Public Hearing : MiFID Review: objectives for MiFID/MiFIR2

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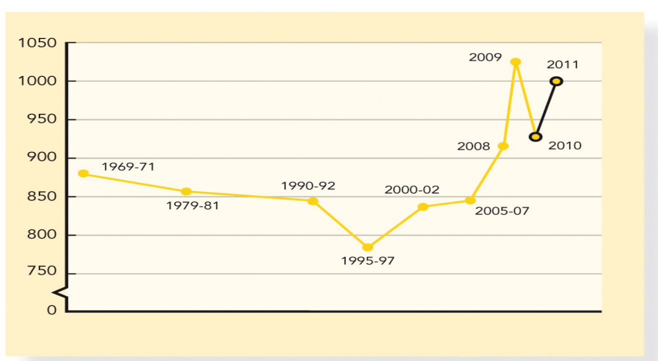
First of all thank you for the opportunity to speak at this important hearing, I am speaking on behalf of Civil Society organizations who are extremely concerned about the impact that the financialization of food is having on the lives of the poor. I hope to make the case that excessive speculation in commodities derivatives has increased food prices and volatility, putting in peril the food security of millions who are already struggling to feed themselves.

The financial deregulation of the last decade has for the first time in history transformed commodities into financial assets. Speculative capital is being structurally intertwined with productive capital. We believe this has contributed to 2 global food crises in the last 4 years. This is no longer just a matter of social justice and equity but one of geo-political stability.

The brunt of the food spikes is borne by people in low income food deficit countries who are increasingly dependent on imports to meet their food security needs. In industrial nations where people spend around 10% of their income on food, the impacts may seem negligible but in some developing countries, where up to 70 % of household expenditures can go to food; the issue takes on catastrophic proportions.

Hunger is largely an issue of poverty, when food prices are high, poor households find their nutritional status, as well as their capacity to purchase education, healthcare and other basic needs compromised. Ways in which the poor are coping with the situation include eating less, selling productive assets, incurring debt and migrating. This situation is unraveling development gains made in past years. In the absence of social protection measures we are de facto dealing with a matter of life and death

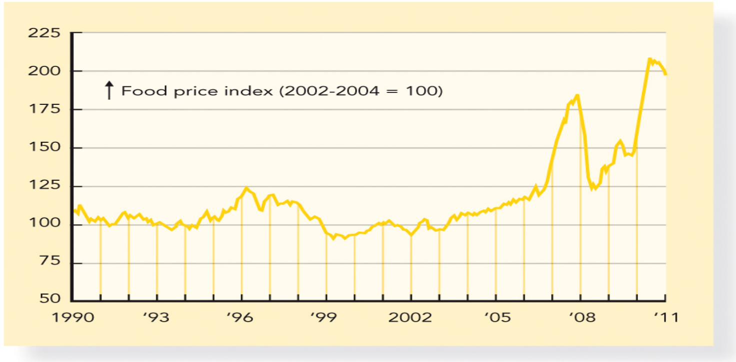
The fact that the number of hungry people passed one billion is largely due to the increases in food prices and this is unacceptable. According to the UN Special Rapporteur on the Right to Food, ‘a significant proportion of the price spikes of 2007–2008 were due to the emergence of a speculative bubble. And fundamental reform of the broader financial sector is urgently required to avert another



food price crisis”.

