NEWS

Asks President Obama to support legislation to curb gas price speculation

Washington, DC – Rep. Peter DeFazio (D-OR) sent a letter to President Obama, asking him to support legislation that will bring immediate relief to American families and small businesses being crushed by high gas prices. H.R. 2003, the Taxing Speculators Out of the Oil Market Act would target Wall Street speculators that are responsible for unnecessarily inflating the price of gas up to 80 cents a gallon.

“Wall Street speculators are manipulating the gas market to make massive profits while middle class families are digging deep to pay for skyrocketing gas prices,” DeFazio said. “I asked President Obama to support my legislation to end this unnecessary speculation and bring immediate relief to Americans struggling to fill up their tanks. Congress has a choice. Either it passes legislation that goes after the excessive Wall Street speculation causing these skyrocketing prices or it once again kicks the can down the road with half-measures that only score political points.”

DeFazio’s legislation will deter speculation by raising the cost to bet on oil markets. By charging a miniscule 0.01 percent tax on each transaction, excessive speculation would become too expensive and risky. Discouraging excessive oil speculation will lower gas prices up to 80 cents a gallon because it does not tax oil, just Wall Street speculators.

For the last decade, rising speculation in the oil markets has added considerable volatility to the price of oil. Last year, Reuters reported that Wall Street speculation added between $21.40 and $26.75 per barrel of crude oil. These numbers were based on a report by Goldman Sachs, one of the biggest speculators in the world market.

In 2005, Congress passed the Enron loophole that allows Wall Street speculators to enter the energy futures markets. Today up to 70% of oil trading is done by Wall Street speculators who are allowed to bet on oil prices even though they are not oil users. All of this speculating by Wall Street bankers substantially drives up the price Americans pay at the pump.

To watch a floor speech on the legislation, go here: http://www.youtube.com/watch?v=705MImXbatM&feature=channel_video_title

A copy of DeFazio's letter to President Obama is below.

March 6, 2012

Barack Obama

President of the United States

The White House

Washington, DC

Dear President Obama:

Thank you for elaborating on your views of escalating gas prices at your weekly address on March 3, 2012. I wholeheartedly agree with you on "pursu[ing] an all-of-the-above strategy that helps develop every source of American energy." However, I strongly disagree with you that "There's no silver bullet for avoiding spikes in gas prices every year. There's no shortcut to taking control of our energy future." On the contrary, for the last decade, rising speculation in the oil markets has added considerable volatility to the price of oil. The bottom line is that oil speculation is artificially jacking up gas pump prices.

In May of last year, Exxon Mobil Chairman and Chief Executive Officer Rex Tillerson testified to the Senate that oil should cost between $60 and $70 per barrel, if the price of oil were based on supply and demand fundamentals. The price of oil on that day was $98 a barrel. That equates to a speculation premium of $28 to $38 a barrel.

On March 21 of last year, Goldman Sachs, one of the biggest traders in oil derivatives, estimated in a research note that every million barrels of oil held by speculators contributed to an 8 to 10 cent per barrel rise in the oil price. Reuters news service used Goldman's 8- to 10-cent estimates to calculate the total speculative premium in U.S. crude oil is between $21.40 and $26.75 a barrel.

The price of oil has both rocketed and plunged over the last decade without a clear connection to the laws of supply and demand. The price of a barrel of oil predictably hovered around $20 a barrel of oil for decades. In the beginning of 1999, the price was about $10 a barrel of oil, but since then the oil market has been plagued by speculation. After a long steady rise the price of oil peaked at $145 per barrel of oil in mid 2008, up 1450% in less than ten years. Since the peak we have seen wild fluctuations in price that do not correlate to demand. The price of oil collapsed in late 2008 to just over $30 a barrel of oil. Today the price of oil is once again above $100 a barrel for little economic reason.

These large price swings coincide with a drop in demand since 2005. In 2010, the U.S. consumed 2.1 million barrels of oil per day less than it did six years ago. In the last year, demand for crude oil dropped 4.6% while demand for gasoline dropped 6.4%, according to the EIA, the statistical arm of the Energy Department. Finally, it is becoming very lucrative for the oil companies to export gasoline. Since 2007, the U.S. has doubled its gasoline exports. There is no shortage.

Many economists have attributed this irrational behavior of the oil market to the large increase in speculative trading in oil derivatives. Crude oil is now the world's most actively traded commodity futures contract. Speculators now account for 70% percent of contracts for future oil delivery. These speculators are largely big investment banks and hedge funds who never take control of the oil. They just flip the contract for a quick profit.

Prominent economists argue that a transaction tax on speculative trading will deter short-term speculation, which will reduce the volatility and price of oil. James Tobin, a Nobel Prize winner in economics, stated a security transaction tax "would automatically penalize short-horizon round trips, while negligibly affecting the incentives for … longer-term capital investments."

Larry Summers, your former Chairman of the National Economic Council, wrote in 1989 that imposing a securities transaction tax “would have the beneficial effects of curbing instability introduced by speculation, reducing the diversion of resources into the financial sector of the economy, and lengthening the horizon of corporate managers. The efficiency benefits derived from curbing speculation are likely to exceed any costs or reduced liquidity or increased costs of capital that come from taxing financial transactions more heavily.”

I support your call to roll back big oil’s egregious tax subsidies and I ask that you support H.R. 2003, the Taxing Speculators Out of the Oil Market Act. This legislation will deter speculation by raising the cost to bet on oil markets. By charging a miniscule 0.01 percent tax (1 basis point) on derivatives of crude oil (futures, options and swaps), speculators would be dissuaded from excessive speculation. Oil prices will then return to accurate price discovery following the supply and demand price curve. American drivers will see fair gas prices and our economy will not be further constrained by excessive oil speculation.

The bill explicitly exempts all legitimate hedgers from the tax so they see no effect except less volatility and lower oil prices. Airlines, trucking companies, railroads, refineries, manufacturers, and oil companies would likely see a reduction in fuel prices because the reduction in speculative trading. To prevent traders from moving their business overseas, all U.S. citizens must pay the tax no matter where they trade. Foreign citizens must pay the tax if they trade on U.S. based exchanges or are dealing with a U.S. citizen in an over-the-counter trade.

Finally the bill places all the revenues into an offsetting account to fund the Commodities Future Trading Commission (CFTC). As you know, your administration has called for a transaction fee revenue stream to fund the CFTC, which is how the SEC is currently funded.

Sincerely

Peter DeFazio

Member of Congress

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