

the end point of financial reform but a good first step in addressing market structure in a way that would improve performance. Having worked in the commodities and energy business for over 35 years, I am well aware of how the commodity markets operate and what factors determine the price of energy, food stuffs, and other essential commodities. I am a strong advocate of free markets but only the most naive would claim that free markets can exist and flourish without parameters and a framework of rules and procedures that render the process fair. This has always been so but never more so than today. Globalization, technology, and securitization among other factors have amplified the need for effective legislative and administrative oversight.

In my current capacity, I serve as CEO of the Cumberland Gulf Group. Under that umbrella sits Gulf Oil, which distributes motor fuels through a network of more than 3,500 gasoline stations in over 27 states, 12 proprietary oil terminals, and more than 70 other supply terminals. Gulf Oil supplies gasoline, heating oil, diesel fuel, jet fuel and kerosene through its terminal network. Before coming to Gulf Oil, I served as the Chief Executive Officer and President of Louis Dreyfus Energy Corp., one of the largest commodities traders in the world. In both capacities, as a trader and now a fuel purchaser and supplier, I am intimately familiar with the inner workings of the derivatives market.

As in any market, supply and demand play a critical role for energy prices. The perception of the future pace of both supply and demand are often more of a determinant of prices than actual supply and demand. This can be frustrating to members of the general public who sometimes see a price rise or fall without any tangible change in current supply or demand. Yet today with price levels more volatile than ever, prices higher than ever, and open interest larger than ever, and both exchange and off exchange volume of trade a double digit multiple to physical usage, there is little doubt that speculation is a key determinant of prices and may very well be the determining factor in setting prices. And even if the disproportionate increase in trade volume to physical usage were not disturbing and one believed that in the end the average price was still set by supply and demand forces rather than financial speculation (an assertion with which I would disagree), volatility induced by excess speculation is not in the best interests of efficient markets, the general public and industrial activity. Simply put, an oil market that goes from \$40/barrel to \$147 per barrel and back to \$32 per barrel in less than a year is destructive to society and beneficial to only a very few.

I should note that speculation is not necessarily a bad thing—it brings liquidity to the market and allows commercial entities to hedge their risk on future contracts for the trade of physical goods. However, there has been a rapid increase of the participation in the market by non-commercial entities such as hedge funds and financial institutions. Those entities, depending on their behavior, have the ability not only to speculate in the market but manipulate the market. It is the regulation of these entities that is most necessary and the Dodd-Frank Act brings regulation to this market through a requirement of mandatory clearing of swaps and the placement of position limits on certain futures contracts, including energy. Financial markets in certain aspects do resemble a casino and I am not making a moral judgment on casinos but even a casino has rules of engagement and enforcement that ensure a level playing field. A rigged casino is certainly not good for most participants and in the long run is

not good for the casino itself. Instruments of risk sharing and markets of financial intermediation perform a vital function but they do not grow spontaneously nor do they exist for long in a state of nature absent oversight and rule making.

I have set forth some preliminary thoughts below on reforms we need to improve market performance set forth below and would welcome the opportunity to discuss these issues in more detail with you, your staff and others on the Financial Services Committee.

1. Make the exchange requirements of what it means to be a "Hedger" much more stringent. Today, almost anyone with a small and insignificant physical position can qualify as a "hedger". Also large entities with massive financial strength can qualify as a hedger, exceed the speculative limits in a given index or exchange instrument, manipulate that index and then trade multiple volume contracts off that index in non-exchange business. We see a proliferation of financial and bank entities entering the physical market for no other reason but to qualify for the more generous liberties afforded a "hedger".

