Opening Statement of Chairman Stupak
"Energy Speculation: Is Greater Regulation Necessary to Stop Price Manipulation? – Part II"
June 23, 2008

Today's hearing will examine whether excessive speculation in the oil futures markets is contributing to the unprecedented $70 increase for crude oil prices in just one year. This spike has sent gasoline up 107% to more than $4 per gallon, and diesel costs are up 188% to $4.70 per gallon.

The wallets of consumers have been hit hard and industries that depend on energy are hemorrhaging red ink. And for some companies, their very survival is in jeopardy.

But what has caused this unprecedented rise? Is it too much demand chasing too little supply? Or is excessive speculation and greed inflating prices? Here is what some oil experts have said:

"I cannot think of any reason that explains the run-up in crude oil price, beside excessive speculation." –Fadel Gheit, Managing Director, Oppenheimer & Company who will testify today

> "There may now be upwards of $25 to $30 of speculation in the price of crude, which continues to soar despite soaring stockpiles in the U.S." --MF Global Energy Risk Management Group (May 9, 2008)
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> "The proper range for oil prices should be "somewhere between $35 and $65 a barrel." – John Hofmeister, President of Shell Oil Co. (Senate Hearing on May 21, 2008)

The International Monetary Fund also echoes these views:

"It appears that speculation has played a significant role in the run up in oil prices, as the US dollar has weakened and investors have looked for a hedge in oil futures and gold."

"What this means is that oil has been transformed from an energy source into a financial asset, like gold, where much of the buying and selling is driven by speculators instead of producers and consumers. It means that bets are placed driven by interest rates, inflation expectations, and portfolio manager investment decisions."

The growth of commodity index investments supports the IMF conclusion that oil has become a financial asset. They have skyrocketed from $13 billion in 2003 to an estimated $260 billion in March of 2008.

Just this past weekend the Secretary of Energy and Oil Ministers met in Saudi Arabia to discuss the oil crisis. However, the Secretary of Energy could have made a much shorter trip to New York or Chicago to find an immediate way to address high prices at the pump. We must end the excessive speculation in the energy markets. Even the Saudi Oil Minister has argued that high oil prices are due to excessive speculation in the markets. Bringing down oil prices will require a multi-pronged approach of conservation, strengthening the value of the dollar, and ending excessive speculation in the energy markets. My bill HR 6330 known as the Prevent Unfair Manipulation of Prices or PUMP Act of 2008 will deliver the quickest and most comprehensive reforms needed to end excessive speculation.

Since the most popular commodity index---called the Goldman Sachs Commodity Index--has 78% in energy commodities, like oil and gasoline, it seems fair to ask whether a 20 fold increase in commodity index investment is contributing to a bubble in oil prices. Lehman Brothers estimates that the benchmark crude oil futures price goes up about 1.5 percent for every $100 million in commodity index investments.

Why is this phenomenon significant to you when you fill up your gas tank? Because your pension fund manager may be using your retirement money to drive up the price of oil. What would happen if pension fund managers decided to increase their commodity investment by another 20 fold? We don't know the answer and apparently neither does anyone in the Administration, but nothing is standing in their way from increasing such investments.

This is what the experts are saying; let's look at some of the data.

Chart #1 shows that the number of futures contracts for crude oil has grown 425%, almost in lock step with oil price increases over the past 5 years.

Chart #2 shows that speculators have increased their share of futures contracts in oil from 37% in 2000 to a whopping 71% percent in April 2008. Meanwhile, the producers and refiners who actually use the futures market to hedge price risk have shrunk from 63 percent to 29 percent.

What is going on here? Have speculators hijacked trading on the futures exchanges?

We are told we should be grateful to speculators for providing liquidity that allows the futures markets to operate, but this data suggests that the oil futures market is drowning in liquidity. Today we hope to learn whether this wave of speculation has separated prices from the very supply and demand fundamentals that are supposed to balance the market.

The Commodity Futures Trading Commission tells us the speculators are simply following the price signals set by physical consumers and producers. But given this vast imbalance you have to wonder if the regulator is missing the forest for the trees.

Chart #3 shows the rapid growth in swaps dealers buying oil futures. Swaps dealers are investment banks who set up the commodity index deals for pension funds and sovereign wealth funds.

In 2000 these swaps dealers had only 10% of the contracts to buy futures contracts. However, that number has tripled to 30% in 2008. In fact, the New York Mercantile Exchange (NYMEX) has granted 117 hedging exemptions since 2006 for West Texas Intermediate crude contracts, many of which are for swap dealers with no physical hedging positions. Is it a coincidence that investment banks have tripled the number of futures contracts they are buying at the same time that oil prices are skyrocketing?

