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Statement

Statement by Commissioner Michael V. Dunn, Agricultural Markets Roundtable, Commodity Futures Trading Commission

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Are the agricultural futures markets working? If not – why not, and what needs to be done to fix them? These are some of the questions we will be discussing today. Certainly, there is concern that the markets are not performing their main functions of price discovery and mitigation of risk. If that is the case – who is responsible for fixing the futures markets? Should Congress or the CFTC draft new legislation or promulgate additional regulations? Or, as I believe, can market participants make the necessary changes to insure these markets are functioning properly?

We are here today to see if you, the market participants, can agree on what ails the agricultural futures markets. We are also here to discuss potential solutions to these ailments, so that the agricultural markets provide, and continue to provide, for price discovery and risk mitigation.

Each market participant will undoubtedly have a unique perspective on what they believe ails the agricultural markets. The producer is concerned with their ability to attain a forward delivery contract and hedge their production risk. The grain elevator is concerned that the rapid rise in prices has forced them to make margin calls far beyond their line of credit and the expected cost of that credit. The providers of credit are wary of the demand on their resources in a single market area. Exchanges are concerned that limit locks do not allow price discovery and curtail the normal business of the exchanges. Clearing houses must collect margin more frequently to insure their financial viability, but constant margin calls strain business relationships. Processors are concerned that managed money, hedge funds and commodity index traders are skewing the markets. In turn, these non-traditional agricultural market users maintain that they provide liquidity to the market that helps the markets function. Finally, end users and consumers complain that prices rose too quickly and too fast. Each of these concerns is legitimate, but may not necessarily be held by any other segment in the industry. Only by airing each person's particular difficulty, can we all see the broader picture and potential solutions.

Our agricultural markets do not operate in a vacuum, and recently there have been number of externalities that have impacted the markets. A weak dollar, low stock levels due to drought and other production problems, increased demand from developing countries and ethanol production, a flight to quality by capital, shortage of storage, and an increase in energy and transportation cost, have all contributed to the increase in the value of agricultural commodities. We may already be working under or fast approaching a new paradigm of higher agricultural prices. The way we did business in the past may not be the way we do business in the future.

We have raised a number of questions for market participants to consider today and many of you will undoubtedly have suggestions for fixing the problems you have experienced. Your suggestions may alleviate your particular problem; however individualized solutions may cause bigger problems for the market as a whole. That is why we have invited you all here today. So we can all take a broad overview of the market and come up with solutions that take into account the needs of all of the market participants.

There is not a silver bullet or single solution to address the problems we are currently facing. Implementation of these solutions will not take place overnight. I firmly believe that you – the market participants – are best qualified to come up with solutions that will insure we have a viable, fair agricultural futures market that will provide for price discovery and risk mitigation. Thank you for attending today, and for being part of the solution.