2. Raise the margin requirements for non-hedgers significantly to minimize speculator-driven volatility and still allow enough liquidity in the market so that entities with real business purposes can transact. This will drive weaker speculators out of the market. It will also dramatically reduce volatility because the Variance Margin buffer could be increased dramatically which would stop the phenomenon of leverage that has often been at the foundation of many financial train wrecks (see mortgage market). Assume you are a \$10/bbl balance sheet company. You buy 1 barrel of oil costing \$100 and you only have to post \$6, the market goes from \$100 to \$96, you are poised to sell quickly because you know if it goes to \$90, you are out of business, so you start selling to make sure you can pull back your initial margin to cover your variance margin and live to fight another day (and likely lose as 90% of spec traders do). Now imagine the same scenario with \$30 margin requirements. The market would never move enough for the trader to be concerned about not having enough initial margin to pull back to cover the variance. The fundamental/technical influence would shift hard back towards the fundamental. I am not certain exactly what the right margin increase should be (though 500% is not out of the question from my perspective), but it is clear that today the margin requirements are too low. The phenomenon of sharp spikes in the absence of attributing "events" is evidence of a highly leveraged market.

3. The government should create a government-backed exchange that helps long term consumers and producers hedge. If a small land owner owns a 3,000 bbl/day well in middle Kansas and wants to lock in his price at \$95 a barrel for 5 years, how does he do it? Is he going to sell 5.5 million barrels of futures on Nymex and post \$32,000,000 in initial margin? What happens if the price goes up \$40 per barrel? Mr. Small Producer is going to pay the exchange \$220,000,000 in margin and claw it back 3,000 bbls a day at a time? I think not. Right now some of the banks will do that business but they are enjoying "healthy" margins. If the government came in and provided the credit umbrella (through a government sponsored exchange) they would bring a lot of production to the hedging market and would also incentivize both producers and consumers to think long term. Users should have the opportunity to lock in costs for longer durations and sellers should be able to hedge out their revenue streams but credit, financing costs, and other structural factors remain impediments to development. While some might criticize this proposal based upon the recent issues in the

mortgage markets, this would be an important reform to allow small businesses to participate in the commodities markets. Such liquidity was not the problem with mortgages, it was leverage, lack of transparency, complexity, and very simply in many cases dishonesty, that brought down the housing market.

In general, all markets operate best when they are transparent, liquid and not over leveraged. I am hopeful that Congress will allow the Commodities Futures Trading Commission to proceed with the implementation of the Dodd-Frank Act. I strongly believe we will see positive effects from this regulation on not only the price of oil but many other commodities upon which our country relies.

Sincerely,

JOSEPH H. PETROWSKI,
CEO.

EGYPT ASSESSMENT

HON. ELIOT L. ENGEL

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Monday, July 25, 2011

Mr. ENGEL. Mr. Speaker, I rise to call attention to the Report on a Trip to Cairo, Egypt, written by R. Leslie Deak, and presented to the Policy and Planning section of the Joint Chiefs of Staff. Mr. Deak is an American businessman who has spent the last nine years living part of each year in Egypt. He is on the Board of Advisors of the Center for a New American Security and is a Trustee of the National Defense University Foundation.

This is an interesting and important document, and I commend it to my colleagues.

EGYPT ASSESSMENT: REPORT ON TRIP TO
CAIRO, EGYPT

(By R. Leslie Deak)

PRESENTED TO J-5 JCS, MAY 11, 2011

(Pentagon—Policy and Planning for Joint
Chiefs of Staff)

I just returned from two weeks in Egypt. During my trip, I spent most of my time in Cairo reestablishing existing contacts and developing contacts with new players in the emerging power structure.

I met with informed figures in the business, political, legal, journalism and religious fields. I also had extensive contact with our people over there to get their assessment and to gauge their views against those from the Egyptians.

The country is a transition that will likely end in a manner not to our liking. There are some efforts that can be undertaken at this time to help try to impact the outcome if implemented rapidly.

I have summarized the current situation, explored in more depth the key areas of concern and suggested actions that may help impact on the outcome.

