STATEMENT BY SEN. BERNARD SANDERS AT CFTC OIL SPECULATION HEARING

Chairman Gensler, let me begin by commending you for holding these important hearings, and for giving me this opportunity to testify today.

As you know, when President Obama first nominated you as Chairman of the Commodity Futures Trading Commission, I had reservations about whether you were the right person at the right time for this job.

But, since you have taken over the reins of the CFTC, I have been impressed by some of the statements you have made and the initial steps you have taken to begin to tackle excessive oil speculation in particular and the reform of our financial markets in general.

First, your legislative proposal to regulate over the counter derivatives would go a long way towards putting a lid on excessive speculation. While I believe more must be done to regulate what Warren Buffet correctly called “financial weapons of mass destruction,” clearly the plan you have presented to Congress is a significant move in the right direction.

I am also pleased that instead of waiting around for Congress to act, you are currently considering all of the options that the CFTC currently has at its disposal to ensure that the price of oil and other commodities are based on the fundamentals of supply and demand, not by those on Wall Street out to make a quick buck.

And, I applaud your decision to make the futures market more transparent so that, for the very first time, the American people will know how much big banks and hedge funds are trading in oil and other commodities.

But, I am here today to tell you that as important as these steps are, they will all be for naught, unless they are followed up by aggressive action on the part of the CFTC to prohibit excessive speculation in oil and gas trading.

The bottom line is that we have got to make sure that Americans are no longer ripped off at the gas pump by some of the same Wall Street gamblers responsible for the worst economic crisis since the Great Depression.

The American people are tired of excessive speculation and bubble economies caused by Wall Street greed. They are tired of record-breaking Wall Street profits and executive compensation packages while millions of Americans continue to lose their jobs, their homes, their life savings and their ability to send their kids to college. They are tired of hedge fund managers and firms like Goldman Sachs making a fortune betting that the sub-prime mortgage market will continue to get worse or that more companies will go bankrupt. The American people are tired of a financial system that benefits the few at the expense of the many.

And, they are sick of a Wall Street that is allowed to make a fortune betting that the price of oil will go up, while millions of Americans pay the price at the gas pump.

Mr. Chairman, we all learned in our economics 101 text-book that when supply is low and demand is high, prices are supposed to go up; and when supply is high and demand is low prices are supposed to go down. That is a concept that most Americans can understand.

But, when it comes to the recent run-up in oil and gas prices this summer, and the astronomical prices we saw last summer, those economic textbooks can be thrown out the window.

Right now, the supply of oil in the United States is at an all time high; and demand for oil in this country is lower today than it was a decade ago.

Yet, Mr. Chairman, instead of seeing prices go down, crude oil prices have more than doubled since Christmas eve.

From April to June 24th of this year, gasoline prices increased 54 days in a row, the longest streak on record dating back to 1996. While gas prices have gone down some since this time, they are now headed back up.

This summer's high gas prices could not come at a more inopportune time, as Americans are already suffering through the worst economic crisis since the Great Depression. Clearly, we have a responsibility to do everything we can to prevent the manipulation of oil and gas prices so that they reflect the basic economic supply and demand curve, not excessive speculation. This would not only help Americans struggling to fill up their gas tanks this summer, but it would also help my constituents in Vermont who need to purchase heating oil to stay warm in the winter.

To begin to address these problems, I introduced S.1225, the Energy Markets Manipulation Prevention Act to require the CFTC to use its emergency powers to prevent the manipulation of oil prices and empower the CFTC with new authority to prohibit excessive speculation in the oil market.

Last July, the House of Representatives passed similar legislation by a vote of 402 to 19, but that legislation, unfortunately, did not become law. In addition, my legislation would also require the CFTC to do the following:

1) **<u>Immediately classify all bank holding companies and hedge funds engaged in energy futures trading as noncommercial participants and</u>**

<u>subject them to strict position limits.</u> I think the American people would have a hard time understanding why large financial firms are being treated by the CFTC in the same manner as truckers, airlines, and fuel dealers. But, that is exactly what is going on today. Over the past several years, the CFTC has granted bona-fide hedging exemptions to Wall Street firms like Goldman Sachs and Morgan Stanley allowing them to trade as much oil and gas as they want to in the futures market. As a result, we now have a situation in which the overwhelming majority of oil trades on the futures market are being conducted not by oil companies, not by airlines, not by truckers, not by fuel dealers who need oil, but by speculators. This has got to change. Classifying hedge funds and financial firms as speculators and subjecting them to strict position limits could go a long way towards stabilizing the price of oil and gas.

