Ending Excessive Speculation in Commodity Markets: Legislative Options
Chairman Joe Lieberman
Homeland Security and Governmental Affairs Committee
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Good morning and welcome to our Committee's third hearing on the subject of skyrocketing food and energy prices. In the last two hearings we have been focused on the role of financial speculators to determine if their increasing participation in the commodity markets is a cause of rising fuel and food prices.

Evidence presented to this Committee has persuaded me that speculators are, in fact, a significant contributing factor to the economic distress now being felt by American consumers every time they stand in the grocery store check-out line or pay for a fill-up at the gas pump. The stress is also being felt by American businesses, small and large.

That is why, at the end of our last hearing, Senator Collins and I asked our staff to draft legislation to address the problem. Last week we made those drafts public, posted them on the Committee website, and solicited public comment. Today, we will take testimony on these draft proposals which we hope and believe can bring relief to American family budgets.

Since we initiated this inquiry nearly two months ago, a lot has happened on this subject. The CFTC has announced at least four new initiatives to address speculative activity and last week, the Chief Executive of the New York Stock Exchange indicated that investments by large institutional investors, particularly pension funds, were completely altering the supply and demand for commodities. Our colleagues here in Congress have introduced at least eight bills on this subject - most of them focusing on market transparency. But some go further by seeking to bring foreign or over-the-counter markets under federal regulation.

Concern about speculation in commodity markets and its impact on prices is not confined to the U.S. At the recent G-8 meeting, a number of our closest allies and trading partners – particularly France, Italy, and Japan --, raised this concern, and the final G-8 statement from that meeting asked national authorities – quote - “to examine the functioning of commodity futures markets and to take appropriate measures as needed.” End of quote. Austria has proposed a European-wide tax on commodity speculators. And a report recently released by the International Monetary Fund concluded that – quoting now - “speculation has played a significant role in the run-up in oil prices as the U.S. dollar has weakened and investors have looked for a hedge in oil futures (and gold).” End quote. So, what we are doing here today is not in isolation and not without very credible support.

The three draft discussion documents Senator Collins and I made public last week would 1) extend transparency to unregulated commodity markets by closing the so-called swaps loophole, 2) create a seamless system of speculative position limits that would apply to all commodity trading – on the exchanges, over-the-counter, and on foreign exchanges - and 3) restrict commodity investments by large institutional investors that invest through index funds.

I want to be clear that when I talk about financial speculators, we are talking about those looking to commodity price appreciation or depreciation to generate profits. Increasingly left on the sidelines are the bona fide hedgers - the farmers, fuel dealers, and others for whom the commodity markets were originally created as a way to reduce their risk by locking in prices on next year's crops or oil production

Let me also be clear that I understand that some speculation in commodity markets helps them function. But the speculation going on now has gone way beyond that.

One of the public comments we received through the Committee website is particularly insightful and instructive. It comes from a commodity broker in Iowa and reads like this: "I have seen firsthand the effects that these index funds have had on the agricultural markets. My customer's are farmers and they are getting tired of not being able to make sense of the markets. Although they are happy with the price of grains, almost to a man they will tell you that prices are too high. With these high prices the price of their inputs has gone up as well (i.e. land, rent, fertilizer, seed, etc.). To my customers the fundamentals of supply and demand mean nothing anymore. These index funds and exchange traded funds are not living by the same rules that the CFTC set up for speculators. They need to be made to come into compliance with the speculative limit the rest of the market participants have to abide by." End of quote. That's common sense from the heartland and a voice from we must keep in mind as we consider this problem.

Speculation is not illegal. But that does not mean it isn't hurtful. To paraphrase a character in an early 20th century political novel, speculators are just seeing their opportunities and taking them. Motivated by the weakness of the dollar and rising demand for oil, speculators are moving enormous amounts of money into commodities markets for the obvious purpose of making more money. But in doing so they are artificially inflating the price of food and fuel futures and causing real financial suffering for millions of people and businesses.

The steady upward climb of the cost of food and energy in recent months is not simply the result of natural market forces at work. Speculation has passed the point where it provides stability to the commodity markets. It is now excessive and has consequences that are very, very harmful.   And that's why our government must step in as soon as possible to protect our consumers and our economy because against the forces of the speculative markets, the average person simply cannot protect himself or herself. Senator Collins?