First Impressions

The fall of Mubarak's regime is widely welcomed. There is a palpable relief among people that the repression and corruption are finally easing. This is mixed with an uncertainty about what the future holds. This is very much an Inch Allah moment at all levels that I had contact with.

The impression of the US is poor. We are viewed as a contributory factor to the problems because of our prior support for Mubarak and our wavering during the early stages of the revolution. Our direct involvement in their affairs is not welcomed. Our operating in the background and providing support is more acceptable.

The society in general is fascinated with the unfolding spectacle of arrests, incriminations and the extent of the corruption. Politics and then soccer are the subjects discussed, in that order. Since there is uncertainty about the future, most attention is focused on the past and day-to-day life.

Prices are up by thirty percent from before the revolution but people seem to take it in stride. The Government is raising public employee salaries dramatically and is hiring unemployed workers in great numbers in order to try to maintain social stability. Continued and worsening inflation in the near term is inevitable and the population is reacting accordingly—retaining or acquiring property, jewelry, hoarding, converting pounds to foreign currency when possible, etc.

Withdrawal of Egyptian Pounds was just liberalized. Foreign currency withdrawals are restricted to the equivalent of EL10,000 per day in foreign currency. Transfers abroad are restricted to \$100,000 maximum per account and need individual approval from the Central Bank.

Tourism, second largest source of external funds after Suez, is off by 85%. Although the recent lifting of the USDOS Travel Advisory initially helped increase interest in travel from the US to Egypt, the recent sectarian conflict has been a new setback. The consensus opinion is that travel will not recover until the Fall at the earliest assuming that the security situation stabilizes by that time.

Recently, traffic police have returned to the streets in Cairo but regular police, special police, detectives and prosecutors have not yet returned. Our people have been informed by sources they consider reliable, that police presence is back up to 65%. Reliable Egyptian sources I spoke with put the figure closer to 50%. Police salaries have been increased ten-fold (to EL 3,000–4,000 per month) and law school graduates are being recruited to become police. Internal security is nonoperational and is supposedly being overhauled. All US assisted police training programs have been suspended over concerns of working with bad actors.

While Cairo is safe during the daytime, at night there is occasionally sporadic gunfire. Travel outside populated areas carries dangers of hijacking. There is widespread carrying of firearms by the population and no apparent consequence or prosecution for use of deadly force in self-defense.

Politically, the general belief is that things will work out and that the Muslim Brotherhood will play a role in the country's future but will not dominate. Unfortunately, I do not agree with this assessment.

Where Things are Heading

The following analysis is conjecture on my part. However, I vetted the conclusions against all of my sources in Egypt and here and, sadly, found that none could refute them.

Economics

The country seems to be sliding towards a modified socialism with the government set to play a significantly increased role in the economy. We can expect that most, if not all, of the economic reforms implemented over the last five years to be rolled back.

The government is already beginning to abrogate contracts and seize properties implicated in any dealings with the prior government. Since the Mubarak regime and their cronies were involved in every aspect of the economy, no prior business arrangement is immune—this is especially true where deals were based on the use of or access to State assets (land, businesses, natural resources, etc.)

Another current problem for the private sector is that there is no place to get a reli-

able or binding decision on which to make business judgments since the current Cabinet is transitional and their decisions are subject to change in the future.

The public sector is growing dramatically both in terms of cost and size as the Supreme Council races to prevent uprisings from the lower class.

They recognize that they are going to soon be facing a massive external liquidity squeeze and are casting about for any sources of foreign funds available in order to be able to continue to import essential staples. Their foreign policy reflects this with their playing off the U.S., Iran and Saudi to see who will give them money first.

I believe we can expect increasing economic and, eventually, social instability due to the deteriorating economic trends.

Politics

In my opinion, I see little likelihood of the Muslim Brotherhood not becoming the dominant force in Egypt in the near term. This will occur despite the desire by the population as a whole to have a more representative secular government.

To understand this conclusion, some background is in order.

