By Bruce Edwards

With gasoline prices climbing to their highest levels in two years, Rep. Peter Welch remains convinced that there's more than just market forces at work.

Unrest has roiled the Middle East, most recently Libya, helping to drive up petroleum prices on the world market.

But Welch has long championed the argument that energy speculators also play a significant role in driving up the price of crude oil and refined products – gasoline, heating oil and diesel.

To help ease price pressures, Welch is taking a three-prong legislative approach that takes aim at the Strategic Petroleum Reserve, eliminating the tax break for speculators in the energy futures market, and imposing penalties for price gouging.

Welch recently failed to get President Obama to release oil from the Strategic Petroleum Reserve – a move that Welch said would immediately drive down prices in the short term.

Welch's bill, the Enhanced SPR Act, would direct the Energy Department to release at least 5 million gallons, or 5 percent of the volume, from the Strategic Petroleum Reserve.

"The reason this SPR release could have some positive effect is it sends a signal to the speculators that the U.S. government is going to do what it can to help consumers," Welch said.

He said in the aftermath of Hurricane Katrina prices fell "significantly" when President Bush ordered a release from the Strategic Petroleum Reserve.

"It's not a long-term answer and I don't offer it as such," Welch said, "but there's a lot of short-term pain being experienced by our consumers, and our small businesses and our municipalities."

The Stop Tax-breaks for Oil Profiteering, or STOP Act, would eliminate a tax break that Welch says encourages speculation in the futures market. Instead of the 23 percent tax that speculators, like hedge funds, now pay, speculators would pay the same 35 percent tax rate that commercial users, such as airlines and fuel dealers pay on futures contracts.

The Federal Price Gouging Prevention Act sets criminal penalties for price gouging, and allows states to bring lawsuits against wholesalers or retailers who engage in gouging.

For Cabot Creamery, the escalating price of diesel fuel has cut into the profits of its dairy farmer owners.

Jim Pratt, Cabot's senior vice president of operations, said the co-op budgeted $1 million for diesel fuel based on $3.27 a gallon.

With diesel now over $4 a gallon, Pratt said every 50-cent a gallon increase adds $150,000 to the co-op's fuel costs.

Cabot uses its own fleet of tractor trailer truck to deliver its cheese products throughout New England. For delivery outside of the region, however, Cabot relies on outside trucking companies. At the current price for diesel, that adds another $135,000 to Cabot's shipping costs, Pratt said.

Pratt said the co-op supports Welch's efforts to curb the role speculators play in driving up prices.

"If there's stability, the playing field becomes level, everybody builds it into their costs and therefore it's built into their pricing," Pratt said. "But it's volatility that is extremely difficult to adjust to in the marketplace."

The Vermont Fuel Dealers Association has long sided with Welch's arguments and supports his latest efforts to tap the SPR with the goal "of talking down" the market.

"The fact is we do have supply," said Matt Cota, executive director of the Vermont Fuel Dealers Association. "Libya isn't an issue in terms of our supply but there is a fear premium that we're all paying for petroleum because the market is really dominated by people trading futures contracts."

The state's fuel dealers also support doing away with the tax break for energy speculators. When it comes to price gouging, they're cool to the idea – worried that they'll be unfairly accused of price gouging.

A spokesman for the Vermont Petroleum Association, which represents oil industry interests, is opposed to tapping the SPR.

"We think the strategic petroleum reserve should only be tapped to respond to a real crisis, such as the loss of significant supply due to the hurricanes in 2005," spokesman Joe Choquette said in an e-mail. "It should not be used to manipulate price."

Choquette said "although demand is sometimes influenced by what buyers perceive to be happening," it's the market forces of supply and demand that drives energy prices.

He also said there are laws on the books to deal with price gouging and that the price of refined products closely follows the price of crude.

Choquette said what's needed is less reliance on imported oil by increasing domestic production.

From Welch's perspective, however, the country needs a long-term energy policy to wean itself off fossil fuel as well as reform of the futures market to curtail what he calls casino-like speculation.