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Cota: Speculation drives up oil prices

By HOWARD WEISS-TISMAN, Reformer Staff

Wednesday, June 10
 BELLOWS FALLS -- Vermont Fuel Dealers Association Executive Director Matt Cota has seen what happens when Wall Street manipulates oil prices.

Last winter, when fuel oil approached \$4 a gallon, low income Vermonters scrambled to find the money to keep their homes warm while the state's family-run fuel dealers were forced to extend their lines of credit to purchase the fuel oil.

And even though the Northeast's heating season is still four months away, Cota is seeing the same thing happen and he is calling on Congress to step in to end excessive speculation and call for accountability of the commodity markets.

"This is a product people depend on to live and investment banks and hedge funds should not be allowed to buy and store the oil just to drive the price up," Cota said. "We're being victimized by speculators."

On the heels of the massive Wall Street bailout, which saw millions of taxpayer dollars go to large banks, those same banks are now buying up crude oil, Cota said.

Financial analysts say that Wall Street investors are sinking their bailout money in commodities like oil as the American dollar weakens against world currency.

But the rising oil prices have nothing to do with supply and demand, Cota said.

According to the Associated Press, crude oil in storage is near record levels while demand in the United States is sluggish due to the slumping economy.

At the same time,

trading on the New York Mercantile Exchange Tuesday inched above \$70 a barrel and Cota said if Congress does not step in soon the Northeast will be facing the same crisis it had last winter.

Cota pointed to recent reports that accuse investment bank JPMorgan Chase & Co of chartering a supertanker for nine months to store heating oil.

"Wall Street has had an influx of money and they are looking for a place to put it," said Cota. "No one knows when this bubble will burst and if it doesn't happen before it gets cold again we're going to be scrambling to figure it out. We know Congress is busy, but reforming Wall Street has got to be a top priority."

A Senate panel on Tuesday adopted a proposal by Sen. Bernard Sanders, I-Vt., that would require oil traders to report reserves held in offshore tankers.

The Senate Energy and Natural Resources Committee included Sanders' proposal in an oil and gas exploration bill it was working on.

Sanders also is going to introduce legislation that would require the Commodity Futures Trading Commission to use emergency powers to get a handle on oil price manipulation.

"These companies are hoarding heating oil right now in the hope of selling it at a higher price this winter when senior citizens on fixed incomes and middle class Americans in cold weather states need heating oil to stay warm," Sanders said in a press release. "We cannot allow this to continue, especially when the firms that are taking advantage of this situation have received the largest taxpayer bailout in the history of the world."

Last year, Rep. Peter Welch, D-Vt., helped include a provision in the Farm Bill that grants the Commodity Futures Trading Commission authority to oversee energy markets.

With the price of oil this week topping \$70 a barrel, Welch said there was more Congress needed to do.

"With too many Vermonters struggling to fill their gas tanks and heat their homes, we cannot afford to let oil speculators drive up the price of such an important commodity," Welch said. "If these unscrupulous traders insist on manipulating oil markets, Congress must stop them in their tracks."

University of Vermont associate professor of economics Art Woolf said surging oil prices can slow down whatever economic recovery the state might be experiencing.

An extra dollar spent on a gallon of oil is one dollar less that is available for a meal, or a trip.

Woolf said it is hard to say exactly how the price of heating oil affects the economy, but he said it was clear that Vermonters are better off overall when they have a little extra cash for discretionary spending.

"If we are spending millions more on gasoline and heating oil, most of that goes out of state to the distributors and oil companies," said Woolf. "So we are buying less maple syrup and less furniture and less money stays in Vermont. When the prices are higher, people are forced to make substitutions and they are definitely worse off."

Cota also said high oil prices make it harder for fuel dealers to control their businesses.

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Banks are not lending as freely and dealers who are trying to work within the volatile system might have trouble balancing their cash flow.

"We are a small group and we are going against very powerful investment banks," said Cota. "But 18 months ago, we were talking to ourselves and now Congress is starting to listen. We are still only taking baby steps but we are starting to get through. This is not easy."

The Associated Press contributed to this story.

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