



## **Commodity Futures Trading Commission**

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# **Speech**

## **Banquet of Consequences**

### **Speech by Bart Chilton, Commissioner Commodity Futures Trading Commission before the Environmental Markets Association 12<sup>th</sup> Annual Fall Conference, Seattle, Washington**

**November 19, 2008**

Thank you for the opportunity to be with you today in Seattle. I also thank Thad Huetteman for the invitation. This group and this conference are important not just to your companies, but to the world.

We are approaching Thanksgiving next week and I know there are a lot of people who are thankful that this year is almost over. I have a lot of those feelings too. It has been a long year in which we have all endured some rough news. We have had a buffet of problems: two wars, global environmental degradation, the mortgage fiasco, topsy-turvy gas prices, our 401Ks sinking to abysmal lows, and the general financial meltdown. And what is most frustrating to many of us is that government could have and should have seen our economic problems coming.

For nearly a decade, the Free Marketeers—those who blindly supported the concept of a totally free market with as little government regulation or intervention as possible—have ruled the roost. The passage of the Gramm-Leach-Bliley Act, which deregulated banking laws, was the first big hole in government oversight. It was followed shortly by sweeping changes in federal commodities regulation. These changes allowed banks to invent myriad and confusing loan bundles and then trade them like they were baseball cards among themselves. They almost didn't seem real to many. And when some folks thought that maybe these bundled loans were a little risky (and some, we now know, were just plain bad), they decided that they needed to manage these new risks. So they came up with a new product, something called Credit Default Swaps (CDSs). Although they come in different varieties, in the mortgage context they were, in essence, bets on whether or not a party would default on the bundle of loans. In some cases, this was sort of like buying an insurance policy on a sick uncle, and you receive the proceeds of the policy if the uncle dies. What we've seen in the recent crisis, however, is that the "insurer" swaps counterparties were none too healthy themselves.

Here is the nutty part: in 1993, swaps (which look and act like futures contracts) were administratively exempted by the CFTC from regulation, and in 2000 Congress statutorily excluded them from regulation. These CDSs actually grew in the last several years to somewhere between \$55 and \$60 trillion—more than the combined gross domestic product of all the nations of the world. And guess what, these transactions are still not regulated. Pretty scary. As a government regulator, it terrifies me, which is why I've worked with members of Congress to bring these instruments under a regulatory umbrella. So I can sympathize with those who would like to finish off this year, start anew and get on with a better year.

That said, we did have some really positive things take place this year. For environmental markets and for the promise of what is to come, most of us know that during the primary elections Super Tuesday was a key date. On that day, 24 states held election contests across the nation. The results narrowed the field of likely presidential contenders to three viable candidates: Senators Clinton, McCain and Obama. In the few days directly following both the Super Tuesday and the results of the general election on November 4th, prices in the voluntary carbon markets soared. The markets acknowledged what was likely to take place, that whoever ascended to the Presidency, it was more likely than ever that the United States would soon pass a cap-and-trade bill. The markets reflected the fact that clearly, that the United States would be coming to the table to address climate change, an issue we had refused to countenance for the entirety of the Bush Administration.

Another bright spot was the Olympics in China. Michael Phelps won eight gold medals in swimming, more than any other Olympian in history for a single Olympic year. He also surpassed the all-time record as well. The success of my fellow Marylander aside, anyone who saw the opening and closing ceremonies in Beijing had to be impressed, not by just the pageantry, but by the scale of it all. It was such a large and fantastic presentation that one had to understand that those who put it together were not only very creative and organized, but that they were a people of enormous potential and promise. The sheer number of performers and their ability to execute the various and simultaneous skills during their performance was nothing short of fantastic. Those ceremonies are a reminder to everyone that China is an important member of the League of Nations and that their role, like that of the United States is critically important. On the climate change front, China, India and the United States, all of whom have essentially been absent, will be key players as we move forward.

And finally, it is hard for many of us not to think that the election was a good sign. We had two capable candidates vying for the highest office in our country, each of whom us proud to be Americans. We had an election which was decided without a fuss, and we have a President-Elect who is ready to tackle this buffet of problems.

