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Wyden-Grassley Staff Proposes Level Playing Field for Oil Trade
Draft legislation would eliminate tax breaks that have helped to encourage record levels of speculation

WASHINGTON, D.C. – In an effort to reduce excessive speculative trading in oil and other commodities, U.S. Senator Ron Wyden (D-Ore.), a member of the Senate Finance and Energy Committees, and the ranking member of the Senate Finance Committee, Chuck Grassley (R-Iowa), are circulating a staff discussion draft of tax fairness legislation today that would end lucrative tax breaks that speculators enjoy by taxing all the profits they earn on the oil commodities market at the same rate as ordinary income. Since 2000, commodities markets have been flooded with hundreds of billions in speculative investments in oil and gas commodities which many experts believe have helped drive energy prices to record levels.

Under current tax law, commercial buyers —such as airlines, trucking companies, and independent refiners —who need to buy oil or other fuels or futures contracts in order to run their businesses pay ordinary income tax on any profits from such trading. By contrast, for-profit speculators pay lower capital gains rates on their profits and tax-exempt investors—such as pension funds and university endowments—pay no taxes on these investments. Under the Wyden-Grassley staff's draft proposal, everyone directly purchasing oil and natural gas (or related products like diesel fuel), or indirectly through futures contracts, commodity index funds or other investment strategies, would be taxed as if they were commercial commodity traders.

"Essentially the current system is giving speculators tax incentives to bid up the prices of oil," said Wyden. **"We just don't think the tax code should favor one set of buyers and sellers over another. That is how markets get distorted."**

Grassley said, **"Tax policy should be fair. The public comments on this draft proposal will help us determine fair tax treatment of oil and gas speculators."**

In 2000, speculative trading in the oil futures markets accounted for 37 percent of crude oil trading on the New York Mercantile Exchange, today that number has grown to more than 70 percent of trading. More oil contracts are being held by financial firms—who see oil as an investment opportunity— than the collective demand of companies that need to purchase oil and other oil products to operate.

"We are not under any illusion that speculation is the only cause of high oil prices," said Wyden. **"But looking at the enormous fluctuations in the oil market from one week to the next, it's pretty clear that the number of drivers in China didn't double overnight. If we want to do something about the skyrocketing price of oil, we have to look at speculation."**

Wyden and Grassley are soliciting comments on their staff's draft proposal. The draft proposal can be viewed at: http://wyden.senate.gov/issues/Legislation/oilspecdraft/wyden-grassley.cfm and finance.senate.gov under Grassley press releases.

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