

Bachus Prepared Remarks During Press Conference on Waxman-Markey Bill

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WASHINGTON - Prepared remarks of Congressman Spencer Bachus (AL), the top Financial Services Committee Republican, for today's press conference to discuss Committee jurisdiction issues in regards to the Waxman-Markey Bill follow:

"It's essential that we have hearings on safely creating a massive, multi-trillion dollar derivative market overnight, and on burdening a struggling housing market and homeowners as well as the commercial properties market with stringent new Green building code requirements.

"Under the Waxman-Markey bill the government would issue permits (carbon allowance permits) that allow companies to emit a certain amount of greenhouse gases. Companies that emit too much can buy allowances from companies that produce less than their limit. In addition to carbon permits and allowances, there are carbon offsets which allow companies to emit greenhouse gases in excess of the federal cap or limit. They do this by investing in projects that cut emissions and it is anticipated that many of these projects will be in developing countries. C.F.T.C. Commissioner Bart Chilton anticipates that overnight the bill will create a \$2 trillion dollar market, which he describes as "the biggest of any commodities derivative product in the next five years". Robert Shapiro, a former undersecretary of Commerce in the Clinton administration and a co-founder of the US climate Task Force warns that "we are on the verge of creating a new trillion dollar market in financial assets that will be securitized, derivatized, and speculated by Wall Street, like the mortgage-backed securities market." Mother Jones's Rachel Morris warns that without strong financial regulation of the market you could have abuses, over leveraging and ultimately collapse of the market. Democratic Senator Jeff Bingaman has described these offset projects as "fraught with opportunity for game playing, which will be fully exploited, I'm sure". Say for instance the offset is a tree planting project half way around the globe. How do you know they weren't going to be planted anyway, or after they have been planted if they've been cut down?

"Michele Chan, the investment program manager for Friends of the Earth, seems to agree, saying if not properly regulated the offset derivatives could become what she calls "subprime carbon"-futures contracts that promise emissions reductions but fail to deliver and then become toxic or worthless. Already she says banks are bundling credits from multiple offset projects and splitting them into tranches to sell to investors. It sounds altogether too familiar-a brand new, hard to price, vast convoluted market of carbon derivatives. And if these warnings are correct, one that certainly could pose a systemic risk in the financial markets.

"The Financial Services Committee also has jurisdiction over Housing. We have heard that the Democratic Majority intends to incorporate the Green Act into the Waxman-Markey legislation. However, the Waxman-Markey legislation has much higher energy efficiency standards than the Green Act, which were carefully negotiated over the past year so as to avoid increases in cost not only to homeowners, but to many federal housing programs. These higher standards will be very expensive. What will be the cost in terms of construction costs and affordability? How much will it increase the cost of Federal Housing programs? These are all very big unknowns. The Waxman-Markey legislation states that any owner

or builder that knowingly occupies, permits occupancy of, or conveys a building that does not meet these higher standards violates the Act. Penalties for violating the Act are \$100 per day. A day! What effect does such a law have on home prices, on seniors trying to sell their home in a tough market, and builders struggling to sell their inventory of unsold houses? Without hearings we on the Financial Services Committee have no idea."

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