Huffington Post

By: Rep. Joe Courtney

Posted: 3/16/11 09:51 AM ET

Last week, the New York Times concluded a story about the day on Wall Street with an interesting -- and telling -- dichotomy about the cause of skyrocketing gas prices:

[The market for oil] remained volatile as The Associated Press reported that Saudi forces had opened fire on protesters. In addition, violence escalated in Libya, where rebel fighters fled Ras Lanuf, the strategic refinery town, under ferocious rocket attacks and airstrikes by forces loyal to the Libyan leader, Col. Muammar el-Qaddafi.

Though the Energy Information Administration reported this week that crude inventories in the United States rose 2.52 million barrels, traders seemed concerned about possible disruptions in supply.

Even as American oil supplies remained secure and ample -- even as domestic oil production is at its highest level since 2003 -- the price of crude in the commodities market is spiking ever upward. The price of gasoline has gone up more than 40 cents over the past three weeks nationally, and it continues to trend higher. Tom Kloza, head of the Oil Price Information Service, said that not only could gas prices continue to rise, but if unrest continues in the Middle East, the cost per gallon could spike to $5 or more.

While that fear is real, it relies on false causation. The two leading exporters of oil to the United States aren't even in the Middle East; they are Canada and Mexico. Plus, today's drilling technology is making oil shale in North Dakota, California, and Texas financially viable. Market analysts predict that oil from these sources will reach 30 percent of current U.S. production by 2015. So with secure, full reserves, increasing domestic production and reliable continental suppliers, why are prices astronomical and volatile?

Recently, a rumor that Libya's long-time ruler Muammar Gaddafi had been shot tore across the commodities market, sending U.S. crude oil futures down more than two percent. Other rumors have had similar immediate and sweeping effects, even without real changes in actual oil production or reserves. The cause is oil speculators, such as hedge funds, who buy and sell commodities, profiting by betting on short-term price changes.

These traders are making money on quick movement, wagering on rumors and market blips. They are buying and quickly re-selling commodities they have no intention of actually holding or using. Their opportunism is once again hitting working-class families across the country, increasing the burden on small business owners and farmers, and elevating the cost of summer travel. In fact, according to analysts at Societe Generale, if the price of oil today reflected just current supply and demand, it would cost approximately $20 less per barrel. According to NPR, that extra $20 is what traders call the "geopolitical risk premium."

The framework to address the problem is in place, and it begins with diluting the influence of speculators. Companies that actually take possession of oil and gas have argued passionately for years that stabilizing gas prices requires limiting the impact of speculation. Now, because of tools established by the Wall Street Reform and Consumer Protection Act, which the President signed into law last year, we are poised to curb speculators' influence and return to reason at the pump. Right now, speculators outnumber traders who buy and sell for their own consumption, four to one in the previously-unregulated derivatives market. Meanwhile, high-frequency trading -- the type used for short-term profit -- accounts for one third of all trades in the futures market.

The Wall Street Reform Act includes tools to protect consumers from market swings, and allows the Commodity Futures Trading Commission (CFTC) to limit the influence of speculators. It allows strict limits on the number of speculators and dilutes their influence on the market. It is a common-sense, but very important, step toward reigning in gas prices before the summer travel season.

Not surprisingly, as the CFTC is moving forward to implement consumer-friendly changes, the CFTC itself is under attack by House Republicans determined to slow implementation of the Wall Street Reform Act. Their spending proposal -- which gutted funding for veterans, alternative energy research and students -- would slash CFTC's budget by one third and reduce its staff from 680 to below 440.

Those cuts would impact CFTC just when their oversight is needed most -- when it could do actual and immediate good for the American people.

Republicans in the House today are again shouting "Drill, Baby, Drill." But the fact remains: rising gas and oil prices are not a result of too little supply. They are a result of trepidation over the future of the Middle East -- a trepidation that is fanned by speculators who profit as middle-class Americans pay more at the pump.

http://www.huffingtonpost.com/rep-joe-courtney/market-speculators-and-th_b_836451.html