Dingell on the 'Commodity Markets Transparency and Accountability Act'

Washington, D.C. – Rep. John D. Dingell (D-MI), the Chairman of the Committee on Energy and Commerce, delivered the following statement regarding H.R. 6604, the “Commodity Markets Transparency and Accountability Act,” which passed the House of Representatives 283 to 133.

For Immediate Release:
September 18, 2008

Contact: Jodi Seth or Brin Frazier, 202-225-5735

Dingell on the “Commodity Markets Transparency and

Accountability Act”

Washington, D.C.
– Rep. John D. Dingell (D-MI), the Chairman of the Committee on Energy and Commerce, delivered the following statement regarding H.R. 6604, the “Commodity Markets Transparency and Accountability Act,” which passed the House of Representatives 283 to 133. The legislation would help close the regulatory loopholes that have allowed excessive speculation in energy futures markets and driven up the energy prices consumers pay.

“HR 6604, the ‘Commodity Markets Transparency and Accountability Act’ will help restore integrity to commodity futures markets. Lax regulation has allowed prices to become divorced from fundamental supply and demand. Lax regulation has allowed speculative bubbles to form in food and energy prices. And lax regulation has caused billions of dollars in damage to businesses and consumers.

“Oil prices doubled from $72 per barrel on

July 11, 2007, to $145 on July 11, 2008, even though supply and demand was fundamentally unchanged. While excess capacity was reduced and the dollar had dropped, there were no oil shortages, and inventories were ample. Fundamentals alone do not explain a 100 percent price increase.

“What has changed over the past few years is that oil has been transformed from a basic commodity into a financial asset, and traded for its speculative value by institutional investors who want to diversify portfolios, hedge the dollar, or make a fast buck. The Washington Post reports that speculators control as much as 81 percent of the futures market, up from an estimated 37 percent in 2000.

“Investment banks and futures exchanges claim that institutional investors are providing badly needed liquidity to the futures market, that futures prices reflect supply and demand, and Congress should not turn them into a scapegoat.

“Wall Street’s commodity brokers told their investors privately, however, that supply and demand did not explain the doubling of oil prices.

“Just yesterday, Michael Cembalest, JP Morgan’s global chief investment officer, wrote:

‘the Peak Oil crowd promoting crude oil … at $200 should concede what we've been saying: there was an enormous amount of speculation pent up in energy markets (e.g., an 8-fold increase in bank OTC oil derivative exposure in the last 3 years), and it wasn't just the supply-demand equation. Oil will rise again, and we need solutions to energy supplies, but $140 in July 2008 was ridiculous.’

“Yet on the same day, Blythe Masters, Managing Director and Head of Global Commodities for JPMorgan submitted testimony before the Senate Energy Committee stating:

‘we fundamentally believe that high energy prices are a result of supply and demand, not excessive speculation.’

“Lehman
Brothers told its investors in May that it is seeing ‘the classic
ingredients of an asset bubble” in oil. It linked it to an inflow of
$90 billion in commodity index investments.

“The cost to our economy from excessive speculation is destructive.

“For
every penny increase in the price of a gallon of gasoline, consumer
costs jump by $1 billion a year, according to Moody’sEconomy.com. The
run-up since last September has added nearly $1 per gallon, costing
consumers $100 billion absorbing the economic stimulus package enacted
earlier this year.

“The Industrial Energy Consumers
indicate that natural gas consumers paid an extra $40.4 billion this
year already. They support this bill.

“The airlines
have lost 36,000 jobs and retired 746 planes this year, while
eliminating 635 routes, due to jet fuel prices. They support this bill.

“Petroleum marketers have seen oil prices come unhinged from supply and demand. They support this bill.

“Some
institutional investors are now starting to unwind their massive
positions. Nearly 127 million barrels of oil futures valued at $40
billion were liquidated by institutional investors between July 15,
2008, and September 2, 2008, according to a recent analysis of the
CFTC’s public data. Oil futures prices plunged $53 per barrel to $92 in
only two months, yet fundamental supply and demand was not changed
materially in the past 60 days.

“What did change in mid
July is that Congress in both Houses took up legislation to reign in
excessive speculation — particularly in the unregulated dark markets —
which may have spurred some speculators to get out early.

“The
central issue is whether pension funds, endowments, and sovereign
wealth funds should be allowed to hijack commodity markets and set oil

and food prices, or whether consumers and producers should set prices based on supply and demand. If speculators can drive prices back up to $140, they can really turn the lights out on the US economy.

“Some may argue that given the crisis in financial markets, this is not the time to start regulating Wall Street. Beginning with the repeal of the Glass Steagall Act, however, deregulation has allowed recklessness compromise our entire financial system.

“The recent collapse of Fannie Mae, Freddie Mac, Bear Stearns, AIG, and Lehman Brothers are a product of lax regulation which has led to systemic risk for the entire financial system.

“This legislation puts a cop on the beat and codifies some of the transparency measures recently recommended by the CFTC. I commend Chairman Peterson and Etheridge, as well as Representatives Stupak, Van Hollen, DeLauro, and Larson for their leadership on forging this bill and urge its passage.”

-30-

Prepared by the Committee on Energy and Commerce

2125 Rayburn House Office Building, Washington, DC 20515