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Comprehensive Senate energy bill to curb market speculators

By Jon H. Harsch

Testifying in Senate Energy Subcommittee hearings last week, Inland Oil Company executive Gerry Ramm, speaking for the Petroleum Marketers Association of America (PMAA), spelled out the problem: "Large-scale, institutional investors speculating in the energy markets are a driving force behind energy prices. The rise in crude oil prices, which reached $150 a barrel for December delivery in July of last year, only to fall dramatically to as low as $33 in December, was not completely a result of supply and demand fundamentals but was unduly influenced by excessively leveraged speculators, index investors and hedge funds."

To solve the problem, Ramm told the Senate panel, "PMAA and our customers need our public officials to take a stand against abusive trading practices that artificially inflate energy prices and severely damage our economy. We strongly support the free exchange of commodity futures on open, well regulated and transparent exchanges that are subject to the rule of laws and accountability. Reliable futures markets are crucial to the entire petroleum industry and the American economy. Let's make sure that these markets are competitively driven by supply and demand and not purely the speculative whims and greed of Wall Street."

Both witnesses and senators agreed in the hearing that federal regulators need more powers, including full authority over traders and markets to:

- issue no-warning cease & desist orders,
- freeze assets to prevent the dissipation or conversion of assets, and,
- collect comprehensive, accurate data on trading in currently "dark" markets.

Senator Maria Cantwell (D-WA), Chair of the Senate Energy and Natural Resources Committee's Subcommittee on Energy, has introduced legislation with those goals in mind. She concluded the hearing by saying her bill will be part of the Energy Committee's comprehensive energy legislation mark-up which began March 31st.

Market analyst Robert McCullough, Managing Partner of McCullough Research, called for immediate steps to provide market transparency. "While oil is arguably the U.S. economy's most important commodity," he pointed out, "no agency of the U.S.

government has been assigned the task of investigating and explaining the extraordinary price changes of last year." He said that due to lack of transparency and inadequate regulation, "no one is following the spot oil market. . . We are only watching one door of the department store and the shop lifters have figured out which door to leave by. . . Regulating markets retroactively is the most single most expensive, and most inefficient way to do it. . . The best possible way to avoid manipulation is to bring that market into the light of day. . . When we don't have the data, we are encouraging people to undertake those manipulations."

Senator Byron Dorgan (D-ND) agreed that more regulation and more transparency are needed urgently. He insisted in the hearing that:

- "There was nothing in the fundamentals that could ever justify the run-up in these prices and the run back down."
- "What we know is that 37% of the oil futures market traders in 20000 were speculators and that went in a few short years to 80% were speculators."
- "That market was not designed for that kind of unbelievable speculation. I think that the CFTC did, in my judgment, a shameful job of what they should have done in regulating."
- "We do know just little snippets. We know that at a time when investment banks still apparently had a little money, they were buying oil storage capability to buy oil and take it off the market and store it to sell it later" in expectation that prices would continue to climb.
- "So we knew some of the players and just snippets of information but there is much more we don't know."
- "I hope we can find a way to effectively establish regulation and transparency and then have regulators who care about their work, so that we have a market that works. We need an oil futures market that works."
- "You must have a market, it's a very important market. Normal hedging is an important part of what we are doing. But when you run speculators up from 37% of the market to 80% of the market, that changes the oil futures market in a very significant way and it changes it not for the better. That's why we had I think this huge spike."

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