

OPENING STATEMENT
SENATOR NORM COLEMAN
Ranking Minority Member
Senate Permanent Subcommittee on Investigations
Speculation In The Crude Oil Market
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Over the past five years, the Permanent Subcommittee on Investigations has conducted a number of investigations into volatility and price increases in essential U.S. energy commodities, including natural gas, gasoline, and crude oil. These investigations have examined not only the role of market speculation in rising energy prices, but also the adequacy of government oversight in the markets that set these prices. Today's hearing, which focuses on the impact of market speculation on crude oil prices, continues the Subcommittee's bipartisan effort to ensure the integrity of U.S. energy prices. As always, I would like to thank Chairman Levin and his staff for their hard work on these issues. Americans are upset that they are paying more for oil than ever before, and a lot of people are concerned that speculation is behind the record price surge. Today's hearing is an important step in addressing these concerns and an important reminder that high energy prices affect all Americans.

Over the past several years, U.S. oil and gas markets have experienced unprecedented volatility and significant price increases. Since 2000, the price of crude oil has jumped from a range of \$25-\$30 per barrel to over \$90 per barrel. In the last year alone, crude oil prices have increased by a \$20-\$30 per barrel, often approaching a staggering \$100 per barrel.

Record high crude oil prices have affected everything from home heating bills to holiday travel, and American families and small businesses are feeling the squeeze. Today, the cost of gasoline at the pump hovers around \$3 a gallon. Diesel fuel, which is often used by trucking companies and delivery services, remains even higher. And of particular concern back home in Minnesota, the cost of heating oil continues to rise.

As a Senator from the Midwest, I know all too well that heating bills will place millions of Americans in financial jeopardy this winter. I will never forget the testimony I heard during the Subcommittee's field hearing in St. Paul last year. Too many Americans find themselves in circumstances similar to Deidre Jackson and Lucille Olson, who testified about the burdens caused by rising energy costs. In the case of Ms. Olson, her home heating bill represented 30 percent of her monthly income. As a senior citizen trying to cope with the high costs of health insurance and prescription drugs, last year's spikes in energy prices made it difficult for her to make ends meet. Ms. Jackson, a working mother of three and a college student, shared with me the financial jeopardy she faced as a result of a home heating bill that had increased by more than 100 percent. As crude oil prices soar to record levels, Ms. Jackson's and Ms. Olson's testimony provided powerful reminders of the real-world impacts of high energy prices.

In the short-term, this situation means there is a lot of hardship for a lot of folks who can't afford double-digit heating cost increases. It is critical that Congress examine the factors that have contributed to the record price run-up. The Department of Energy has announced larger-than-expected stockpiles of both crude oil and gasoline, and most experts agree that there is no overall shortage of U.S. crude. Nevertheless, oil prices remain at near record highs, suggesting that forces other than supply and demand may have contributed to these increases.

People are concerned that speculative trading is the reason for the unprecedented price surge for crude oil. We have called today's hearing to specifically address these concerns. A number of Subcommittee investigations have focused on the troubling level of high-risk, speculative trading that occurs on U.S. energy markets—much of it on unregulated, over-the-counter energy exchanges, exempted from government oversight. Financial institutions, pension funds, hedge funds, and other speculative investors have deployed tens of billions of dollars in speculative capital to U.S. crude oil markets. These traders bring important liquidity and vitality to our energy markets, but they should not be allowed to overwhelm the real buyers and sellers of crude oil, including utilities and industrial users. For this reason, it is imperative that Congress provide regulators with the statutory authority and budget necessary to police our energy markets and ensure the integrity of our energy prices.

That said, it is still hard to pin the price run-up for crude oil on speculation run amuck. The markets still appear to be responding to supply and demand fundamentals. The long-term underlying trend for crude oil is that demand is increasing while supply remains tight. Geopolitical instability, including uncertain situations in Iraq and Iran, has created fears of potential supply disruptions, and a substantial "risk premium" has been built into current prices. Beyond those temporary concerns, global demand for crude oil, fueled by China and India's development, continues to increase, leaving many investors worried that global supplies cannot keep pace with demand. Add to these concerns the fact that our refining capacity cannot satisfy our projected demand and it becomes clear that more is behind high crude oil prices than market speculation.

Oil prices are at record highs because the U.S. and the rest of the world are consuming oil at unprecedented levels. It is a matter of when, not if, that global supplies will be unable to meet our demand. And we here in Congress cannot forget that we are part of the problem. We have not taken the necessary steps to reduce our dependence on foreign oil. More than ever before, it is imperative that we explore alternative sources of energy. Moreover, Congress must work to ensure the integrity of U.S. energy markets by providing regulators with the statutory authority and resources necessary to do their jobs. As we do so, however, we must protect competition and avoid unintended consequences – namely, creating incentives for investors to move to less transparent energy markets, including those offshore.

Again, I would like to thank Chairman Levin for initiating today's bipartisan hearing. I would like to thank today's witnesses for their testimony on these important issues.