Today, we want to find out whether the CFTC understands the degree to which speculators of various stripes and motivations have seized control over a significant majority of oil futures.

We want to find out whether the CFTC is going to shed light on the vast over the counter market where energy derivatives are traded but go unregulated?

We want to find out if the CFTC and its staff are sufficiently motivated to question the activities of Wall Street and its powerful investment bankers.

We want to explore the arcane loopholes which allow investment banks and commodity dealers to evade speculative position limits that are supposed to prevent price distortion.

CFTC claims it has found no evidence that the futures markets have been subjected to excessive speculation, but on May 29, it issued a Special Call to swap dealers for data on their investment in commodity indexes. We note this action came nine days after one of today's witnesses, Mike Masters, questioned the impact of an estimated 20-fold increase in commodity index investments.

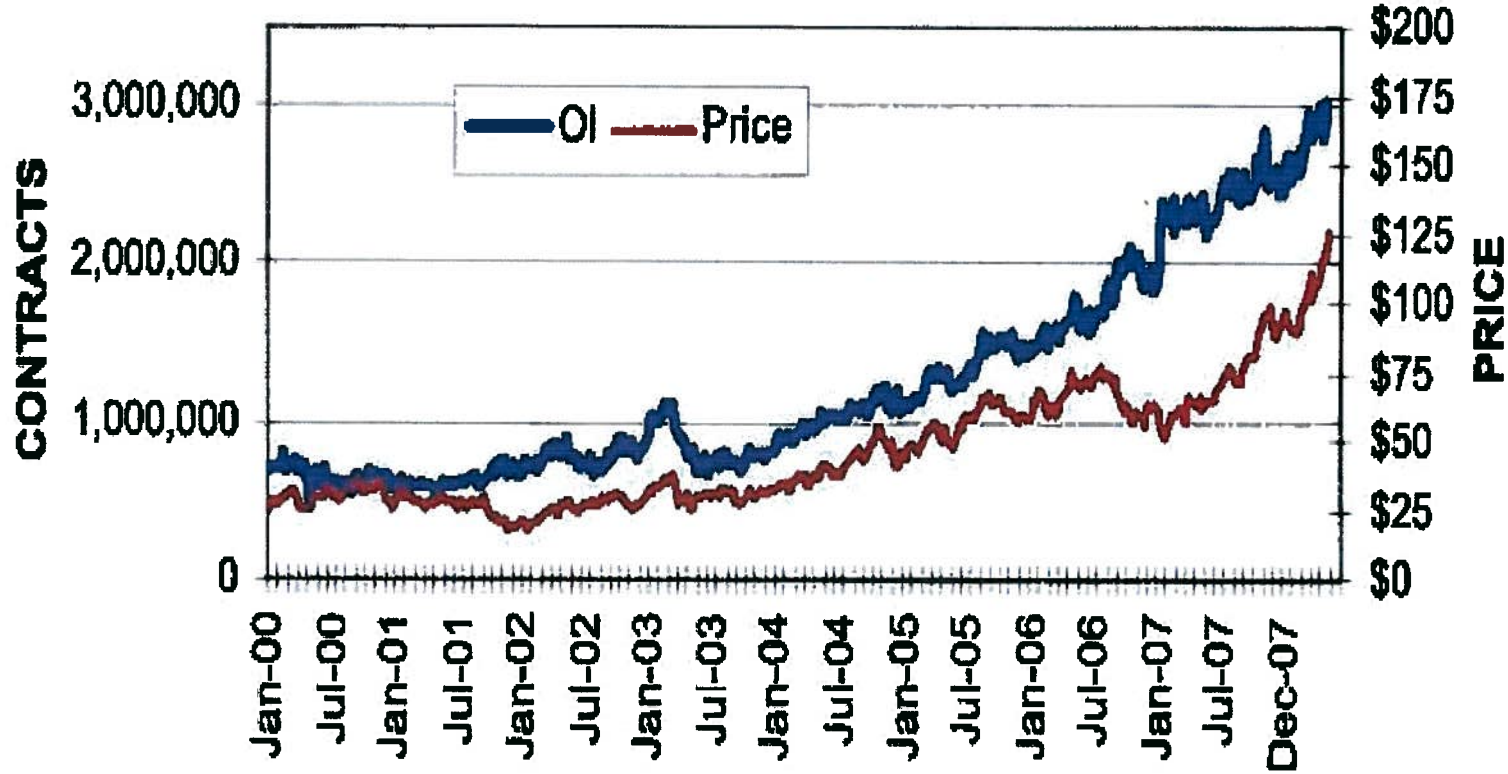
Today, we will also assess the impacts to key sectors of our economy, such as airlines, trucking and petroleum marketing. Airlines are eliminating service to 100 cities, laying off thousands of workers, and projecting up to $13 billion in losses this year due to jet fuel price increases that cannot be passed on to consumers.

