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Energy Retailers: Speculation Report Shows Need for Increased Commodities Oversight

Report Directly Contradicts Federal Regulators, Who Say that Speculators Have Little to Do with Energy Price Spike

September 12, 2008 (Washington, D.C.) – Energy retailers, buffeted by record high prices, said today that a recent report detailing the extent to which institutional speculators are purchasing energy commodities shows that commodities markets need immediate and fundamental reform.

“This report shows that institutional speculators are now the single most dominant force in the energy market, and it demonstrates unequivocally that these speculators have driven energy prices to record highs,” Dan Gilligan, president of the Petroleum Marketers Association of America, said. “The volume of evidence in this report makes an incontrovertible case for increased federal oversight of the commodities markets. Absent that kind of reform, American families and businesses will continue to suffer from high energy prices.”

The Masters’ report, Gilligan said, also notes that the recent drop in energy prices can be traced to an exodus of speculators from the energy markets in the face of increased federal oversight.

According to the report, one commodity firm alone sold off nearly 127 million barrels of crude oil between July 15 and September 2. This represents a distinct departure from the dynamic that defined the market from the beginning of the year through May, when Congress began a series of hearings on legislation aimed at cracking down on speculators; the report states that it is “likely that Congressional scrutiny caused many institutional speculators to exit their positions.”

The Masters’ report directly contradicts federal regulators, who have repeatedly stated that speculators have had little to do with the recent spike in energy prices. In fact, a report from the Commodity and Futures Trading Commission (CFTC) today again recognizes only minimal influences from speculators. That being said, one CFTC Commissioner, Bart Chilton, dissented from the CFTC staff report. Chilton believes that the Commission’s staff report lacks compelling evidence based on limited and unreliable data, especially since the Commission had limited authority to review over-the-counter markets.

Gilligan said the fact that prices have come down recently should not deter anyone from acting to reduce the influence speculators have with respect to energy prices. Specifically, Gilligan called on Congress to place strict limits on the amount of energy that non-commercial speculators – that is, entities that never intend to take delivery of the energy they purchase – can control, and to increase the transparency of the marketplace so that regulators can more easily determine if manipulation is taking place.

“We have seen how quickly speculators can artificially inflate energy prices,” Gilligan said. “As the Masters’ report shows, they’ve backed off for the moment because of the possibility of Congressional action, but Congress needs to act now, with quick speed, to ensure that speculators can never again influence the energy market for their own benefit at the expense of our national economy.”

PMAA is a national federation of 46 state and regional associations representing over 8,000 independent fuel marketers that collectively account for approximately half of the gasoline and nearly all of the distillate fuel consumed by motor vehicles and heating equipment in the United States.

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