June 26, 2009

WASHINGTON, DC— Congressman Peter DeFazio (OR-04) today released a proposed transaction tax on crude oil securities to pay for the deficiency in the Highway Trust Fund and to pay for the Surface Transportation Authorization Act of 2009.

“A transaction tax on crude oil securities will close the gap in funding a twenty-first century transportation system while lowering the price of oil. This is a win/win,” DeFazio said. “If we put off this transportation authorization we will push off needed reform.

Every day we wait people will sit in traffic instead of spending time with their families, every day people are not as safe as they could be because of our crumbling infrastructure, every day our economy suffers when our products sit in traffic jams.

Worst of all, every day we wait we continue to be more locked into inadequate funding and the failed policies of the Bush Administration.

My proposal will not cost consumers one cent but will substantially increase our investment in our transportation infrastructure so we can move beyond the broken policies of the past toward a safer, cleaner more efficient transportation system for the 21st century.”

The Surface Transportation Authorization Act of 2009 requires $450 billion in funding over 6 years. Because of existing funding mechanisms through the Highway Trust Fund, there is a $140 billion funding gap. A transaction tax on crude oil securities would raise more than $190 billion over 6 years, more than enough to fill the gap.

The proposed transaction tax on crude oil is 0.02% on futures contracts (a contract to buy crude oil at a previously set price on a future date) and 0.5% on the option for a futures contract(the premium paid to have the option to buy a futures contract).

Taxing these derivatives of crude oil will reduce the price and volatility of the market
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It is the only revenue source that lowers the price of oil while raising revenue for the Highway Trust Fund.

The tax is simple; it imposes a small burden that penalizes short-term traders for speculating on the price of oil. The CFTC distinguishes between end users and legitimate hedgers, like airlines and railroads, and short-term speculators.

This proposal would rebate all transaction taxes paid by legitimate hedgers. Since the tax is on speculation only, it deters speculation and undermines much of the crude oil price bubble.

This tax will find broad support and is well documented in economic scholarly papers. In fact, NEC Chairman Larry Summers wrote a paper in 1989 in strong support of financial transaction taxes. It will likely find support from large consumers of oil, including airlines, trucking companies, and railroads, the marketers and retailers of oil and gasoline, and small oil producers.