

September 29, 2008

The Honorable Harry Reid, Majority Leader
United States Senate
S-211, The Capitol
Washington, DC 20515

The Honorable Nancy Pelosi, Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, DC 20515

Dear Majority Leader Reid and Madam Speaker Pelosi:

We understand that the serious economic consequences of the failures in the U.S. financial sector necessitate that Congress focus on providing stability to those markets prior to adjournment. However, the undersigned organizations strongly encourage you also to take important steps as soon as possible to address the impact of excessive speculation in the futures markets, which may manipulate actual “spot” prices for physical commodities.

For some time, many of us have been concerned about the impact of commodity speculation on important commercial economic interests and U.S. consumers. The instability in the financial markets and throughout the financial sector only serves to fuel our concern that large investors will establish highly distorting speculative positions in the futures markets for physical commodities. We believe that index traders and other large-fund investors will view the commodity markets as an opportunity to maximize their returns and as a “safer haven” for their investment capital. We would not allow them to hoard vast quantities of the actual product (such as oil) for the purpose of driving up prices or cornering the market. Likewise, we should not allow them to do the same thing in the futures markets.

These speculative purchases will come at the expense of bona fide hedgers, farmers and others who indirectly rely on futures-based contracts as price discovery and risk-management tools, and consumers who have little ability to influence the retail market prices for energy and agriculture commodities that are, in large part, determined through the futures markets.

The House recently passed H.R. 6604, the “Commodity Markets Transparency and Accountability Act of 2008” by a bipartisan vote of 283 to 133. We believe that this legislation represents a good starting point for ensuring that the Commodity Futures Trading Commission (CFTC) is able, and is directed to provide a higher level of commodity market transparency, regulation and oversight than exists currently. At minimum, the CFTC should at least be able to monitor these now almost “dark” markets.

A September 20, 2008, New York Times commentary by Gretchen Morgenson, “Your Money at Work, Fixing Others’ Mistakes” explains how the serious risks caused by the “billions in unregulated derivatives” caused the government to step in to protect AIG “since the world became so intertwined that the failure of one company can topple a host of others.”

In the article Eric Dinallo, New York’s superintendent of insurance is quoted as saying, “The last eight years have been about permitting derivatives to explode, knowing they were unregulated. It’s about what the government chose not to regulate, measured in dollars. And that is what shook the world.”

While discussing these “unregulated derivative contracts,” Ms. Morgenson recommends that America “[s]top pretending that the \$62 trillion market for credit default swaps does not need regulatory oversight. Warren E. Buffett was not engaging in hyperbole when he called these things financial weapons of mass destruction.”

While many of us might wish for an even greater regulatory role for the CFTC in these markets, we understand the necessity and challenge you face in crafting a package that addresses a wide range of market issues in the few days that remain in this congressional session. We believe that initial action on these issues cannot and should not be put off until next year and, therefore, should be addressed if Congress returns after the elections.

The fact that this legislation passed the House with a sizeable bipartisan majority indicates generally broad support for beginning to address these serious issues in the markets for physical commodities. We urge you to support including the reforms

contained in H.R. 6604 in any legislative package that Congress will consider to address the serious economic situation faced by our country.

Sincerely,

Air Transport Association of America
California Farmers Union
Cattle Producers of Louisiana
Kansas Cattlemen's Association
National Farmers Union
Nebraska Farmers Union
New England Fuel Institute
Organization for Competitive Markets
Petroleum Marketers Association of America
Producers Livestock Association
Ranchers Cattlemen Action Legal Fund
South Dakota Stockgrowers Association
United Stockgrowers of America
Western Organization of Resource Councils