Statement of Gregory Agran Before
the U.S. Senate Permanent Subcommittee on Investigations
Hearing on "Wall Street Bank Involvement with Physical Commodities"
November 20, 2014

Chairman Levin, Ranking Member McCain, and Members of the Subcommittee.

My name is Gregory Agran. I am co-head of Goldman Sachs' Commodities Trading, where I have overall responsibility for all of the Firm's commodities trading activities.

As you know, for much of modern financial history, a close connection has existed between capital markets and commodities. The interplay between the financial and physical commodities markets is crucial to determining the returns that thousands of companies earn for their products, as well as the risks they bear in producing them. By one measure, almost 40% of the equity capitalization of the S&P 500 index has meaningful exposure to commodities.

A core function for Goldman Sachs is to act as an intermediary, or market maker, for a range of clients. We perform this role across markets for interest rate, currency, equity, credit and commodity products, each of which we refer to as an "asset class." Many of these transactions are settled financially, in which the parties make payments based on the terms of the transaction. A certain portion of these transactions are settled physically, where one party delivers an asset to the other in exchange for a payment. Depending on the asset class, the asset that is delivered may be a bond, a number of shares or a specified volume of a currency or commodity.

We have been an active market maker in commodities and commodity derivatives markets since 1981. Though these activities involve physical commodities, they otherwise mirror our market-making in purely financial instruments. In this role, we serve as a bridge between producers on the one hand and consumers and investors on the other, whose interests and exposures offset each other but do not perfectly match.

Our clients in the commodities business include many of the largest companies in the world across virtually every sector. Many of these companies as well as several municipal and trade organizations — more than 100 in total — have been outspoken about the importance to them of having financial institutions participate in the commodities markets, including with respect to physical markets.

Apart from helping clients finance their inventories or manage their risk, the Subcommittee staff has focused on specific instances in which the Firm makes an investment in a commodity-related area. While this is a relatively small part of our commodities business, we undertake extensive due diligence and risk analysis, beyond just an analysis of the economic risks. This includes examining environmental impacts, legal liability, insurance considerations and even whether the business we are considering has operated under high standards of compliance.

I want to briefly address three issues on which the Subcommittee staff has focused. While the significance and role of these issues are minor in the context of our commodities activities, I believe it is important to correct any misimpressions.

First, our sales and trading in aluminum are unrelated to the Firm's ownership of Metro. Metro was never integrated into our market making business, and we maintain a strict informational barrier between the two. Confidential information relating to Metro is not shared with Goldman Sachs metals sales and trading personnel. As the information we have provided to the Subcommittee confirms, there has not been a single instance where confidential Metro information went to our metals trading personnel.

Second, we have provided to you information involving uranium trading, a very small part of our business. In 2009, to provide a broader array of product offerings to our mining company and public utility clients, we acquired Nufcor, a company that had acted as a market maker in uranium and related financial derivatives.

After extensive due diligence, we believed and remain confident that this activity does not present environmental risk to an entity acting in the limited capacity in which we act. In this business, our activities are limited to buying and selling **unenriched** uranium and entering into related financial derivatives. Of course unenriched uranium is not a harmful radioactive substance. Moreover, we do not take physical possession of uranium — let alone transport, deliver, or process it. Finally, our ownership interest is merely reflected as book entries at highly secure depositories that are subject to substantial government oversight. Notwithstanding these various considerations, given the misconceptions about this business, we have decided to manage down Nufcor's assets to zero.

Finally, I would like to address our standalone investment in CNR, a coal mining investment in Colombia. The acquisition of CNR arose from a pre-existing exposure arising from a contract to purchase coal over a period of time.

Notwithstanding the Subcommittee's statements regarding CNR, since Goldman Sachs made the investment in the company, CNR has achieved the highest international standards for environmental and safety management, and it is the only company in the region to have done so. I would also note that the limited liability protections of the investment's corporate structure, together with the company's capable management team, ensure that our risk in relation to the investment is limited to our invested capital.

We hope that our extensive engagement with the Subcommittee staff over these many months has contributed to a greater understanding of the role financial intermediation plays in the commodities markets, in addition to these specific areas in which you have expressed an interest. I look forward to answering your questions today with that same goal in mind.

Thank you.