2) **<u>Eliminate the conflicts of interest that arise when a large Wall Street financial institution, has employees under one umbrella responsible for predicting the future price of oil, while the same</u>**

<u>company owns and controls physical oil assets and trades in energy derivatives.</u> Mr. Chairman, it seems to me that Goldman Sachs and other large financial institutions have a corner on virtually every sector of the oil and gas commodities market. When Goldman Sachs predicts the price of oil will go up, so do their profits in the oil futures market. When Exxon-Mobil wants to sell or buy oil in the futures market, they go to Goldman Sachs or other large financial institutions. When Sovereign Wealth Funds, pension funds, or smaller dealers want to invest in energy derivatives, Goldman Sachs and other investment banks facilitate those trades. When Morgan Stanley and other investment banks need insider knowledge of the heating oil market that benefit their traders, they physically purchase large quantities of heating oil for storage and delivery. Goldman Sachs, Morgan Stanley, BP and other major institutional investors even co-founded the InterContinental Exchange that now trades West Texas Intermediate crude oil to U.S. investors. We have got to end these conflicts of interest.

3) **<u>And, this legislation would also immediately revoke all staff no-action letters for foreign boards of trade that have established trading terminals in the United States for the purpose of trading U.S. commodities to U.S. investors.</u>** Mr. Chairman, the InterContinental Exchange (ICE) operates a trading terminal in Atlanta, Georgia that allows U.S. investors to buy and sell West Texas Intermediate Crude Oil. But, because ICE claims that its headquarters are in London, England, the CFTC has allowed it to be regulated by the British Financial Services Authority. While steps have been taken to address this matter, in my view ICE and other foreign boards of trade that have set up trading terminals in the U.S. should fall completely within the jurisdiction of the CFTC.

Mr. Chairman, I understand that there are some who still don't believe that speculation is responsible for driving up oil and gas prices.

But, Mr. Chairman, we know that in 2000 and 2001, energy traders at Enron were thrown in jail for manipulating electricity prices on the West Coast, causing prices to skyrocket by 300 percent.

In February of 2004, we know that the CFTC fined BP $303 million for driving up the price of propane by purchasing "enormous quantities of propane and withholding the fuel to drive prices higher."

And, we know that in 2006, the Amaranth Hedge Fund went bankrupt after federal regulators found that it artificially increased natural gas prices by controlling 75% of all of the natural gas futures contracts in a single month.

In other words, we now know that speculators artificially drove up electricity prices on the West Coast in 2000; propane prices in 2004; and natural gas prices in 2006.

Why would anyone believe that speculators at this very minute are not manipulating the price of oil when supply is high and demand is low?

Mr. Chairman, in conclusion, I think the American people were stunned that Goldman Sachs and other large financial firms made huge profits in the 2nd quarter of this year and will be rewarding their executives with huge bonuses, like the financial crisis never happened.

Here are some questions that I would like answered:

How much did Goldman Sachs and other big banks profit by speculating in the oil futures market last summer and this summer?

How much was Goldman Sachs record-breaking 2nd quarter profit attributable to speculating in the oil futures market?

How much will senior executives at Goldman and other financial firms be making in bonuses as a result of the successful bets they made that the price of oil would go up between December of last year and June of this year?

The American people deserve answers to these questions. After all, Goldman and other firms on Wall Street are still indebted to the American taxpayer. Trillions of taxpayer dollars have been loaned to them with the goal of increasing lending to businesses and American consumers. Instead, bank lending is in free-fall, and Wall Street firms are busy spending their money speculating on oil prices and taking on other risky bets that end up hurting, not helping, the American people.

We must make it crystal clear to Wall Street that the era of excessive speculation is over. The “heads, bankers win; tails, everyone else loses” system must end.

Mr. Chairman, most importantly in my view, we need to create a new Wall Street that exists not to reward CEOs and investors for the bets they make on the price of oil or exotic financial instruments nobody understands. Rather, we need a Wall

Street that provides financial services to small businesses and manufacturers to create decent-paying jobs and grow the economy by productive means.