



copa*cogeca
 european farmers european agri-cooperatives



Ref. 17MAS28

European Parliament
 60 Rue Wiertz
 1049 Brussels
 Belgium

Brussels, 14 February 2017

Re: EU Agri-Food chain calls on rapid adoption of RTS 21 and its provisions as proposed by the European Commission and as recommended by the European Securities and Markets Authority (ESMA)

Dear Member of the European Parliament,

As the representatives of the European farmers and cooperatives, collectors, grain traders, first processors, food and drink manufacturers and animal feed producers, **we call upon the European Parliament to give its consent to the Regulatory Technical Standard – RTS 21** on Position Limits, as drafted and recommended by the EU's independent competent authority – ESMA.

We believe that the RTS 21 has already been modified several times since the first publication a year ago. The last of these modifications has been made by the European Commission to make the rules even more stringent to curb potential price volatility and speculation, upon the request of European Parliamentarians in December 2016, further reducing the position limits to 20% from 25%.

We would like to re-emphasise that should the European Parliament move to reject the RTS 21 to further reduce the position limits, this would irrevocably damage European markets, rendering some agricultural futures markets dysfunctional and unavailable. This would in turn trigger more food price volatility as the production and delivery risks will then be reflected and added on to the real price of agricultural raw materials and derived food products.

Explanatory notes can be found as an annex to this letter.

Yours Sincerely,

Teresa Babuscio
 Secretary General
 COCERAL

Pekka Pesonen
 Secretary General
 COPA COGECA

Nathalie Lecocq
 Director General
 FEDIOL

Alexander Doring
 Secretary General
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Jamie Fortescue
 Managing Director
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Background

Member companies of our organisations often have integrated collection, transportation and processing facilities across Europe. Ensuring a continuous and stable inflow of affordable and sufficient quantities of agricultural raw materials is the ulterior objective of all operations. Many members use commodity and other derivative contracts in order to manage various risks relating directly to their production, merchandising, consumption and treasury financing activity. Derivative positions are central to prudent risk management strategies for many members. Such prudent risk management ensures that agricultural commodity market participants can produce and deliver feed, food and non-food products to European consumers at predictable and stable prices.

ANNEX – EXPLANATORY NOTES

- We support the objectives of MiFID II in order to increase transparency on the financial markets and have more responsible operators on said markets. The implementation of MIFID will provide reliable information which is not available today.
- The latest draft RTS 21 proposal by ESMA provides a workable solution and adequate to fulfil the objectives of MIFID II, since it provides the necessary tools to National Competent Authorities to further limit positions observing market-specific developments in Member States
- We believe that necessary systems have now been put in place at the EU and international-level, and that the draft RTS 21 has managed to strike the correct balance. On food price volatility, we would like to further highlight the opinion of ESMA dated 2 May 2016 in this respect *“ESMA has performed an analysis of price volatility for a sample of agricultural contracts traded in Europe. [...] The relative volatility of those agricultural contracts in the near past is low [...] Based on the low levels of price volatility observed in the past years ESMA considers the better approach to not decrease the baseline for contracts with a commodity underlying in the absence of firm evidence that agricultural contracts should be treated differently as an asset class from contracts with other underlying commodities.”*¹.
- **Any further reductions on the limits and a too rigid approach to a position limits regime would result in a disappearance of liquidity, hence making an EU risk-management tools unavailable for the EU agri-food chain operators.** The objective of market transparency would thus be weakened. We would like to remind you that the future and physical markets have to be convergent at the time of delivery of the merchandise. For this to happen, functional derivatives markets and available mechanisms in the Members States are essential.
- **Rejection of the RTS 21 and further reductions would prevent plans to set up futures markets.** As in discussions on the risk management tools to be used in the future CAP, this type of instruments can complement the risk management strategy of agri-food chain operators, in particular in an increasingly market-oriented agricultural sector.
- We would like to further remind you that for the agricultural commodities trading, the European markets are not even the most important or relevant on a global basis. Therefore, imposing an even stricter position limit on small markets would have a damaging impact and would disable risk reducing hedge activities for the European crops.
- **Should position limits be further reduced, indeed, operators would be forced to resort to non-EU markets to hedge their risks,** which would by far be less appropriate for European grown crops as these would not provide the same specifications nor the efficiency for mitigating the underlying risks. In addition, resorting to non-EU instruments would thus also expose European farmers, processors and consumers to currency risk (€/USD).
- Whilst EU should not follow the US Administration’s move to deregulate, it should not on the other hand over-regulate and create a regulatory gap. Once there is a regulatory gap, this would distort trade in favour of the US, and towards a system where European markets would be cleared in the US.
- The European agricultural derivatives markets provide today the necessary tools for European farmers and European industries, which are specific to the agricultural raw materials cultivated and the industry outlets built around them.

¹ ESMA Opinion on RTS on methodology for calculation and the application of position limits for commodity derivatives traded on trading venues and economically equivalent OTC contracts