focus on managing first their short-term risks with whatever technical fixes are available and affordable. However, in addition to responses to the above mentioned RFI, the Commission should seek the advice of AAC members and the public about managing the financial risks to agricultural underlying assets that climate science forecasts as likely. For example, according to a 2021 National Space and Aeronautics Administration study, global maize (corn) yields are projected to drop by 25% by 2030, while wheat yields may increase by 17%.¹¹ Inviting a climate modeler to present to the next AAC meeting could provide a science basis for discussing how futures trading and contract design will respond to a sustained medium-term decline in crop production.

The locations of agricultural production likely will change due to prolonged drought, depleted aquifers and climate change exacerbated severe weather events.¹² It is likely that the sites of physical delivery of

¹⁰ Ben Lilliston, “Who owns the ‘climate smart commodity?’” Institute for Agriculture and Trade Policy, September 26, 2022. <https://www.iatp.org/who-owns-climate-smart-commodity>

¹¹ Megan Durisin, “Climate Change Will Cut Corn Yields by a Quarter by 2030, NASA Study Says,” Bloomberg, November 1, 2021.

¹² USGCRP, 2018: *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment, Volume II* [Reidmiller, D.R., C.W. Avery, D.R. Easterling, K.E. Kunkel, K.L.M. Lewis, T.K. Maycock, and B.C. Stewart (eds.)].

forward contracts, livestock auctions and derivatives contracts will change too. Climate change impacts on the nutritional composition of grains and oilseeds¹³ likely will require exchanges to modify the protein and mineral requirements for deliverable supply definitions, since import ports of entry could reject nutrient deficient shipments.

Conclusion

The Chair, in his closing remarks, said that the CFTC co-sponsored two-day long meeting on agricultural derivatives trading would not be held in the spring of 2023 nor perhaps in the fall of 2023 due to budgetary constraints. (IATP has participated in two of these meetings and found them to be very useful for our policy work.¹⁴) Given the urgency of just the few problems outlined in this letter, IATP believes that the Commission should request from Congress a supplement to the FY 2023 budget to defray the costs of resuming the annual meeting on agricultural futures trading. One of the topics of that meeting must be the impacts of climate change on agricultural derivatives and cash markets and on agricultural market participants. To limit discussion of climate change to sustainability metrics to guide the investment of public funds in private management of good agricultural practices is unlikely to result in AAC recommendations to the Commission for effective management of climate-related financial risks in the markets and contracts that the Commission regulates.

Respectfully submitted,

Steve Suppan, Ph.D.
Senior Policy Analyst

U.S. Global Change Research Program, Washington, DC, USA, 1515 pp. doi: 10.7930/NCA4.2018. See Chapters 3 on Water and Chapter 10 on Agriculture and Rural Communities.

¹³ R. Beach et al., "Combining the effects of increased atmospheric carbon dioxide on protein, iron and zinc availability and projected climate change on global diets: a modelling study," *The Lancet Planetary Health*, July 2019 (updated September 2020). [https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196\(19\)30094-4/fulltext](https://www.thelancet.com/journals/lanplh/article/PIIS2542-5196(19)30094-4/fulltext)

¹⁴ E.g., Steve Suppan, "Managing low and volatile ag price farmer anxiety," *The CFTC goes to the heartland*," Institute for Agriculture and Trade Policy, April 14, 2018. <https://www.iatp.org/search?keys=CFTC+goes+to+the+heartland>