LARSON TESTIFIES BEFORE AG COMMITTEE ON OIL SPECULATION LEGISLATION

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Washington, DC – Congressman John B. Larson (CT-01), Vice Chair of the Democratic Caucus, testified today before the House Agriculture Committee as part of a hearing reviewing legislative options to curb excessive speculation in the oil futures markets and drive down oil and gas prices. Congressman Larson has introduced legislation that would take the speculators out of the unregulated energy futures markets. His bill would require anyone investing in the “dark” markets be able to take receipt of the produce in which they are investing.

The following are excerpts from his prepared testimony.

“In properly functioning markets, speculators play an important role in managing financial risk. The danger of combining unregulated speculation with commodities that have a finite supply like oil is that it can become excessive, causing artificial price distortions and volatility in the market. New CFTC data, discussed in a hearing in the Energy and Commerce Subcommittee on Oversight and Investigations last month show that in 2000, when the CMFA was enacted, 63 percent of the oil on the WTI futures market was held by physical hedgers, compared to 37 percent held by speculators.

By April of this year, that ratio had reversed itself, with speculators now dominating 71 percent of the market compared to physical hedgers at 29 percent.”

“President Roosevelt said in his message to Congress on February 9, 1934, “It should be our national policy to restrict, as far as possible, the use of these exchanges for purely speculative operations.” Given that since 2000 speculators have taken control of over 70 percent of the WTI futures market, on the one exchange that is currently regulated, we need to ask ourselves if the market has become exactly what President Roosevelt warned against.”

“The approach H.R. 6264 takes to restore the fundamentals of supply and demand to the market and reestablish a reliable price discovery process is to focus on the activities of the physical hedgers, the producers and consumers, the market participants the commodity markets were established to serve.”

“By limiting the participation of speculators and focusing on the activities of the physical hedgers this legislation will ensure that prices will most accurately reflect the true supply and demand of the underlying physical commodity.”

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