



Commodity Futures Trading Commission

Office of External Affairs
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
202.418.5080

Remarks

Remarks of Commissioner Bart Chilton Before the Energy Markets Advisory Committee

What We Don't Know

June 10, 2008

Thank you, Mr. Chairman for holding this meeting. I'm pleased that the Commission established the Energy Market Advisory Committee (EMAC). I'm also thankful to all of our committee members for taking the time to be with us today.

Our job as regulators is to ensure the integrity of these risk management markets—to make sure that they are honest markets. I'm told by staff that, as the futures market regulator, we are to be commodity-blind and price neutral. Well, I may not be "your father's regulator" because I'm having a difficult time with that. I can't help being very concerned about these energy markets and, in particular the crude oil market. I'm concerned about \$140 a barrel oil. I know people who are literally choosing between food and fuel. They may not fill up their car tank because they need money to eat. That is a horrible situation and I can't feel commodity-blind or price neutral about any of that.

So, we have been searching for answers as to what is going on in these important markets. Here's what we do know: we have seen nothing like them ever before in history. But I feel somewhat like the blindfolded boxer. When the bell rings, I just start swinging. Some say the culprit behind exponential price increases is supply and demand. Others suggest it's the devalued dollar and our extremely poor economy, and I agree that is having a significant impact. Maybe it has to do with the credit crisis, and perhaps it has to do with a move toward increasing securitization in the derivatives industry. Or, as I've suggested, maybe it's related to trading in look-alike West Texas Intermediate Crude (WTI) Contracts, or maybe sovereign wealth funds have something to do with it. What is clear is that smart people disagree. There is no sufficient answer so far—but we are going to keep swinging. This is too important an issue not to.

Secretary Paulson is quoted in the press today as saying that speculators aren't to blame for increases in oil prices. Perhaps the Secretary has a crystal ball, but I don't, and given what I'm seeing and hearing in the markets and from market users, that seems to me to be a premature determination, at best. At worst, I think it would be a

dereliction of our duties for us, the overseers of these markets, to ignore other possible reasons for price run-ups, and continue to fall back on reliance on “fundamentals.” Saudi Arabian officials are quoted today as saying that high prices aren’t justified by market data and fundamentals, and I think the Saudis know a little bit about the oil markets. The bottom line is, we need to investigate, in a comprehensive and probing manner, what is happening in these markets before making a rush to judgment about what is or what is not causing these extremely unusual price movements.

In April I gave a talk in London. I said that those involved in these markets could take a lesson from ancient glassmakers who worked to craft clear, transparent glass. Clear glass was likened to gold and wisdom. And, I said we needed more transparency in these markets. I’m very pleased and appreciative that since that time the CFTC is now receiving daily large trader reporting from InterContinental Exchange/UK via the Financial Services Authority (FSA) for the look-alike WTI contracts. This information will be extremely helpful to our work.

But, appreciative as I am of these new efforts, we must continue to look for answers. Every day our staff comes to work and does the best they can do to figure out what’s going on. Marshall McCloughan said, “you can’t move forward only using your rear view mirror.” Well, we certainly look to the past, but we need to try to look forward at these unprecedented markets. What I would like to hear from you, members of the EMAC is what we don’t know. What do you know that you think may be in the road ahead that we don’t know. What don’t we know?

It’s always comfortable and comforting to surround yourself with people who think like you, talk like you, act like you, and will tell you what you already know. But that’s not why we’re here today, and that’s not how we can benefit from meetings like this. We’re here to serve the American consumer and taxpayer, and they get the best service out of us when we act on the most comprehensive, up-to-date information available. That’s why we need to hear from you what we don’t already know. Many of you have traveled significant distances to attend this meeting, you’ve all taken time out of your schedules to be here today, and I appreciate those efforts. What I appreciate even more is hearing from you what you want to tell us that we haven’t heard before.

I’d like to follow the example of former Supreme Court Justice Lewis Powell in this regard. Justice Powell, a conservative southerner by any measure, was famous for hiring ultra-liberal clerks to assist him. He said that the conservative side of issues came naturally to him; he said he didn’t need to hear what he already knew. He said that what he needed was someone to tell him what he didn’t already know. And that’s what I’d like the take-away from today’s meeting to be: tell us what we don’t know, but need to hear. Tell us what doesn’t already present itself to us, tell us what we’re missing. And tell us where you think we’re going wrong, and tell us what you think we need to do to correct our course. That’s how we can best serve our constituency, the American consumers and businesses that rely on futures markets to discover price and manage risks, and that can benefit by your input in our decision-making. Thank you for your invaluable input today, and I’m ready to listen.