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Welch: Crack down on energy speculators

By Bruce Edwards
STAFF WRITER

With gasoline and home heating oil prices hitting a two-year high, Rep. Peter Welch, D-Vt., is making good on his promise to make life more difficult for speculators in the energy futures market.

Welch, who has waged a campaign against speculators, argues that the practice drives up prices for the sole purpose of earning a profit for paper traders who never take possession of the commodity.

He said the recent jump in prices has coincided with a sharp rise in speculative energy contracts.

“This is the time of the year when people can least afford the rip-off,” Welch said.

According to the state's December fuel price report, gasoline prices have jumped 46 cents a gallon since September, bringing the average price of a gallon of gas to $3.14. Home heating oil prices are up 14 cents from last month to an average of $3.04 a gallon, 38 cents a gallon higher than a year ago.

The federal Energy Information Administration attributes the run-up in fuel prices to increased demand and lower inventories of fuel. But Welch contends that supply and demand alone doesn't explain the spike in prices.

He remains convinced that much of that increase is due to Wall Street speculation.

“This is Wall Street and hedge funds who are in the casino economy, not the fuel dealers or the airlines that need the futures market to help consumers,” Welch said.

Congress this year moved to tighten regulation over the commodities market, including provisions in the Dodd-Frank financial industry reform law.

But Welch said the law falls short of what's needed to ensure transparency.

Currently, Welch said, the majority of energy futures are traded “off market” — private transactions between traders.

“What it does, it gives them a level of control to manipulate the price of the market,” he said. “So a significant portion of the price Vermonters are paying at the pump is the speculation premium rather than the law of supply and demand.”

Welch intends to introduce the Prevent Unfair Manipulation of Prices Act, or PUMP Act, requiring that all energy futures be subject to oversight by the U.S. Commodity Futures Trading Commission. The bill would create greater transparency by aggregating contracts to determine if someone is trading on one exchange then going to another in an attempt to exceed limits; limit investment funds that buy and hold fuel contracts with no intention of actually using them (a practice that Welch said interferes in the market and drives up prices); and ensure that only end users such as airlines and fuel dealers are exempt from the limitations.

IntercontinentalExchange, a major commodities exchange, declined to comment on Welch's planned legislation. The Commodity Floor Brokers & Traders Association also declined to comment.

All U.S.-linked energy futures contracts traded on IntercontinentalExchange are subject to Commodity Futures Trading Commission oversight.

The American Petroleum Institute, which represents major oil companies, has taken the position that market forces and not speculators are responsible for price fluctuations.

But a recent New York Times article cast doubt on that premise.

The Times story singled out the influence of JPMorgan Chase, Goldman Sachs and Morgan Stanley in controlling the market for derivatives, an investment tool that's used to hedge risk in commodities like oil futures.

According to the story, the big banks have fought attempts to open the market to other banks while beating back attempts to force banks to disclose their fees and prices.

The Vermont Fuel Dealers Association has joined forces with Welch in calling for tighter control and more transparency.

Matt Cota, the association's executive director, said that while the financial overhaul law was a positive step forward, the problem now lies in writing regulations that “protect the end users and not the paper traders on Wall Street.”

Cota said that much like the position limits placed on stock trades, the rules should mandate that commodities traders have to put up more cash to place their trades.

He said that would decrease speculation in the market.

“Now, would there still be speculation? Absolutely,” Cota said. “Does there need to be? Absolutely, but not the kind of speculation that can drive, completely distort, the fundamentals of supply and demand.”

Welch is sponsoring a second bill, the Stop Tax-breaks for Oil Profiteering Act, that would require speculators to pay the same tax rate as fuel oil dealers, airlines and other commercial users. Currently, speculators pay a lower tax rate, up to a maximum of 15 percent on profits from futures. Commercial users pay between 15 percent and 35 percent.

Welch said the lower tax rate encourages speculation and distorts the normal supply-and-demand balance of the market.

The new Congress convenes Jan. 5.

bruce.edwards@rutlandherald.com