While many are thankful during this season that the year is almost over, there are a lot of us who are more thankful that we have a lot to look forward to, a lot to be optimistic about.

Just as there are problems, however, there are consequences to how those problems are addressed. The famed Scottish novelist and poet, Robert Louis Stevenson, once said; "Everybody, soon or late, sits down to a banquet of consequences." For President-Elect Obama, this is certainly true. He is inheriting wars on terrorism in Iraq

and Afghanistan where the men and women of our armed forces are fighting and dying for our freedom. He is inheriting economic conditions unseen since the Great Depression. These are momentous issues, the challenges of which are only outweighed by their consequences.

With such daunting tasks facing our new President, requiring immediate attention, one could see how easily it would be to focus solely on them, and not turn attention to those matters that are not so pressing, like the issue of climate change. Yet in his campaign, President-Elect Obama set forth an extremely ambitious effort in this regard, in part, because he knows that the banquet of consequences awaiting future Presidents, our economy, our children, and our planet will be much greater if he fails to act.

This summer I delivered a speech entitled, "The Most Important Thing." It related to a horoscope I had read that posed the simple question; "What is the most important thing, you've never done?" I asked this same question, but applied it to my government. I thought of all the issues that we as a country have attempted to address—health care reform, education, pollution control—and I thought of the many great things we have accomplished—putting a man on the moon, and advancing the cause of civil rights.

Then I thought about the most important thing we have never done . . . yet. And that is addressing the issue of climate change. We are turning a corner in this country. We now have a President-Elect who has the will and ambition to tackle this issue. Combining this with his commitment to address our economic problems, President-Elect Obama has said, "A new economic turbocharger is going to have to be found, and there is no better potential driver that pervades all aspects of our economy than a new energy economy. [. . .] That's going to be my No. 1 priority when I get into office." So it looks like we will have a President committed to moving forward on the dual goals of changing both our energy and climate futures.

President-Elect Obama has said he wants to create millions of new jobs and make significant strategic investments to catalyze private efforts to build a clean energy future. He wants to use the tax code to give American families an immediate \$1,000 emergency energy rebate to help families pay rising bills, and he wants to close energy industry market loopholes and increase transparency to prevent traders from unfairly lining their pockets at the expense of American consumers. He wants to put more hybrid cars on the road, and increase fuel standards.

President-Elect Obama's domestic energy plan calls for an economy-wide cap-and-trade program to reduce emissions by 80 percent by 2050, and will require all pollution credits to be auctioned, with proceeds re-invested in clean energy, habitat protections, and rebates and other transition relief for families.

This 80 percent reduction target will be familiar to most of you as being in line with the U.N.'s Intergovernmental Panel on Climate Change (UNIPCC), an important message to the rest of the world that the United States intends to meet international goals. I'll come back to international efforts shortly, but as everyone here knows the UNIPCC is the agency that shared the 2007 Nobel Prize with former-Vice President Al Gore and was established to provide the decision-makers and others interested in climate change with an objective source of information about climate change.

Before I move to the international component, I'd like to touch on domestic efforts occurring regionally across the United States because of a lack of leadership at the federal level. The main system to focus on is the Regional Greenhouse Gas Initiative (RGGI). This is a cooperative effort by ten Northeast and Mid-Atlantic States to limit greenhouse gas emissions. This is the first mandatory, market-based CO2 emissions reduction program in the United States. As a Commissioner at the CFTC, it has been very exciting to see the RGGI contracts traded on two of our regulated exchanges: the Chicago Climate Exchange and the New York Mercantile Exchange. The states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont are signatory states to the RGGI agreement. These ten states will cap CO2 emissions from the power sector, and then require a 10 percent reduction in these emissions by 2018.

