



Commodity Futures Trading Commission

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Remarks

A Time for Every Purpose

**Remarks of Commissioner Bart Chilton
United States Commodity Futures Trading Commission
at the
Agricultural Advisory Committee Meeting
Commodity Futures Trading Commission Headquarters
Washington, DC
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Thank you, Chairman Dunn, for putting together this excellent agenda today; I look forward to hearing from the panels of experts on these important topics that affect American agricultural producers, processors, and consumers.

As I was driving in to the meeting this morning, the snow made me think of the change in seasons, and I remembered the adage, “to everything, there is a season, and a time for every purpose.” I thought about our futures industry and its rich history based in the agricultural markets. The futures markets have been around for over 150 years to ensure that farmers could manage risk, and ensure that consumers pay a fair price for goods—incredibly important purposes for our country and our national economy. Today, these are still important purposes, but with many more opportunities and exciting challenges, such as the advent of global trading in emissions markets.

Our world has a monumental problem with global warming. The futures industry, in combination with others farmers and ranchers in this country, is taking steps to address this issue. I’d like to take a few moments to compare what is happening in this country with the emissions trading that is occurring in Europe.

Exchanges Trading Emissions Contracts

The Chicago Climate Exchange, European Climate Exchange, European Energy Exchange, Nord Pool, and PowerNext are at least five exchanges worldwide that trade in emissions contracts. This is one of the fastest-growing segments in financial services. In London, the market is currently approximately €30 billion, which could grow to €1 trillion within a decade. Louis

Redshaw, the head of Barclays Capital products states: “carbon will be the world’s biggest commodity market, and it could become the world’s biggest market overall.”

Market Prices for Emission Contracts

Currently, emissions products on the European Climate and Energy Exchange settle for €23-25 euros. In sharp contrast, in the U.S., emissions contracts settle on the Chicago Climate Exchange at approximately \$2. The use of the products in the U.S. and Europe are similar (facilitating the transaction of greenhouse gas emissions allowances with price transparency and enhancing environmental integrity), but the price differentials are striking. It’s clear that in Europe, the EU Emission Trading Scheme (EU ETS) that went into effect in January 2005 has facilitated increased trading in the European products; at the same time, there is no such mechanism in the U.S. to raise the market value of emissions products in this country.

Although the U.S. has not ratified the Kyoto Protocol, it has pledged to reduce carbon intensity by 18% by 2012. It may be the case that we will see a rise in the use of derivative products to achieve this goal, with a concomitant rise in the value of the product, as U.S. entities commit to reducing carbon emissions. The EU has had emissions trading programs since January of 2005 – the U.S. doesn’t, in large part, because we have not ratified the Kyoto Protocol that would fully commit the U.S. to reduce carbon emissions.

As I said, there is a time for every purpose. Many of us hope that time is near for this country to move in the direction of lowering greenhouse gases, and using all available means—market and otherwise—to do so. It is the right thing for farmers and ranchers, hedgers, and speculators – right for our nation and our planet. Just like those who started this industry in the agricultural markets in the 1850s, there are good and innovative things that can be done. There is a time for every purpose.

I look forward to the meeting today, and I thank the Chair, staff and all those who have joined us, especially those who have traveled significant distances—I sincerely appreciate your efforts. Thank you.