Last week, CFTC reversed its long held view regarding one loophole that allows Foreign Boards of Trade to offer electronic trading screens in the United States, but it still allows those trading on these terminals to play by a less rigorous regulatory standards in a foreign country. When we held our last hearing on energy speculation on December 12, CFTC opposed the idea of requiring ICE Futures in London to abide by US rules governing excessive speculation regarding crude oil. Six months later, I am pleased to see CFTC dropped its opposition and will require ICE traders to be governed by certain US rules.

This is not the only loophole that we need to examine. We also need to look at eliminating exemptions for swap dealers, providing greater transparency for trading in the $9 trillion dollar over the counter market for commodities. We will look at whether it makes sense to prohibit index speculators from using the commodity markets, and whether increasing margins on financial speculators is a way to burst the oil price bubble.

Make no mistake about it, the excessive speculation in commodity markets is having a devastating effect at the gas pump that is rippling though out our entire economy. If we do not act now with swift diligence, we risk having our economy brought to our knees. This Committee has responsibility for energy policy and we intend to make sure that we find solutions, place them on the President's desk, and deliver relief to the American people. We hope today's hearing will help illuminate this issue for the Administration and the American people. Then we can work together on a bipartisan basis to solve this problem.

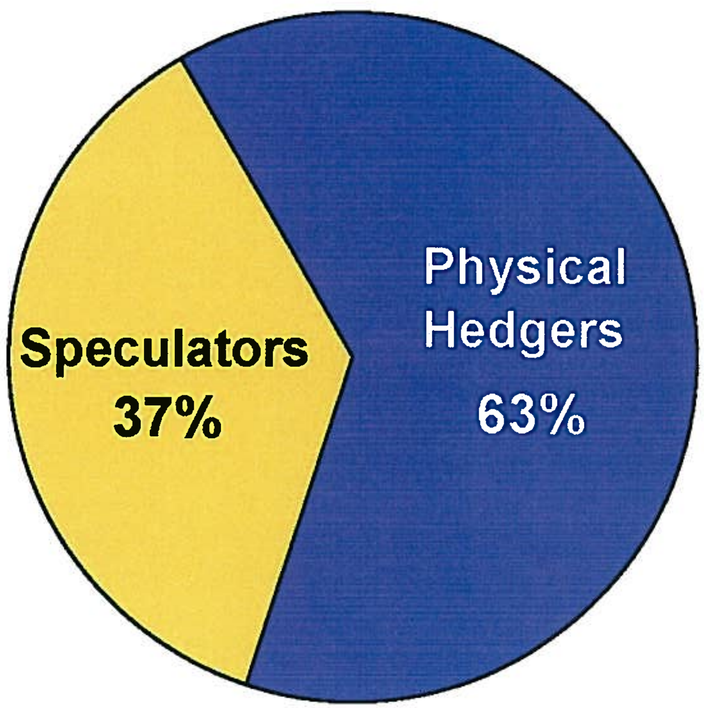
NYMEX TOTAL CRUDE OIL OPEN INTEREST Vs. Nearby NYMEX Futures



SOURCES: CFTC FUTURES AND OPTIONS COMBINED, CQG

Care of Citi Futures Perspective

Speculators Now Dominate WTI Crude Oil Trading on NYMEX



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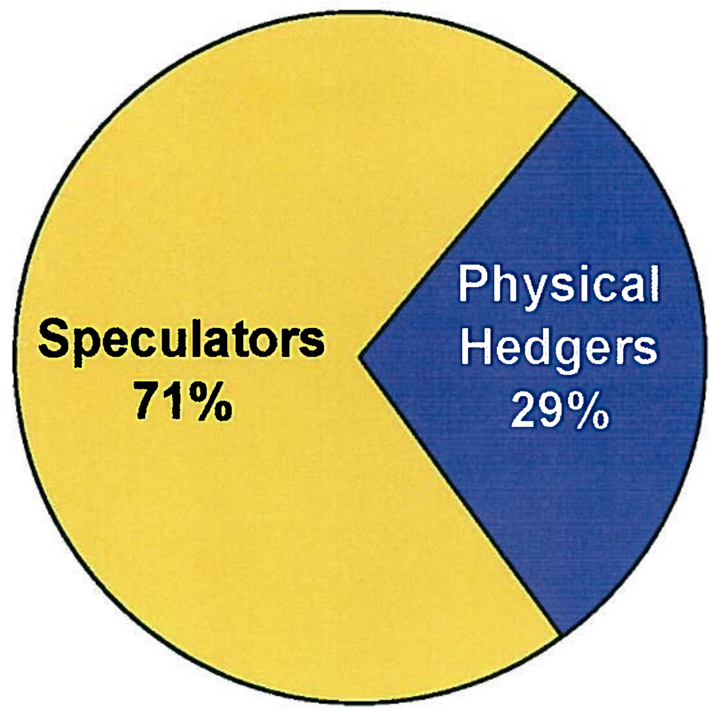


