PRESS STATEMENT

Senator Joe Lieberman

Permanent Subcommittee on Investigations

Opening Statement, "Gas Prices: How are they Really Set?"

Tuesday, April 30, 2002

Thank you, Senator Levin. I want to commend you and Senator Collins and your staffs for working so hard on an issue of such critical importance to the American economy and millions of American consumers.

When gasoline gets dramatically more expensive, as it seems to do every spring and summer and other times throughout the year, all Americans pay the price. The entire economy feels the pinch. Just this spring, as the Permanent Subcommittee on Investigations' report points out, retail prices have increased faster than at any time in the past fifty years. American consumers remain wary of future price spikes—and remain puzzled and angered by the forces that seem to make the price of gas as volatile as gasoline is combustible.

They're not alone. As the title of today's hearing suggests, even those in government with a statutory responsibility to understand the industry have been striving to learn precisely how gas prices are set. PSI's report is a major contribution to our understanding—and it appropriately focuses our concentration on the industry's growing concentration.

Over the past 20 years—and more so over the last five years—big oil companies have been merging, and these larger and larger corporations have been squeezing small refineries out of the market. They are also controlling more and more gas stations—setting prices and carving up market share through sole supplier agreements and zone pricing plans. But the American consumer is often left at the short end of the pump—at the mercy of wild price fluctuations and often big price spikes. That's made worse by the fact that while their own pocketbooks are being pinched, consumers see the oil companies raking in huge profits.

As PSI's report points out, the increase in gas prices from 1999 to 2000 had been matched only once in history. And year 2000 income for major energy companies from refining and marketing was up 57 percent from 1999. In other words, the hundreds of additional dollars paid by the average American consumer went right into the pockets of the oil industry. Over the course of a year, every ten cent increase in the price of gasoline results in approximately $10 billion in additional oil company revenues.

A free market economy like ours is a wonderful thing—but the price of that freedom, as we have learned through the Enron debacle, is constant vigilance against potential market abuses. The question before us today is: are the interests of consumers being served by the increasing domination of the market by fewer and fewer large companies?

Though each of the mergers that has changed the landscape of the industry has been approved by our Federal Trade Commission, the overall trend deserves serious scrutiny.

In fact, given the effects of the mergers on the marketplace, it is worth asking whether the FTC is using all the right criteria for evaluating these mergers, and whether its policy of ordering newly merged companies to divest their refineries is the best practice for the American consumer. The net effect of those divestitures has been to reduce the flexibility of the market, and increase the likelihood of price spikes in the event of any supply disruption.

As William Baer, then director of the FTC's Bureau of Competition, said in 1999, "competition is critical to this industry and that concentration, as well as increases in concentration—even to levels that the antitrust agencies call 'moderately concentrated'—can have substantial adverse effects on competition." End of quote.

I want to conclude by pointing out the critical energy policy priority that today's hearing should underline, and that is energy diversification. The tremendous volatility of gas prices are in part the result of volatile global politics and economics. We've had turmoil in Venezuela, the fourth largest provider of imported American oil. We've obviously had a serious and ongoing crisis in the Middle East. Even in a maximally competitive and healthy marketplace, these would make oil prices somewhat volatile—and would therefore put periodic price pinches on American gasoline consumers.

We must have the foresight to diversify our energy supply—to find new sources of energy rather than continuing our reliance on oil—so that the United States economy is not at the mercy of such fluctuations. We have to put the innovation pedal to the metal today, and I think that the energy bill passed by the Senate offers us a small opportunity to start doing just that.

Thank you, and thank you again to Senator Levin for leading this effort.