Statement of Senator Susan M. Collins

"Speculation in the Crude Oil Market"

Permanent Subcommittee on Investigations
December 11, 2007

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Long before the first official day of winter, the people of Maine have been coping with cold weather and feeling the strain of high prices for home heating oil, gasoline, diesel fuel, and other products refined from oil.

According to the Energy Information Administration, last month the benchmark price for a barrel of domestic crude oil averaged nearly $95. Compare that to $59 for November a year ago, and you see a 60 percent increase in a single year.

That remarkable rise touches virtually every aspect of the economy. Oil prices significantly affect the costs of heating homes, driving family cars and commercial trucks, running fishing boats, operating farm and logging equipment, flying airplanes, making fertilizers, manufacturing plastics, and so on.

Many causes contribute to the sharp rise in oil prices: increased global demand for crude oil, instability in the Middle East and Venezuela, supply decisions of the OPEC cartel, insufficient U.S. refining capacity, the declining value of the dollar, and speculative trading on futures markets.

I would also note that Chairman Levin and I joined forces a few years ago on a bipartisan amendment to the 2005 energy bill directing the Department of Energy to better manage the Strategic Petroleum Reserve by suspending purchases when prices were high so as not to drive up prices further by taking oil off the market. There are questions, however, about whether the Administration has implemented this program effectively.

Our paramount challenge, of course, is to reduce our over-reliance on imported oil. That dependence threatens our economic and national security. We need to pursue the long-term goal of energy independence just as fervently as the nation embraced President Kennedy's goal in 1961 of putting a man on the moon.

In the meantime, however, we must increase funding for the Low Income Heating Assistance Program and take other actions to ease the current impact of high prices. For example, Congress should pass carefully crafted legislation to help curb speculation on futures markets that can artificially drive up energy prices beyond what normal supply-and-demand considerations would produce.

In 2005, an investigation by this Subcommittee concluded that speculators can create additional demand for oil, driving up the price even though they seldom deliver or receive any oil themselves. I have heard recently from the Maine Oil Dealers Association and from commercial truckers in Maine who firmly believe that speculation has been a factor in the oil-price increases that are hurting their businesses and their customers.

Unfortunately, there is a lack of publicly available data to track the effect of speculation on market prices, and manipulation can go undetected on certain unregulated markets. That is why I support expanding the authority of the federal government to oversee energy futures markets and to provide greater transparency to guard against manipulation.

Such legislation must be carefully crafted, however. The ability to make contracts keyed to future prices can provide significant benefits, such as allowing heating-oil dealers and other businesses to hedge their risk exposure to future price changes. Legislation is needed but should be carefully targeted so as not to damage legitimate risk-hedging functions.

Well-functioning markets benefit consumers by promoting price competition, by encouraging development of new products, and by attracting capital for new enterprises.

But it is also a fact that when government and the public have little information about trades on unregulated or lightly regulated markets, real abuses can occur.

Unsupervised markets are open to deceptive practices and active or passive collusion. Government has a vital role to play in ensuring that markets are transparent and competitive. Regulators must have the information and authority to monitor trading and to limit excesses that can cause disruptive price swings or artificial increases in price levels.

This hearing will help us identify and quantify the role of excessive speculation in the level and volatility of oil prices, and highlight the steps we must take to ensure that federal regulators have the right tools to guard against manipulation and other abuses.

I commend the Chairman and the Ranking Member for their leadership in pursuing these issues and look forward to the testimony of our expert witnesses.

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