

The “Prevent Unfair Manipulation of Prices” (PUMP) Act

Congressman Baird introduced the Prevent Unfair Manipulation of Prices (PUMP) Act with 21 of his House colleagues, including fellow Washington Representative Jay Inslee (D) and the bill’s primary sponsor, Bart Stupak (D-MI).

The PUMP Act will increase penalties for market manipulation and impose greater oversight over energy speculators.

Energy speculators base their investment decisions on the *potential* for future problems, such as U.S. relations with Iran, rather than *actual market realities*. In doing so, they significantly affect oil and gas prices on the spot market. There is real potential for speculators to take advantage of public fears about rising gas prices to inflate crude oil prices beyond reasonable levels. This speculative inflation causes prices at the pump to skyrocket, even though current supplies may not warrant such a surge.

There are two types of speculation: market trading and “over-the-counter” (OTC) trading. Market trading, which takes place through the New York Mercantile Exchange (NYMEX), is self-regulated with oversight from the Commodity Futures Trading Commission (CFTC). OTC trading, on the other hand, is conducted off of the market, without any regulation or oversight.

Only about 25 to 35 percent of all energy commodities trading occurs on NYMEX. This means that *up to 75 percent* of energy speculation is unregulated, without any oversight from the federal government. Because OTC trading is unregulated, the exact volume of trades, and the legality of all of these trades, is unknown. Clearly, the potential for speculators to use this type of trading to manipulate the market and inflate oil and gas prices beyond reasonable levels is much greater.

The PUMP Act would require off-market speculators to play by the same rules as speculators who participate in on-market trading already do. By providing transparency and oversight of off-market trading, this legislation would allow the CFTC to better monitor these deals to prevent market manipulation. The legislation would not eliminate legal OTC trading, it would merely require speculators to report their trades and be held accountable should it be determined they illegally manipulated energy markets. This increased oversight will improve confidence in the market, and will help eliminate the unreasonable inflation of crude oil prices, helping protect American consumers at the pump.

The PUMP Act would also increase penalties for market manipulation. The legislation would allow the CFTC to double the penalties for market manipulators, allowing civil penalties up to \$1 million or triple the monetary gain, and increasing jail time to up to 10 years.

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