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Sanders testifies at energy-trading hearing

U.S. regulator considers energy speculation limits

From staff, wire reports

WASHINGTON — A key federal regulator said Tuesday his agency must “seriously consider” imposing stringent limits on speculative trading of energy futures contracts, a move that would mark a major shift for the government.

Gary Gensler, chairman of the Commodity Futures Trading Commission, made the assertion as the agency prepared to hear from consumers, businesses, traders and big financial firms. The Chicago Mercantile Exchange expressed willingness itself to set new limits on energy trading but insisted that it, not the government, was the proper authority to do so.

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Gensler said at a hearing organized by the agency that it must assess the impact of speculators and its rules “should address times of volatile or uncertain markets.”

The futures contracts are supposed to reduce price volatility. But speculators use them to bet on market prices, and critics say this magnifies price swings. Regulators, they maintain, have long let speculation in energy markets inflict financial pain, triggering wild price swings, hurting gasoline wholesalers, damaging airlines and squeezing consumers at the gas pump and airline ticket counter.

“I believe we must seriously consider setting strict position limits in the energy markets,“ Gensler said.

Sen. Bernie Sanders, I-Vt., has been vocal about the role of speculators in the marketplace and testified before the regulatory body Tuesday. Sanders has introduced legislation that would require regulators to exercise emergency powers to limit speculation, stop sudden or unreasonable fluctuations or unwarranted changes in prices, subject bank holding companies engaged in energy futures trading to strict limits and require hedge funds trading in energy markets to register with the CFTC and make them subject to strict speculation limits. In his testimony Tuesday, Sanders praised Gensler for not waiting for Congress to act.

“The bottom line is that we have got to make sure that Americans are no longer ripped off at the gas pump by some of the same Wall Street gamblers responsible for the worst economic crisis since the Great Depression,” Sanders said.

Aside from impacts on vehicle fuels, oil speculation resonates as political issue in Vermont because of the large number of people that use heating oil to warm their homes during the winter. The price for a gallon of heating oil hit $4.65 in last July , according to state data. This month, that price had fallen to $2.34 a gallon, a 501 percent drop.

Craig Donohue, the CEO of CME Group Inc. — owner of the Chicago Mercantile Exchange where energy futures are traded — said his firm “is in the best position“ to impose and manage trading limits and is “prepared to act in the near term,” before the regulators or Congress.

“We strongly believe we have our own responsibility,“ Donohue said.

A CFTC report to be issued later this month suggests that speculators played a major role in the wild oil price swings of last year — a reversal of the agency’s position in a 2008 report.