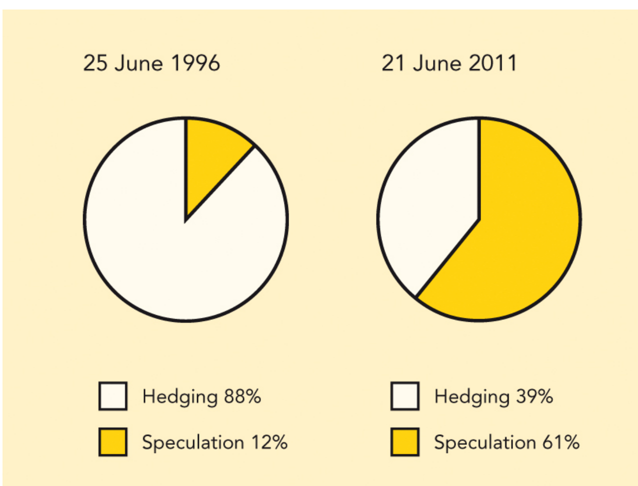
Graph shows increases in millions of hungry people in the world, 1969 – 2010.
Source: FAO

According to the FAO all major agricultural commodities were at least twice as expensive on global markets in the spring of 2011 than they had been 10 years earlier. Prices for the most important grains were on average 150% higher than they had been in 2000. Ample evidence supports the analysis that a large part of these price increases is linked to speculation.



Graph illustrates the increases in the FAO food price index from 1990 to 2011
Source: FAO

Commodity assets under management rose to a record $412 billion in March 2011, of these about 100 billion is in agricultural commodities, this is the biggest ever jump for agriculture products[i]. Speculative counterparties, including commodity index funds make up the single largest group of traders in the commodities futures markets, at least in the US. Their participation distorts the market's functioning and this has significant repercussions because commodity exchanges set the benchmark for prices all over the world. Various experts support the claim that the increase of financial investors in commodity derivatives markets have driven up prices and amplified volatility.



Market share of hedgers and speculators in Chicago Wheat futures Market
Source: WDM 2011, based on better markets 2011 and CFTC 2011.

As of today, the proportion of speculation in commodities derivatives has surpassed any reasonable order of magnitude. Excessive speculation has been allowed to grow because of market deregulation in the past 10 years. They will continue to grow unless measures are put in place to effectively limit the share of financial speculators to a minimum

- There is a need to introduce rules that distinguish hedging from speculation and not just distinguish between commercial and financial actors. Retail financial products linked to agricultural commodities should be banned as they create an artificial demand, thus distorting prices and do not have a social use.

- Appropriate regulations to **prevent** systemic risks and manipulative practices are necessary. Regulations should include as much as possible to have agricultural commodity trading to be cleared on exchanges, and to set ex- ante legally binding position limits for financial speculators at all trading venues. This means that regulations should limit how much of the market can be held by any one trader and ideally there should also be a limit for classes of traders
- The general opaqueness of the market is part of the problem; improved transparency in transactions and participants' positions is needed. Any trading in commodities derivatives should be brought to a regulated market. OTC transactions should be kept to a strict minimum.
- The supervisory and regulatory bodies need to be substantially strengthened and be empowered to act to ensure no circumvention of bans and limits is taking place. Furthermore, the use of bans and limits should not be restricted to "disorderly functioning markets". The goal of MiFID II with respect to commodities derivatives should be to **prevent and eliminate** excessive speculation.

Food is a basic human right protected by the Universal Declaration of Human rights; Gambling with it means in essence gambling with the lives of millions of people. Food is too important to be treated as just another asset class and left to the vagaries of the market; Commodities derivatives and financial derivatives cannot be treated as belonging to the same category of investment.
The precautionary principles enshrined in the legal provisions of the Lisbon Treaty prescribe preventative action to protect lives if there is sound evidence to do so. A lot of energy is being spent on devising market based mechanisms to cope with food price volatility but not enough on measures that would **prevent** it in the first place. Dancing around the issue to protect profits is morally inadmissible. The Lisbon Treaty sets policy coherence for development and poverty reduction as objectives for the union; this must be respected when implementing policies which affect those in developing countries. After all, what is the use of a European development policy and spending 53 billion Euros per year on development aid to help improve the lives of the poor in developing countries while allowing European financial markets to massively speculate on the basic food needs of the same people?

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[i] http://www.bloomberg.com/news/2011-04-20/commodity-assets-at-record-412-billion-in-march-barclays-capital-says.html