For the last eighty years, the Muslim Brotherhood (MB) has been providing social services to a growing sector of the population. They provide health care, education, food, shelter, counseling, adjudicate disputes, etc. This impact has become especially pronounced over the last thirty years as increasing resources were diverted from government services and wound up in the pockets of corrupt officials. During this time, the MB had developed a highly efficient network that is well integrated into the society throughout the country and especially in the poorer areas and in the rural areas in Upper Egypt (the South) and the Delta.

The military, which is a conscript army, is largely drawn from this lower socio-economic half of the population. Accordingly, they are familiar with, and are largely sympathetic to, the MB. They do not currently view them as a threat. In fact, virtually all of the Military officers I have met over the years are religiously conservative as are their families.

An alliance with the MB does not pose an issue for the military and in fact helps solve two critical issues that the military faces.

The first issue is complicity—the military leadership is assumed to be complicit in all of the corruption and problems of the old regime. They have been able to shelter almost all of the ex-military from prosecution, but pressure is mounting to throw them to the wolves. This does not bode well for the current leadership and they are focused on protecting themselves from prosecution with any new civilian government that they allow to emerge. I believe that they have reached this accommodation with the MB.

Secondly, is the issue of the patronage system. The military controls thirty percent patent of the economy and much of the land in Egypt. The proceeds from these enterprises and sale of land are used to provide benefits and perks to the officer corps so as to maintain loyalty and discipline. If anything interrupts this arrangement, the senior staff faces the danger of possible insurrection from the junior officers. I believe the MB recognizes the need to maintain this system and has reached an accommodation with the military to continue it.

With these two issues apparently resolved, I believe that the military cleared the path for accelerated elections in September knowing that the MB would dominate the elections despite the desire by the opposition forces to see a more balanced and secular

(civil) outcome. They then dissolved the NDP in order to further strengthen the MB.

Unfortunately, barring a change in the timing of the elections or a suspension by the Military due to security concerns, the MB will sweep the elections simply due to their organizational capabilities. They recently raised their public target from 35% to 50% of the seats. I personally believe that they will ultimately win more than 70% of the seats. This will place them in position to dominate the process that will result in a new constitution that has been mandated as part of the recent referendum.

Except for the MB, there is no organization with the capability to get out the vote. The opposition is highly fragmented and disorganized. There is a possibility that the old parliamentarians may run for election independently and serve to weaken the MB, but it is unlikely. The old members benefitted from their positions in Parliament and under the current environment will most likely not run (as one told me, it cost him EGP 5 million to win each election but he could make EGP 50 million through his position—he has no interest in exposing his past activities of running again with no prospect of recovering his investment—I believe this is representative of the situation in general).

While this has been going on in the background, much international and public attention has been kept focused on the Presidential election. This is a diversion since the new President will have very proscribed powers. The MB has indicated that they will not run, but they are negotiating with the candidates and will throw their weight behind the one that will assure their interests.

The recent issue with the Salafis is largely viewed as manufactured by the MB in order to make the MB appear more moderate. I would personally expect that the MB and the military will resolve the Salafi problem once it has served its purpose.

What Can be Done

The first thing that needs to be done is to improve our image with the Egyptian people. We can do this through several actions.

First, we could use our current available resources to help locate and freeze funds that belong to the long list of individuals under detention or indictment. Publicizing our efforts to assist in this manner will be front page news throughout the Middle East and will have an enormous positive impact on public perception of the U.S. in Egypt. I recommend this while at the same time acknowledging the broader impact such an action may have on investors from other countries.

Secondly, we should remain neutral and supportive of the election process and their right to set their own destiny regardless of the outcome. It will be very important for us not to be seen as judgmental of, or in opposition to, the outcome of the election. Any perceived effort on our part to influence the election will backfire and both damage our reputation and adversely impact any individual or group perceived to be supported by us.

This does not mean that we have to sit back and accept the long term impact of the elections.

