Senator Joe Lieberman

Senate Governmental Affairs Committee, Permanent Subcommittee on Investigations
Opening Statement, "Gas Prices: How are they Really Set?"

Thursday, May 2, 2002

Thank you. I'm glad to be here for this second hearing on gas prices, and once again I'd like to thank Senator Levin, Senator Collins and their staffs for their leadership on this issue that led to a very substantive and informative hearing the other day. I also want to welcome Michigan Attorney General Granholm, Connecticut Attorney General Blumenthal, and California Senior Assistant Attorney General Greene, as well as the rest of today's witnesses.

The Permanent Investigations Subcommittee's report on gasoline pricing raises serious questions in both of these areas. Is the oil industry as competitive as it ought to be? And is government doing everything we can to safeguard consumers?

The government broke up Standard Oil 91 years ago, ending one of the most egregious distortions of free and fair markets in our history. As the writer Thomas Lawson described it in his 1905 book *Frenzied Finance*, "Standard Oil has from its birth to present writing been responsible for more hell than any other trust or financial thing since the world began. Because of it the people have sustained incalculable losses and have suffered untold miseries."

The oil market is much more free and more fair than it was back then. But today, as this subcommittee investigation has shown, we're still faced with mergers and marketing practices that could create new industry giants and constrain the marketplace rather than lubricate the gears of competition. The possibility of market manipulation in oil and gas is particularly troubling because, as we know, higher gas prices hit middle and low-income workers and families the hardest. For the American who earns $30,000 per year and has to drive 30 miles back and forth to work each day, the price at the pump can mean the difference between making ends meet and being unable to pay the bills.

That's why we should be disturbed by the PSI investigation's finding that gas prices in America are so volatile not because of a responsive market, but because of a market that is unhealthy. And its illness can be seen through two sets of symptoms: concentration in the wholesale markets, on the one hand; and restrictive practices in the retail markets—such as zone pricing and redlining—on the other.

In his to the House Judiciary Committee two years ago, Connecticut Attorney General Richard Blumenthal called this practice "invisible and insidious." There are big signs outside every station with the price of gas, but consumers are kept completely in the dark when it comes to the workings of zone pricing schemes.

One major oil company operating in Connecticut, a geographically small state with just eight counties, had 46 different zones in Connecticut. That's astonishing. How can the market work as effectively as possible when wholesalers offer different distributors, who have no choice but to accept, dozens of different prices for the very same product? I did some work on this in the 1980's and must say that I agree with Attorney General Blumenthal's assessment.

Based on the PSI investigation, it appears that oil companies could be charging more in some areas to squeeze as much as they possibly can out of retailers and consumers wherever and whenever they think they can get away with it. If gasoline dealers had more freedom to shop around, we might see a much fairer and more fluid market in which prices were kept down by the natural pressures of supply and demand, and not artificially inflated.

To date, the federal government has not sent a clear signal on the legality of zone pricing or redlining. Last year, the Federal Trade Commission closed its investigation into Western States gasoline pricing after determining that there was insufficient evidence to show that any of the Western States refiners' practices caused higher wholesale or retail prices for gas. But in a concurring statement, Commissioner Mozelle Thompson expressed his concern about some of the redlining practices being employed. And he concluded that, "The Commission has vigilantly protected the competitiveness of the nation's energy sector for years through its enforcement actions. I therefore am confident that, should the Commission find evidence in any future investigation that site-specific redlining results in anticompetitive effects without generating countervailing consumer benefits, it would challenge the practice." End of quote.

With all respect, I'm not confident such effects could even be discovered because of the lack of information revealed by big oil companies about their pricing policies. And government can't challenge what it can't discover.

Fair and competitive markets are the foundation of a strong, free economy. But the current level of information about how the oil industry really operates isn't enough for oversight agencies to ensure that these markets are fair and competitive. That needs to change, and quickly. I look forward to hearing this morning's testimony, and am eager to make sense of these practices—and possible figure out how to save consumers a few cents on the gallon at the same time.

Thank you.
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