

## Regulating Speculation in Food Commodities

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### Possible responses to food commodity speculation

1. Technical responses on commodity markets
  - Reform the mechanisms of trading and price-setting
2. Restore the separation of market functions
3. Take action on the investment side
  - In order to inhibit speculative demand

### Technical responses

- Global registry of transactions
  - including 'spot', OTC and exchange-based transactions
- Regulate OTC trade
  - Bring it on-exchange wherever possible
  - Central 'clearing' of transactions
  - Restrict commodity swaps to specialist companies, not banks
- Separate reporting of 'commercial' and 'non-commercial' trade
  - Impose position limits
  - as is done in US (by CFTC)
- If done in UK, this will have little effect on *food* prices
- Wheat, maize, soya prices are set in Chicago

### Separate market functions

To avoid undue concentrations of economic power and conflicts of interest:

Banking licences could only permit *banking* activities - taking deposits and lending money

- No direct participation in commodity markets, even as investors for third parties
  - Either on-exchange or off it
  - Either directly or via an affiliate
- Only lend to market participants and take their deposits
- Start with ban on 'proprietary trading'
  - CFTC's position limits on energy futures are a move in this direction

### Discourage investment in food commodities

Outlaw all financial investments in:

- physical food commodities
- grain futures
- related commodity swaps (because of likelihood of 'arbitrage')
- simple, easily understood, relatively easy to police

Possible tax measures:

- Financial transactions tax (similar to that introduced in India)
- No commodity ETFs in ISAs or child trust funds

### Revive agricultural policy

(Re)introduce policies around the world which will stabilise the balance of supply and demand, and reduce reliance on commodity exchanges for price-setting and the 'hedging' of risks

This is a big separate topic in itself...

## The state of play in reforms

### US:

- Obama's plan to outlaw proprietary trading by banks
- CFTC's efforts to become an active regulator again, e.g. by extending scope of position limits on futures exchanges

## The state of play: UK

- The **Financial Services Authority** is weak, has limited expertise in commodities and only indirect control over the futures markets
- Legislative mandate needs to be strengthened
  - Separate commodity regulation from the regulation of financial markets (as in US)
  - Work closely in harness with EU and other regulators - don't go it alone any more

## The state of play: EU

- Series of reviews initiated by European Commission
- De La Rosiere on derivatives
  - Food supply chains
  - 'Alternative investment vehicles' (hedge funds)
- Open up the 'expert groups' to wider interests
- Developing rules for cross-border investment
- UCITS, MiFID, Capital Requirements Directive
- The problem is international, so an EU role is appropriate

## The state of play: international

2009 report of International Organisation of Securities Commissions' Task Force on Commodity Futures Markets

- Recommendations were weak and vague

Bank for International Settlements:

- 'Basel' process of standardising bank regulations
- Based on minimum capital requirements
- 20 years of mixed success