If we hope to see the situation improve, then the next, and immediate, focus should be to ramp up our efforts to work with groups that can bring influence to bear on the constitutional process. These include the opposition groups, the youth groups, the emerging parties, the Copts and the military and possibly the new President once we know who it is.

The only way to short-circuit the MB dominating the constitutional process after the election is to help the opposition organize to focus the issues and bring people out

in to the streets again. We can also try to work in the background to convince the military that it is in everyone's interest to assure a balanced and open constitutional process. The street protests will help in this effort.

To the extent that our assistance is requested, we can also work with those domestic change agents with whom contact has already been established in order to help them work towards an open process so as to assure a fully representational political process in the future.

As long as the constitutional process can be opened up so that it is representative, it is likely that the MB will be a one-election phenomenon and that we will see an outcome like Kuwait. Any group that wins this election is doomed to fail because of the deteriorating economic and security situation. The only real concern we should have is what happens next. I believe that we can have an impact on that outcome which will serve the interest of both Egypt and the U.S.

However, our window of opportunity is closing quickly.

HONOR THE LIFE OF JAMES T.
MOLLOY

HON. BRIAN HIGGINS

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Monday, July 25, 2011

Mr. HIGGINS. Mr. Speaker, I rise today to honor and celebrate the life of James T. "Jimmy" Molloy, former Doorkeeper of the House of Representatives. Jimmy was one of my district's finest citizens, a proud and favorite son of South Buffalo, New York and undoubtedly one of the greatest public servants in our Nation's Capitol for over 40 years. Jim's passing marked a sad day throughout Capitol Hill and throughout Jim's neighborhood, a loss that will be felt for years to come, yet his gracious spirit and world-class stories will be remembered by all those who were fortunate enough to call Jimmy Molloy a friend.

James T. Molloy was born in South Buffalo on June 3, 1936, to Matthew Molloy and Katherine Hayden Molloy. Educated in Buffalo's Catholic schools, he followed his father's footsteps by working in the grain elevators of Buffalo's waterfront and fighting fires as a proud member of the Buffalo Fire Department.

Through his labor, James T. Molloy paid his own way through Canisius College, a great Jesuit institution in Western New York, and became a lifelong friend of Western New York working families. He was a member of the AFL-CIO, the International Brotherhood of Longshoremen and International Association of Firefighters. After pursuing studies at St. John's University Law School, James T. Molloy worked as a schoolteacher in the cities of Buffalo and Lackawanna. He also worked in the office of Erie County District Attorney where he met his wife, Roseanne.

Jim came to Washington in 1968 at the invitation of New York Congressman John Rooney. During his service in the House Finance Office, he oversaw the legislative appropriations for the House as they grew from \$75 million to \$126 million per year. James T. Molloy was elected doorkeeper of the United States House of Representatives in 1974 and proudly remained in that post through the 103d Congress, serving as the primary aide to Speakers

Carl Albert, Thomas "Tip" O'Neill, James Wright and Tom Foley.

In fact, Jim was the last of 30 people to hold the position of doorkeeper from its establishment in 1789 to its elimination in 1995. Within this capacity, he introduced Presidents and numerous heads of state to our august body. He coordinated 71 joint sessions of Congress, as well as many other special events, within this Chamber. Jim also acted as a vital connection between his hometown, South Buffalo, New York, and Congress, inspiring countless men and women from the Buffalo area to consider careers in public service. Additionally, Jim served as chairman of the board on the Wright-Patman Congressional Credit Union, a position he held for 30 years.

James T. Molloy was awarded numerous honors for his life's work in public service. He received the Outstanding Citizen Award for the New York State AFL-CIO, the President's Award from the New York State Federation of Police, the United States Senate Youth Alumni Association Outstanding Service, and the Sid Yudain Congressional Staffer of the Year Award from Roll Call. In July of 2005, I considered it a privilege and an honor to sponsor a bill in the U.S. House of Representatives to name a South Buffalo Post Office in James T. Molloy's honor. This recognition was so well deserved and a lasting reminder of Jim's strong commitment to his neighborhood and our great Nation.

