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Time to crack down on oil speculators

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Thursday, June 11 Last year, financial speculators caused massive swings in oil prices. In the 12-month period that ended in July 2008, oil prices rose from \$70 a barrel to a record \$147, then collapsed below \$40 by last fall amid the global financial crisis. Why? These wild fluctuations weren't purely a matter of supply and demand, although that was a factor. When the speculative bubble burst, energy prices also fell. This year, oil prices have rebounded by 85 percent, and the McLatchy News Service has reported that the investment bank Goldman Sachs recently forecast them to go to \$85 a barrel this year.

After gasoline prices in southern Vermont stabilized at about \$1.85 a gallon in March and April, the price shot up more than 60 cents a gallon in a matter of a few weeks. Why? Because speculators like Goldman Sachs, Morgan Stanley, Citigroup and JP Morgan Chase & Co. are able to control refineries, pipelines and storage facilities to manipulate prices.

The rules of supply and demand don't seem to apply anymore.

Oil inventories are near record highs and demand has hovered around a 10-year low, yet oil prices are about \$70 per barrel. It's led some to conclude that Americans are paying more because speculators drive up prices by betting hundreds of billions on oil contracts.

How? Through the use of derivatives, which are bets that derive their value based on future prices of some underlying asset -- such as oil contracts, interest rates, currency or even bonds and other forms of credit. If the value rises to the future price you bet on, you win. If it doesn't, you can lose big.

In 2000, Congress effectively deregulated the futures market, granting exemptions for complicated derivative investments called oil swaps and causing an explosion in this type of trading.

The global financial system nearly collapsed during the last four months of 2008, because firms like insurance giant American International Group had issued trillions of dollars in insurance-like private derivatives contracts and had insufficient reserves to

cover its losses. The Federal Reserve and the Treasury Department needed to rescue AIG and other financial firms caught up in this shell game.

What's even more galling is that the investment banks taking bailout money from the federal government -- such as Citigroup, Morgan Stanley and JP Morgan Chase -- are the ones that are actively manipulating the energy markets to doubly rip off the American people.

"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," Matt Cota, executive director of the Vermont Fuel Dealers Association, told the Reformer this week. "We're being victimized by speculators."

It's estimated that as much as 60 percent of the price of oil is a direct result of speculation. And as much as 70 percent of the oil contracts in the futures markets are now held by speculative entities. This is a recipe for price gouging.

How bad is it? According to Reuters, global diesel storage at sea has climbed to about 41 million barrels, and Bloomberg News reported this week that seven tankers with an estimated 14 million barrels of North Sea crude are anchored off Great Britain. JP Morgan Chase recently hired a ship to store up to 2 million barrels of heating oil off the coast of Malta.

"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," Vermont Sen. Bernard Sanders said this week.

Sanders plans to introduce legislation to require the federal Commodity Futures Trading Commission to use emergency powers to stem oil price manipulation and force big oil traders to divulge reserves they are holding in offshore tankers to drive up prices.

It's a good start, but what's really needed is for Congress to restore transparency to the futures market, where energy prices are set.

Stronger regulations over energy trading markets would clamp down on speculators and limit their ability to drive up oil prices.

Before we have another winter where Vermonters get stuck paying \$4 a gallon for heating oil because a handful of greedy traders are manipulating prices, Congress must take action and re-regulate the energy trading markets.

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