The states participating in the RGGI had their first auction on September 25, 2008 and they are off to a strong start. All of the 12,565,387 allowances offered for sale on the first day were sold at a clearing price of \$3.07 per allowance. RGGI, Inc. reported that 59 participants from the energy, financial and environmental sectors took part in the first-in-the-nation auction, indicating a strong start in the first of many CO2 allowance auctions. Demand for the allowances appeared to have been very strong with a total quantity of 51,761,000 allowances demanded, which was four times the available supply for this first auction. The \$38,575,783 in proceeds produced from the auction will be distributed to Connecticut, Maine, Maryland, Massachusetts, Rhode Island and Vermont, the six RGGI states that offered allowances for sale during the first auction. The states are investing those funds in energy efficiency and renewable energy technologies, and programs to benefit energy consumers. Next month will be another important milestone, when all ten states will be participating in the second round of auctions.

I'd also like to discuss the international side of this effort. As I mentioned earlier, the President-Elect has sent a strong signal to the international community by aligning his reduction goals with global reduction goals. The next focus will be on the Copenhagen Conference in December 2009, where there will be cooperation among countries to reach a new international agreement. In 2012, the Kyoto Protocol to prevent climate changes and global warming runs out. At the Copenhagen conference, world leaders will discuss a new sustainability regulation that is set to replace the Kyoto Protocol, ratified by over 180 nations.

The protocols set limits for greenhouse-gas emissions, while allowing prosperous countries to buy quotas from less industrialized nations. To keep the process on the line there is an urgent need for a new climate protocol. At the conference in Copenhagen 2009 the parties of the UNFCCC meet for the last time on government level before the climate agreement needs to be renewed. Therefore the Climate Conference in Copenhagen is essential for the world's climate, and the Danish government and UNFCCC is putting great effort into making the meeting in Copenhagen to come up with a Copenhagen Protocol to prevent global warming and climate changes.

Governmental representatives from 170 countries are expected to be in Copenhagen in the days of the conference accompanied by other governmental representatives,

NGO's, journalists and others. In total, 8000 people are expected to be in Copenhagen during the days of the climate meeting.

President-Elect Obama has signaled that he intends to re-engage with the U.N. Framework Convention on Climate Change (UNFCCC), in addition to the creation of a Global Energy Forum of the world's largest emitters to focus exclusively on global energy and environmental issues. Sounds like a great start to a new year doesn't it?

In closing, I'd like to leave you with a few anecdotal thoughts. First, the positive: "green" investment. Recent reports indicate that third-quarter 2008 "green" venture investments in North America, Europe, China, and India totaled \$2.6 billion, 37 percent more than the same period last year. So far this year, \$6.6 billion has been invested in the sector, up from \$6 billion in all of 2007. The National Venture Capital Association, a trade group, and the accounting firm Ernst & Young, also say venture capital investment in clean technology has grown rapidly in the last several years. According to a recent Ernst & Young report on global venture capital investments, \$2.2 billion was invested in the clean-tech sector in the first six months of this year, a pace for 2008 that would exceed the record \$3 billion invested last year. So what does this level of investment show us? It shows that despite the economic turmoil, the green economy is still flourishing.

Second, the not-so-positive. A recent magazine article by David J. Craig of Columbia University, citing to a survey conducted in April by the Pew Research Council, indicated that almost 1 in 3 Americans still don't believe there's solid evidence of global warming. Also, less than half of Americans believe that pollution is causing the earth to warm.

On January 20, 2009, our country will inaugurate our new President. He will take the oath of office and make his way to the White House to sit down to a buffet of problems, with a banquet of consequences. The ambition and comprehensive nature of his plan alone should tell each of you how serious he intends to be when it comes to addressing the issue of climate change. He has faced many challenges head-on and overcome them, and he hasn't shied away because the barriers seem too great or the opponents too strong or too many. If we, as a nation, come together collectively to address the issue of climate change, we can change our dangerous course for future generations of Americans, so that they do not face the same dire banquet of consequences we must address today.

I'm inspired by your attendance here today. To me, each of you represents the engine behind overcoming this global challenge and I hope you take away from my remarks that your government is ready to stand beside you in your efforts and your incoming President is up to the challenge. Thank you for having me here with you. If there are questions, I'd be happy to continue our discussion.