

THE COMMERCIAL ENERGY WORKING GROUP

STATEMENT IN SUPPORT OF PROPOSAL TO CONVENE A SUBCOMMITTEE OF THE CFTC ENERGY AND ENVIRONMENTAL MARKETS ADVISORY COMMITTEE TO DEVELOP A REPORT ON GUIDING PRINCIPLES FOR CARBON MARKET DESIGN

COMMODITY FUTURES TRADING COMMISSION ENERGY AND ENVIRONMENTAL MARKETS ADVISORY COMMITTEE MEETING 15 September 2021

The Commercial Energy Working Group (“**Working Group**” or “**CEWG**”) appreciates the Energy and Environmental Market Advisory Committee’s (“**EEMAC**”) consideration of our proposal to establish a subcommittee of EEMAC to develop a report on guiding principles for carbon market design. We strongly believe that this effort should go forward and look forward to actively participating in this process.

Mandatory and voluntary carbon reduction programs that utilize the trading of emission allowances, offsets and renewable energy credits continue to grow in the United States and globally. Importantly, these programs – which in the United States range from local to regional in scope - continue to set the stage for the growth of tradeable, secondary markets for these instruments, as well as markets for related derivative products directly subject to the CFTC’s jurisdiction. In the absence of federal legislation in the United States establishing a national carbon policy, these markets will continue to evolve organically and in a piecemeal fashion. Further, given the increasing reliance by the United States and other sovereign jurisdictions on these types of programs to achieve carbon emission reductions targets, the CFTC, in its role as a market regulator, should clearly understand:

- carbon market fundamentals, and
- how the development of liquid secondary carbon markets and related carbon derivative markets will support market participants’ compliance efforts, including, but not limited to, the ability to attract investment capital to finance emission reduction technologies, such as renewable resources in the electricity sector.

The transcript of the June 3rd EEMAC meeting supports the need for this effort. At the June 3rd meeting, presentations were made about domestic and international “cap and trade” carbon emission reduction markets. The momentum behind these markets continues to grow and the influx of capital into these markets is substantial. However, for these markets, and related derivatives markets, to function and flourish in a global environment, further standardization is necessary and formal regulatory oversight may be required.

As noted at the June 3rd meeting, the European Union's ("EU") carbon emission market is the world's largest market. It continues to grow and covers about 40% of the EU greenhouse gas emissions. The transcript reflects that the development and implementation of the EU's Emissions Trading System ("ETU") has attracted capital that has contributed to the financing renewable energy resources across Europe. In the United States, Pennsylvania, and, more recently, North Carolina have been considering joining RGGI, which would significantly increase the large, regional footprint of this program in the eastern United States and trading in related carbon derivative products.

The transcript of the June 3rd meeting also includes a report on other efforts to promote voluntary carbon markets and the use of carbon emission credits and offsets to support net-zero goals of companies. The Task Force on Scaling Voluntary Carbon Markets ("TSVCM") has examined and published its findings with respect to how to scale these markets. A critical component of scaling such markets is market design.

In sum, as the primary, compliance markets for carbon emission credit grow, secondary and derivative markets will follow, and the CFTC needs to be prepared. Not only will the Commission need to ensure that carbon derivatives markets are properly regulated and monitored, but the Commission's resources and expertise may be helpful to primary market regulators, many of whom have little to no experience regulating trading markets.

The Working Group's Statement of Purpose proposes certain guiding principles for an EEMAC subcommittee to consider, discuss, and refine as part the preparation of a report intended to address carbon market designs that will attract liquidity, in part, through the use of carbon derivatives and protect the integrity of such markets. Fully understanding the link between the secondary markets for emission allowances and offsets and derivative markets will be critical in helping the CFTC execute certain of its core statutory missions – promoting fairly and orderly trading in commodity derivative markets and protecting the sale of commodities in interstate commerce from fraud and manipulation.

I would be happy to review the principles that were included in the Working Group proposal if necessary, which focus on ensuring market integrity, attracting liquidity, promoting price discovery, as well as addressing cross-border coordination which will become more important as other sovereign jurisdictions develop and implement "cap and trade" style carbon emission reduction programs.

Thank-you very much for the time allotted and your consideration.