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Panel Cites Surge in Speculative Oil Trades

Congress Gears Up
To Devise Limits;
Campaigns Spar

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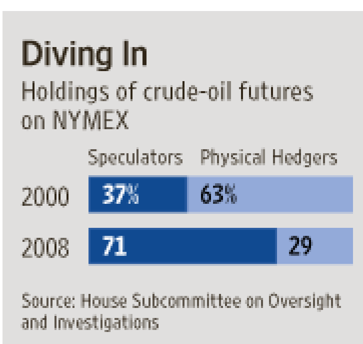
WASHINGTON -- Speculative traders' interest in crude oil has grown to the point that they now account for roughly 70% of all trading in West Texas Intermediate crude on the New York Mercantile Exchange, compared with 37% in 2000, according to an investigation by a congressional subcommittee that forms part of an escalating political assault on Wall Street's role in the run-up in oil prices.

The subcommittee's findings, based on data obtained from federal commodity-futures regulators, are the latest sign that Washington is gearing up to try to limit the role of hedge funds, investment banks and other speculative traders in the oil markets. The issue flared into the presidential contest Sunday as the campaigns of Illinois Democrat Barack Obama and Arizona Republican John McCain sparred publicly over which candidate would be more aggressive in closing legal loopholes that some say have contributed to excessive speculation.



The House Subcommittee on Oversight and Investigations, which conducted the inquiry into the oil futures markets, has scheduled a hearing for Monday to call attention to the increasing role that financial investors are playing in the oil futures market. The investigation was led by the subcommittee's chairman, Rep. Bart Stupak, and senior Democrat, Rep. John Dingell, both of Michigan. In the coming weeks, Congress is expected to consider legislation to set strict limits -- or in some cases, an outright ban -- on trading in energy futures in some markets.

Bush administration officials, Wall Street banks and federal regulators have taken the position that speculation has played a minimal role in the recent surge in oil prices. But a diverse chorus of institutions and politicians is taking a different view, including the International Monetary Fund, the Saudi Arabian government, some big oil companies and both major presidential candidates.

The main targets of critics of speculative oil trading are pension funds and investment banks that never take physical custody of oil, but instead invest in oil futures contracts as a way to hedge against inflation and diversify their portfolios. In recent weeks, the federal agency charged with regulating commodity trades -- the Commodity Futures Trading Commission -- has begun to gather more data on unregulated trading of oil. Last week, it announced it would require the London-based ICE Futures Europe exchange to adopt limits used in the U.S. for trading positions in the West Texas Intermediate crude-oil contract.

Lawmakers in both parties are pushing for more drastic action, however. Earlier this month, Sens. Joseph Lieberman (I., Conn.), and Susan Collins (R., Maine) unveiled proposals that would prohibit large institutional investors from investing in commodity futures.

On Sunday, Sen. Obama's campaign called for overhauling federal commodities law to do away with the "Enron loophole." That is a provision Congress included in the Commodity Futures Modernization Act in 2000, at the urging of the former energy merchant, to exempt electronic energy exchanges from most aspects of federal regulatory oversight. Critics say the provision has contributed to the run-up in oil prices by allowing oil traders to operate with little oversight by regulators. Since the law was enacted, Sen. McCain has voted with Democrats to close the provision.

Both campaigns, however, sought on Sunday to cast doubt on the other candidate's sincerity about closing the provision. In a conference call with journalists, Sen. Obama's backers, including New Jersey Gov. Jon Corzine, alleged that the provision was added by then-Sen. Phil Gramm (R., Texas), who is listed on the McCain campaign Web site as one of its "national general co-chairs." The McCain campaign fired back by distributing a letter from Mr. Gramm, dated June 13, in which the former senator asserts that the provision originated in another lawmaker's bill. A McCain spokesman also pointed out Sen. McCain's votes in 2003 in support of legislation to bring electronic energy exchanges back under federal regulators' oversight.

According to people familiar with the matter, Mr. Dingell's staff is examining the degree to which loopholes in the law have contributed to speculation in energy markets. Traditionally, federal regulators have limited the number of contracts that commodity traders can enter into, to prevent excessive speculation.

In 1991, according to documents provided by the agency to the committee's investigators, the CFTC authorized its first exemption from position limits for swap dealers with no physical commodity exposure, beginning what Mr. Dingell said in a written statement was "a process that has enabled investment banks to accumulate enormous positions in commodity markets."

In a letter to the CFTC last week, Mr. Dingell asked the agency to disclose how many other exemptions it has provided over the years. The agency is expected to respond to Mr. Dingell's request shortly.