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# Highlights

Highlights of GAO-07-902T, a report to the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives

May 22, 2007

# ENERGY MARKETS

# Factors That Influence Gasoline Prices

## Why GAO Did This Study

Few issues generate more attention and anxiety among American consumers than the price of gasoline. The most current upsurge in prices is no exception. According to data from the Energy Information Administration (EIA), the average retail price of regular unleaded gasoline in the United States has increased almost every week this year since January 29th and reached an all-time high of $3.10 the week of May 14th. Over this time period, the price has increase 94 cents per gallon and added about $20 billion to consumers' total gasoline bill, or about $146 for each passenger car in the United States.

Given the importance of gasoline for the nation's economy, it is essential to understand the market for gasoline and the factors that influence gasoline prices. In this context, this testimony addresses the following questions: (1) what key factors affect the prices of gasoline and (2) what effects have mergers had on market concentration and wholesale gasoline prices?

To address these questions, GAO relied on previous reports, including a 2004 GAO report on mergers in the U.S. petroleum industry, a 2005 GAO primer on gasoline prices and a 2006 testimony. GAO also collected updated data from EIA. This work was performed in accordance with generally accepted government auditing standards.

www.gao.gov/cgi-bin/getrpt?GAO-07-902T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Tom McCool at (202) 512-2642 or mccoolt@gao.gov.

## What GAO Found

The price of crude oil is a major determinant of gasoline prices. However, a number of other factors also affect gasoline prices including (1) increasing demand for gasoline; (2) refinery capacity in the United States that has not expanded at the same pace as the demand for gasoline; (3) a declining trend in gasoline inventories and (4) regulatory factors, such as national air quality standards, that have induced some states to switch to special gasoline blends.

Consolidation in the petroleum industry plays a role in determining gasoline prices as well. For example, mergers raise concerns about potential anticompetitive effects because mergers could result in greater market power for the merged companies, potentially allowing them to increase and sustain prices above competitive levels; on the other hand, these mergers could lead to efficiency effects enabling the merged companies to lower prices. The 1990s saw a wave of merger activity in which over 2600 mergers occurred in all segments of the U.S. petroleum industry. This wave of mergers contributed to increases in market concentration in the refining and marketing segments of the U.S. petroleum industry. Econometric modeling that GAO performed on eight of these mergers showed that, after controlling for other factors including crude oil prices, the majority resulted in wholesale gasoline price increases—generally between about 1 and 7 cents per gallon. While these price increases seem small, they are not trivial because according to FTC's standards for merger review in the petroleum industry, a 1-cent increase is considered to be significant. Additional mergers occurring since 2000 are expected to increase the level of industry concentration further, and because GAO has not yet performed modeling on these mergers, we cannot comment on any potential effect on gasoline prices at this time. However, we are currently in the process of studying the effects of the mergers that have occurred since 2000 on gasoline prices as a follow up to our previous work on mergers in the 1990s. Also, we are working on a separate study on issues related to petroleum inventories, refining, and fuel prices.