



Commodity Futures Trading Commission

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Remarks

“It’s Not Easy Being Green ... Markets, in the US”

Remarks by Commissioner Bart Chilton before the Carbon Roundtable, New York, New York

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Thank you for the invitation to participate in today’s Carbon Roundtable. It is a pleasure to be with so many people who have an interest in what is truly an important issue. Green markets are an important issue not just for the derivatives industry, but for our nation and in fact, the world. So, thanks for allowing me to share some thoughts with you today.

It is hard for me to have broad conversation about carbon and global warming without thinking about the environmental movement and the change that took place in our national consciousness way back in 1970. In just a few days, on April 22nd, Earth Day will be celebrated again. In the U.S. we have made substantial environmental progress since that time. We have seen the creation of the Environmental Protection Agency, passage of the Clean Air Act, Clean Water Act, and the Safe Drinking Water Act. We have instituted Corporate Average Fuel Economy standards, created Superfund to clean-up hazardous waste sites, and developed an acid rain program along with a derivatives market. And, of real importance, there has been a tremendous amount of truly key environmental research. That research not only documents the progress made over the years, but has uncovered some pressing global environmental challenges – like global warming.

But, I’m really pleased that this year, a significant environmental event took place just over two months ago in the U.S. That event, which many of you I am sure have played close attention to, could have an even greater impact on our earth than the many environmental accomplishments that I just mentioned. On Super Tuesday, February 5th, after political contests in 24 states, it was clear that the next President of the United States will support and push Congress to pass a mandatory cap-and-trade environmental law. Senator Obama, Clinton and McCain all support this approach -- something which the other candidates vying for the presidency have opposed. As you all know, such a law would mandate specific percentage reductions in green house gas (GHG) emissions such gases. These emissions, which left unabated will have

devastating effects on the earth, can be reduced in a number of ways – changing to other energy sources, changing consumer lifestyles, and the like, but a cap and trade system and the derivatives markets that will be used to institute that system, could have a monumental impact on this critical issue.

And, in looking at the Chicago Climate Exchange where voluntary credits are traded, one finds that in the days following Super Tuesday, carbon contract prices rose increasingly. By the conclusion of trading that week, the settlement price of the exchange's Carbon Financial Instrument® contract rose precipitously from \$2.50 to \$4.00 per contract, and since then it has continued a steady rise. It is currently trading in the range of \$5.50 to \$6.00. That swift market reaction is clearly due to the recognition that the political leadership in the United States will aggressively move forward on cap and trade legislation and that there will be an even greater marketplace when legislative mandates are put into practice.

It is hard to overstate the importance of Super Tuesday on this important global issue. Since the United States is one of the largest, if not the largest contributor to global warming, it is important that we move forward expeditiously. (By the way, you all probably know that China maybe an even greater contributor to global warming. It is difficult to get reliable data on China in this regard.) But, in comparison to the other 175 nations who are moving forward with the Kyoto Protocol, as Kermit might say, "It's not easy being green." That is, being a green market in the United States. In fact we have not only never ratified Kyoto, which mandates carbon reductions, we still have not passed this important cap and trade legislation. That is the bad news. The good news is: one, as I said, things are about to change; and two, we have some experience in the European Union to help guide us as we move toward passing legislation and implementation. The United States has the ability to play an important leadership role in this area -- helping to confront the global warming challenge. We are a little late, but we are moving forward.

And I should mention that in addition to having a president who is committed to a cap-and-trade law, the Congressional Leadership (Senate Majority Leader Reid and House Speaker Pelosi) are supportive of the cap and trade approach and have already demonstrated exceptional leadership on this – and many other environmental areas. With this type of commitment at the highest levels of our government, great strides can be made.

As an aside, while I talked about the CCX and Super Tuesday, I also want to note another important – and yes "green" day: St. Patrick's Day. That is the day, March 17th, that the NYMEX Green Exchange went on-line. I think choosing St. Patrick's Day to begin trading "green" products was very appropriate. So, now we have a second exchange in the U.S. actively trading these environmentally friendly and economically useful products.

Finally, I get asked about what the CFTC will be doing to prepare for the possibility of new markets for derivative trading of emissions products. First of all, as we know, we already have these two exchanges that are trading and being regulated by the CFTC. So, we have some experience.

I just wrote an op-ed about these markets and market participants. I called the participants – the real “Galileos” of green markets. They have embraced this notion of a useful and rational market alternative to addressing greenhouse gases. The reason I call them Green Market Galileos is because in many ways, this whole idea is just as controversial as Galileo’s promotion of the concept that the universe did not center around the earth. The idea of trading greenhouse gas credits in the US may well be heretical to those on the far ends of the spectrum, that is, the ardent environmentalists on the one hand and the rock-ribbed free-market capitalists at the other extreme. But, emissions trading is being embraced by broad middle and those are the ones who are leading the way. They have had the foresight and the initiative to build a significant voluntary market in emissions trading, regardless of the lack of any governmental mandates.

But, as we have been discussing, the next step in this process will be to address how we view the voluntary markets together with the new “compliance market,” after passage of cap-and-trade legislation. I don’t think anyone knows exactly what this will look like. That being said, as regulators, my colleagues and I need to anticipate – as best we can -- the changes that will take place as a result of any such legislation, and ensure that our markets can operate in a fair, efficient, and effective fashion.

From my perspective at the CFTC, that means being ready to utilize our regulatory authority in an appropriate manner to oversee these unique products, executed on new and existing trading platforms. As you all know, we use a flexible approach to regulation, called the “principles-based” regulation. This approach allows markets to innovate quickly and competitively, while at the same time maintaining our agency’s ability to ensure that the markets operate free from fraud, abuse and manipulation. I certainly think a smooth transition from the voluntary to the compliance markets will occur – especially given the CFTC’s proven ability to respond promptly and effectively to market changes.

But, at the same time that the new “compliance” markets will be up and running, I think we should also expect another wave of change. It seems to me that there will be a need for development of products and transactions that do not fall neatly within the prescribed parameters of what will be the new governmental mandates. This may well be an opportunity for those innovators in this market space to develop novel and tailored products to address market needs that fall outside of cap-and-trade guidelines: a new voluntary marketplace, in effect. And, I believe it will be those Green Market Galileos who will be at the forefront of this market too. I think that will be the case both in the areas of development and usage. These individuals are the ones that have the foresight to embrace change and new trading products and opportunities, even absent governmental mandates. For my part, I really look forward to working with these market innovators, as they anticipate the future, to help ensure that the CFTC remains nimble and quick in its responses to new products and new trading venues in this critically important area of environmental derivatives.

Thank you again for the opportunity to be with you.