I was deeply saddened upon learning of the passing of James T. Molloy. To pay respect to his legacy, I issued the following statement:

"For 20 years South Buffalo's own James T. Molloy served as the House of Representatives doorkeeper, a prestigious title held by only 34 people going back to 1789. As the individual with control of access to the House Chambers he held great authority but was especially known for greeting Western New Yorkers visiting the Capitol with particular affection. Generations of local residents, many of whom can be found working on the Hill today, benefited from his welcoming spirit and institutional knowledge."

"Jim was a friend and confidant. In my first days and months in Congress he was generous with his time and advice, passing on valuable lessons I keep with me today. He will be dearly missed by those in Washington, DC and friends and family locally but we have peace knowing that our own legendary and beloved doorkeeper has now gone on to meet a doorkeeper of a much higher power."

Mr. Speaker, our country has suffered a great loss with Jim's passing and my deepest condolences are with his wife, Roseanne, his daughter, Amy and son-in-law Michael Bogardus, his beloved grandchildren Catherine and Caroline and Jim's siblings Janet Molloy and Kathleen and William Straub, as well as extended family members and friends. As someone who was blessed to know Jimmy Molloy, I will always carry his memory through these halls.

PERSONAL EXPLANATION

HON. JAMES A. HIMES

OF CONNECTICUT

IN THE HOUSE OF REPRESENTATIVES

Monday, July 25, 2011

Mr. HIMES. Mr. Speaker, I was unable to be present to cast my vote on final passage of H.R. 2018, The Clean Water Cooperative Federalism Act of 2011. I wish the record to reflect my intentions had I been able to vote.

Had I been present for rollcall No. 573, I would have voted "no."

This bill is an assault on the fundamental water protections the American people rely on and would reverse decades of progress. It significantly undermines the Clean Water Act, jeopardizes public health, and gravely affects our environment and economy.

PERSONAL EXPLANATION

HON. EARL BLUMENAUER

OF OREGON

IN THE HOUSE OF REPRESENTATIVES

Monday, July 25, 2011

Mr. BLUMENAUER. Mr. Speaker, due to the celebration of my daughter's wedding, I was unable to be in Washington, DC for votes during the week of July 18. Had I been present for the votes that week, I would have voted as follows:

Rollcall vote 602: I would have voted in favor of H.R. 33, legislation amending the Securities Act of 1933 to specify when certain securities issued in connection with church plans are treated as exempted securities for purposes of that Act.

Rollcall vote 606: I would have voted against H.R. 2560, legislation submitting a constitutional amendment to the States that would irresponsibly limited the government's ability to respond to wars, disasters, or other challenges as well as changing Congressional voting procedures that would end majority rule.

Rollcall vote 611: I would have voted against H.R. 2553, legislation that, while extending the operations of the Federal Aviation Authority, would undermine labor relations.

Rollcall vote 621: I would have voted against H.R. 1315, legislation undermining consumer protections implemented as part of the Dodd-Frank Act.

Rollcall vote 629: I would have voted against H.R. 2551, ideologically driven legislation that cuts funding for House and joint operations by \$227 million (6.4 percent) from FY11 enacted levels, which is \$472 million (12.4 percent) below the requested amount. These cuts risk possible layoffs and pay-cuts for legislative branch staff, which will damage Congress' ability to fulfill its Constitutional duties and responsibilities to the public. For example, the Library of Congress, which is the nation's oldest federal cultural institution and provides critical resources to Members of Congress, was severely cut to 13.7 percent below the request. I was also dismayed by the cuts to related agencies such as Congressional Research Service, Government Accountability Office and Congressional Budget Office, which provide crucial assistance and oversight to Congress. These cuts will make the Legislative Branch less effective, not more efficient.