Subcommittee on Oversight and Investigations Subcommittee hearing entitled, "Energy Speculation: Is Greater Regulation Necessary to Stop Price Manipulation? - Part II"

Today working Americans are seeing energy costs take an ever-larger bite out of the family budget. Costs have soared for gasoline, electricity, and heating, and increased fuel prices have driven up the price of food.

Subcommittee on Oversight and Investigations
Subcommittee hearing entitled, “Energy Speculation: Is Greater Regulation Necessary to Stop Price Manipulation? – Part II”
June 23, 2008

Today
working Americans are seeing energy costs take an ever-larger bite out of the family budget. Costs have soared for gasoline, electricity, and heating, and increased fuel prices have driven up the price of food.

Dramatic
rises in fuel costs are affecting virtually every sector of our economy. For fuel-intensive industries, in particular, this is a crisis. A case in point is the airline industry, and I want to welcome Doug Steenland, President and CEO of Northwest Airlines, who is testifying today on the problem faced by his company and the airline industry as a whole.

Simply put, millions of Americans are feeling the pain from extraordinary increases in the price of oil.

Which
brings us to the central issue of this hearing. What caused this dramatic rise in prices? Are record oil prices a simple function of supply and demand? Or are they a result of excess speculation? Or both?

The
International Monetary Fund recently concluded that, “speculation has played a significant role in the run-up of oil prices.” A Lehman Brothers analysis suggests that more than 50 percent of the price of a barrel of oil may be attributable to speculation. The Saudis note that oil supply-and-demand seem to be in balance and that there is no substantive basis for current prices. Even the Department of Energy’s own Energy Information Administration says that “the flow of investment money” has contributed to the spike in oil prices.

Yet the Secretary of Energy dismisses speculation as a cause of spiking oil prices and the Treasury Secretary agrees, shrugging it off as a “tough period.” In short, real solutions from this Administration are harder to find than a $3 gallon of gas.

The oil producers say the answer is to drill for more oil. The environmental community says the answer is to conserve energy, to change the way we live, work, and play.

Well, both sides have a valid point. We should search for more oil, although I note that the oil companies aren’t drilling on the land they already have. And the environmentalists are right—we need to conserve energy. But both are long-term solutions that will likely take at least 10 years; they will do little to solve the immediate problem we face, and such actions won’t curb the current excess speculation and manipulation of the oil markets.

Mr. Chairman, as our witnesses will testify today, the sharp rise in energy prices during the Bush Administration has been outpaced only by the rise in speculation. Energy speculation has become a growth industry and it is time for the Government to intervene.

We need to consider a full range of options to counter this rapacious speculation. For example, we should examine imposing 50 percent margin requirements for financial speculators; setting position limits on transactions across all futures exchanges; requiring full disclosure of all trading by investment banks in all markets; preventing pension funds from using the commodities markets as an investment vehicle; and prohibiting investment banks from owning energy assets. These and other ideas need to be debated, evaluated, and acted on, sooner rather than later.

Mr. Chairman, I look forward to the testimony of the witnesses and working with you to address this very serious problem.

Prepared by the Committee on Energy and Commerce

2125 Rayburn House Office Building, Washington, DC 20515