HUNGRY FUTURES
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EU financial regulation must curb food speculation

The increased involvement of the financial sector since deregulation in the 1990s has led to increased volatility in the markets for food and other commodities, contributing to the recent food price spikes that have led to increasing food bills in Europe and abroad. These food price spikes have left millions across the world facing hunger and poverty.

We, the undersigned civil society organisations, urge the European Union (EU) governments and parliamentarians to use the opportunity of the review of the EU Markets in Financial Instruments Directive (MiFID) and the new respective regulation (MiFIR) to curb financial speculation in food and other commodity derivatives markets. Specifically, we are calling for:

1. Strict position limits to prevent speculation from driving up prices

Limits on how much of the market can be controlled by any one type of trader are needed to restrict the share of the market that can be held by financial institutions at any given time. Regulators should be able to step in when speculators are swamping markets with their huge bets. Thus, regulatory powers to impose position limits must be mandated with the objective of preventing speculation from driving up prices or exacerbating price swings, and ensuring these markets serve their basic functions for food producers and consumers; being mandated to prevent market manipulation is, by itself, insufficient. Proposed weaker approaches would result in effective deregulation and would fail to address food price volatility. Thus, so-called “alternative arrangements” to position limits should not be permitted. Moreover, market participants need to be subject to aggregated limits taking into account all positions at all trading venues, as well as all over-the-counter trading. They should be set by the authorities, not the trading venues, which are subject to a conflict of interest since they profit from increased volumes of trading. Moreover, regulators should be mandated to impose ex-ante limits (legally required and set in advance to prevent problems before they arise) on categories of traders as well as on individual firms. Exemptions should be kept to the strict minimum, clearly defined, and available only on transaction basis and for hedging underlying physical trades – not as blanket exemptions for firms or categories of firms. Position limits need to apply to any entity participating in financial markets – regardless of any exemption from MiFID registration.

2. Meaningful transparency, oversight and supervisory powers to ensure effective regulation

Regulators need a full view of the market to perform oversight and regulation, to set effective position limits, and to assess any applications for exemptions to those limits for particular transactions. The European Commission’s MiFID proposal entails provisions for weekly, real-time position data reporting. However, aggregated reports need to be compiled and published by the European financial market supervisor (ESMA) and not only by the individual trading venues. Exemptions from post-trade transparency must be strictly limited.

Over-the-counter (OTC) trading needs to be brought into regulated venues. The current MiFIR proposals are not sufficient to guarantee this. They should entail provisions to standardise and require exchange trading of all commodity derivatives, as far as possible.

As justification for intervention, ESMA should also be allowed to take into account risks outside of financial markets, like the public interest, and to intervene permanently and not only “temporarily”. ESMA and national authorities should have the competence to set ex-ante preventative and permanent position limits. ESMA needs to have sufficient financial and staff resources to fulfil its tasks. Additionally, member states should be allowed to apply higher restrictions than ESMA, particularly in the case of position limits.

3. Ban harmful trading methods and financial entities from speculating in commodity markets

High frequency trading (HFT) may increase trading volumes, but it does not increase useful liquidity. Rather, HFT withdraws liquidity when markets are under stress. Thus, HFT should be prohibited in commodity markets, especially soft commodity markets, as it poses too high a risk to the orderly functioning of these markets.

Pension funds, mutual funds and other institutional investors are investing increasing amounts in passively managed index funds, exchange traded funds (ETFs) and the like. Such products undermine the effective functioning of commodity derivative markets, as they set price signals unrelated to the underlying commodity market. Thus, commodity index funds, ETFs and similar products should be subject to strict limits. Institutional investors should refrain from investing in food commodity derivatives.

Joint civil society statement on MiFID, April 2012

Friends of the Earth Europe	MISEREOR
World Development Movement	World Economy, Ecology & Development
Oxfam International	European Network on Debt and Development
Food Ethics Council	CIDSE
Campagna per la riforma della Banca Mondiale	Food & Water Europe
Association Internationale de Techniciens, Experts et Chercheurs	War on Want
Corporate Europe Observatory	Slow Food
CNCD 11.11.11	The Corner House

	World Future Council		ECA Watch Austria
	Attac Germany		Attac Spain
	Attac Austria		Attac Finland
	Ecologistas En Acción		Maryknoll Office for Global Concerns
	CONCORD Danmark		Finnwatch