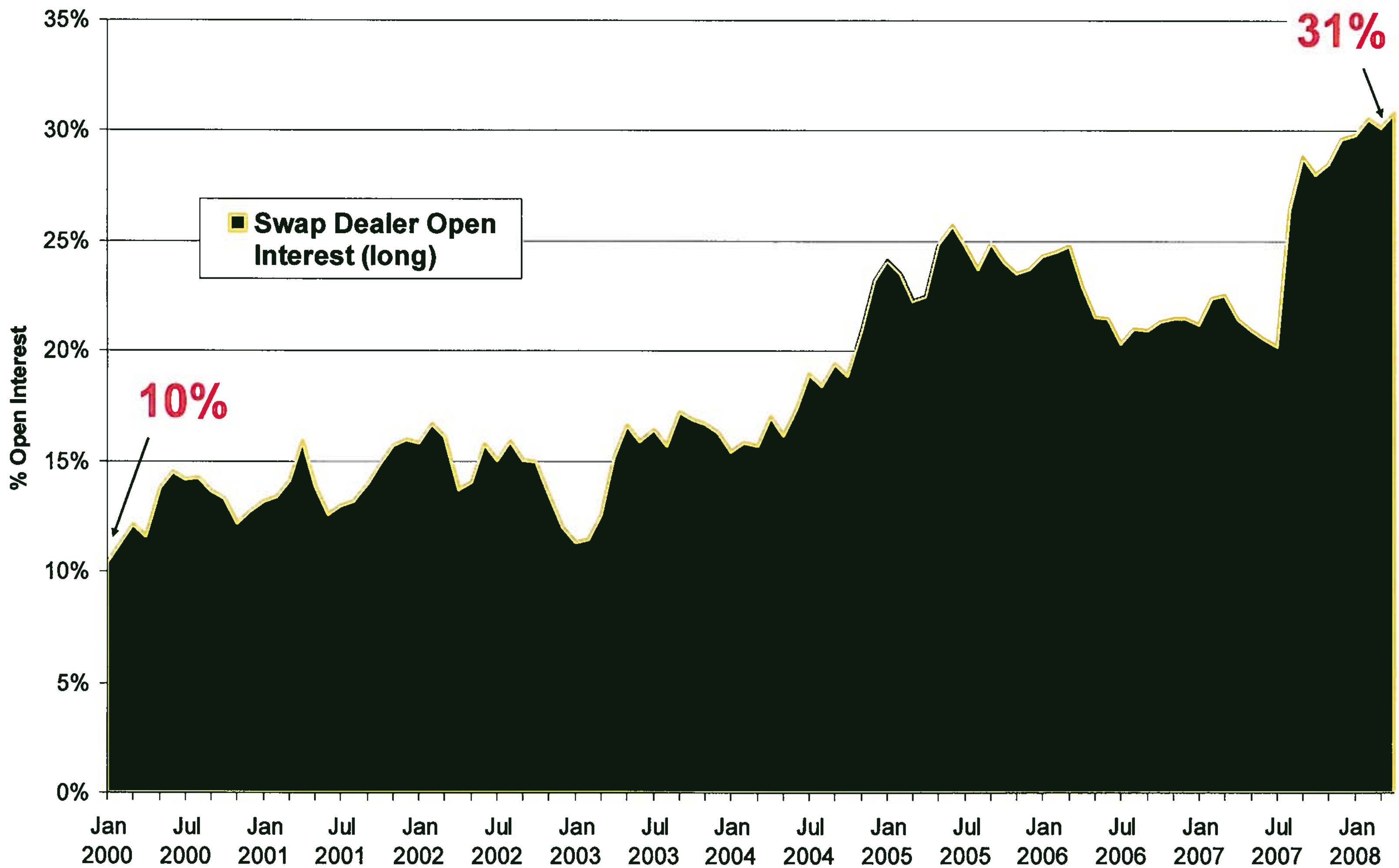
April 2008

*WTI average open interest, long positions
Source: Estimates based on CFTC Data, Office of the Chief Economist

Swap Dealers Growth Triples in Eight Years

WTI Open Interest on NYMEX (Long)

January 2000 - April 2008



Source: CFTC Data, Office of the Chief Economist