The Hunt For Your Next Energy 'Villain'

As November elections approach, few want to admit there are no clear culprits or short-term solutions to skyrocketing energy prices.

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It seems like every lawmaker has someone to blame for sky-high energy prices. Usually it's "Big Oil" that's driving the price of gas and diesel to record highs. Others blame that giant sucking sound you can almost hear as millions more Chinese fill up their vehicles. More recently, several Congressmen discovered the culprit was hiding in the commodities markets and blamed "Big Speculators" for creating our current energy market madness.

Potential solutions sprouted like weeds on a moist summer day, prompting some lawmakers to warn that things were moving a little too far, too fast. Mucking with the marketplace, they warned, could create dire consequences for oil, as well as other commodities. Without ample liquidity, farmers could have a tough time managing their risks.

Looking for a quick fix

A recent hearing indicates how the desire to find a "quick fix" to our nation's energy woes is driving the debate. Homeland Security and Governmental Affairs Committee Chairman Joe Lieberman (I-CT) and Ranking Member Susan Collins (R-ME) offered three measures designed to control what they describe as "excessive speculation" in the commodity markets. It was the Committee's third hearing on the rising cost of food and energy and the second hearing focused specifically on the relationship between rising prices and commodity markets speculation.

"Speculation has passed the point where it provides stability to the commodity markets. It is now excessive and has consequences that are very, very harmful," noted Lieberman. "And that's why our government must step in as soon as possible to protect our consumers and our economy because against the forces of the speculative markets, the average person simply cannot protect himself or herself." Their proposals would:

- Close the so-called swaps loophole and create a seamless system of speculative position limits that would apply to all commodity trading on the exchanges, over-the-counter, and on foreign exchanges;
- Create aggregate speculative limits that restrict the overall share of commodity markets that may be held by financial speculators; and
- Restrict commodity investments by large institutional investors that invest through index funds.

Across the board, the witnesses endorsed the first proposal, although several voiced concerns regarding the other two proposals. Under questioning by Lieberman, Walter Lukken, Acting Chairman of the Commodities Futures Trading Commission (CFTC), said his agency was not yet convinced of the presence of excessive speculation in commodity markets.

Michael W. Masters, Managing Member and Portfolio Manager, Masters Capital Management, LLC told the House Energy and Commerce Committee that if tighter regulation of speculative activity in oil markets was adopted by Congress and implemented by the CFTC crude oil "prices would probably drop over a reasonably short period of time back to somewhere closer to the marginal production cost of oil – $65 to $70 (per barrel) as compared to the $130 plus now – and I think gas prices would reflect that in a relatively short order."

Unintended consequences

Senator Claire McCaskill (D-MO) observed that over-regulation of speculators could result in unintended consequences.

"If we end speculation, my farmers are going to be in big trouble to say nothing of Anheuser-Busch and American Airlines who need to buy all kinds of commodities in terms of liquidity."

Only Masters and Greenberger answered "yes" when McCaskill asked the panel of financial experts if they thought the price of crude oil would go down if Congress cracked down on commodity market speculation.

Rep. Jeff Fortenberry (R-NE) asked Lukken a similar question when he testified before the House Agriculture Committee recently.

"It's intoxicating," Lukken admitted, "to think that you could take drastic steps and hope the price would drop in half." But he cautioned against making any rash moves until the CFTC conducts a more thorough analysis, which is expected to be completed by Sept. 15. "Once those markets go, they may never come back," he warned.

Cooler heads

The House of Representatives was able to gather bipartisan support for a bill requiring the Commodity Futures Trading Commission (CFTC) to do much of what it has already been trying to do: utilize all its authority, including emergency powers, to take steps to curb excessive speculation in the energy futures markets. The bill, H.R. 6377, the Energy Markets Emergency Act, contained little new and passed the House overwhelmingly by 402-19. If nothing else, the measure sends a strong message to the CFTC, and the markets they regulate, that Congress is closely watching the process.

In the Senate, cooler heads may eventually prevail and Congress will start to take a comprehensive, long-term approach to solving our nation's energy woes. For example, a group of ten Democrats and Republicans urged Senate leaders to convene a bipartisan summit of energy experts in an effort to develop a plan for securing America's energy independence.

The daylong event would take place sometime after the Fourth of July holiday and take a more comprehensive look at the problems and potential solutions. Senators signing the bipartisan letter initiated by Sen. Kent Conrad (D-ND) and Sen. Saxby Chambliss (R-GA) include: John Thune (R-S.D.), Lindsey Graham (R-SC), Blanche Lincoln (D-AR.), Mary Landrieu (D-La.), Johnny Isakson (R-GA), Bob Corker (R-TN.), Mark Pryor (D-AR.), and Ben Nelson (D-NE.). Δ

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