Statement of Congressman Bart Stupak
U.S. House of Representatives

Antitrust Task Force
Committee on the Judiciary

"Prices at the Pump: Market Failure and the Oil Industry"

May 16, 2007

Chairman Conyers and Members of the Committee, gas prices are causing Americans significant financial hardship, and I appreciate the work this Committee is doing to address this problem. Thank you for allowing me to appear before you today.

Last week, the nationwide average price for gasoline hit $3.07 a gallon. This is higher than any time last year, and we have yet to reach the peak driving season for 2007. As we approach Memorial Day and increased summer driving, gas prices are expected to be even higher. While consumers pay record prices, oil companies make record profits.

For years, Big Oil has told us that they have no control over gas prices because it is dependent on world crude oil prices.

However, in April, a barrel of oil cost $63. A year before, a barrel of crude oil was $70. Despite the fact that crude oil was <u>$7 a barrel cheaper</u> than last year, gas prices were almost <u>50 cents per gallon higher</u>. Clearly, there is more at play than simply the world crude oil market.

Since 1980, more than 200 refineries in the United States have been closed. Demand for gasoline continues to grow every year, but a new refinery has not been built since 1976. Only one new major refinery has requested environmental permits in the past 30 years. While the permits were granted, the refinery was never built.

The oil companies complain that there is too much environmental red tape. The truth is that very few companies have even tried to build new refineries, instead opting to upgrade existing facilities and run them as close to capacity as possible.

In fact, there is evidence that oil companies have intentionally <u>reduced</u> refining capacity to drive up gas prices.

Internal documents from Mobil, Chevron, and Texaco in 1995 and 1996 specifically advocated that these companies limit domestic refining capacity to drive up prices.

Today, there are fewer independent refineries in the United States, according to a May 2004 Government Accountability Office (GAO) study. The 4 or 5 largest oil companies now own the majority of refineries, giving these companies a significant amount of control over the entire distribution process, from exploration to your gas tank.

Shrinking refinery capacity and a reluctance to invest in new infrastructure have significantly restrained gasoline supplies, driving refinery profits to record highs.

For example, after Hurricane Katrina, refinery profits were 255 percent higher than they were at the same time a year before, according to the *Washington Post.*

The average profit margin between a barrel of crude oil and a barrel of refined gasoline is now $30, as reported in a May 3, 2007 ***Business Week*** article. That's about 70 cents in refinery profits for every $3 gallon of gas. According to experts, $8 or $9 a barrel, or about 20 cents a gallon, is a more reasonable profit margin.

As a result of these enormous profit margins, in the first three months of 2007, Valero, the nation's largest refinery company, announced profits of $1.1 billion, up 30% over last year. ExxonMobil’s refineries alone made $1.9 billion in the first quarter of 2007.

Other oil companies have enjoyed similar profits. During the first 3 months of 2007, Royal Dutch Shell’s profit was $7.3 billion. Chevron reported $4.7 billion, up 18 percent from last year. ConocoPhilips made more than $3.5 billion. And ExxonMobil’s profits were more than $9.2 billion.

I have introduced legislation, the <u>Federal Price Gouging Prevention Act</u> (HR 1252) to protect American consumers from being gouged at the pump.

H.R. 1252 would give the Federal Trade Commission (FTC) the authority to investigate and punish those who artificially inflate the price of energy. The FTC would be

empowered to exercise this authority at each stage of the energy production and distribution supply chain.
The legislation applies to gasoline, diesel fuel, crude oil, natural gas, home heating oil, and propane.

Over 100 Members of Congress have already co-sponsored this legislation, and I look forward to moving it soon.

I have also introduced the Prevent Unfair Manipulation of Prices (PUMP) Act, HR 594. The PUMP Act would increase oversight by the Commodity Futures Trading Commission of over-the-counter energy trading.

According to an April 30 *Financial Times* story, the CFTC has taken the rare step of issuing a subpoena to McGraw-Hill, which produces trade publications on energy trading. Because the CFTC does not have the authority to ask traders for this information, it is instead forced to take legal action against third-party trade publications.

Without proper oversight, energy prices can be driven by fear, greed, and speculation. Economists have estimated that improving oversight of these markets would eliminate the "fear premium" on crude oil and lower the price by as much as $20 a barrel, or almost 50 cents per gallon of gasoline.

By passing my two bills, Congress can reign in the excessive profits made by the oil companies and the speculation on unregulated energy markets.

Just counting the 50 cents a gallon of excess profit by the refineries, and the 50 cents per gallon of fear premium, these two bills could save consumers up to $1 a gallon at the pump!

In addition to my legislation, I encourage this Committee to investigate the influence the Big Oil has on the price of gasoline.   Is there any collusion between these companies? Why have they failed to invest in refinery infrastructure?

As Chairman of the Oversight and Investigations Subcommittee in Energy and Commerce, I have scheduled a hearing on gas price gouging and the factors that go into the price of gasoline.

I thank the Committee for allowing me to testify, and I look forward to your questions.