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Highlights

Highlights of GAO-08-1082, a report to congressional requesters

September 2008

ENERGY MARKETS

Analysis of More Past Mergers Could Enhance Federal Trade Commission's Efforts to Maintain Competition in the Petroleum Industry

Why GAO Did This Study

During the late 1990s, many petroleum companies merged to stay profitable while crude oil prices were low, and in recent years mergers have continued. Congress and others have concerns about the impact mergers might be having on competition in U.S. petroleum markets. The Federal Trade Commission (FTC) has the authority to maintain competition in the petroleum industry and reviews proposed mergers to determine whether they are likely to diminish competition or increase prices, among other things. GAO was asked to examine (1) mergers in the U.S. petroleum industry and changes in market concentration since 2000 and (2) the steps FTC uses to maintain competition in the U.S. petroleum industry, and the roles other federal and state agencies play in monitoring petroleum industry markets. In conducting this study, GAO worked with petroleum industry experts to delineate regional markets and to develop estimates of refinery gasoline production capacity in order to calculate market concentration. GAO used public and private data as well as interviews for its analyses.

What GAO Recommends

To enhance FTC's effectiveness in maintaining competition in the U.S. petroleum industry, GAO is recommending that FTC (1) conduct more regular analyses of past petroleum industry mergers and (2) develop risk-based guidelines to determine when to conduct them. FTC reviewed a draft of this report and said that the recommendations were consistent with its self-evaluation initiative, and that it would consider them as part of that process.

To view the full product, including the scope and methodology, click on GAO-08-1082. For more information, contact Mark Gaffigan at gaffiganm@gao.gov, (202) 512-3841 or Tom McCool at mccoolt@gao.gov, (202) 512-2642.

What GAO Found

More than 1,000 U.S. mergers occurred in the petroleum industry between 2000 and 2007, mostly between firms involved in crude oil exploration and production. According to experts and industry officials, mergers in this segment were generally driven by the challenges associated with producing oil in extreme physical environments, such as deepwater, as well as increasing concerns about competition with national oil companies and access to oil reserves in regions of relative political instability. Industry officials from the segments of the petroleum industry that transport, refine, and sell petroleum products reported that mergers were generally driven by the desire for greater efficiency and cost savings. Despite these gains, mergers have the potential to enhance a firm's ability to exercise "market power," which potentially allows it to raise prices without being undercut by other firms. GAO measured market concentration with an index that FTC uses, where market regions with few, large firms are considered to be highly concentrated and have a greater potential for market power. Conversely, market regions with many smaller firms are considered to have low or moderate concentration and generally have less potential for firms to exercise market power. GAO found that market concentration changed little but varied by industry segment and market region. GAO found that market concentration among firms involved in crude oil exploration and production was low and stable between 2000 and 2006, while concentration among refiners was generally moderate across those years. Regarding wholesale gasoline suppliers on a state-by-state basis, 35 states were moderately concentrated in their number of wholesale gasoline suppliers in 2007, and this number was fairly stable from 2000. GAO found that the following 8 states had highly concentrated wholesale gasoline supplier markets in 2007: Alaska, Hawaii, Indiana, Kentucky, Michigan, North Dakota, Ohio, and Pennsylvania.

While FTC reviews evidence and considers a number of competitive factors to predict a merger's potential effects on competition in its analyses of proposed mergers, it does not regularly look back at past merger decisions to assess the actual effects of the merger on competition or prices after the merger has been completed. Although these reviews can be resource intensive, experts, industry participants, and FTC agree that regular retrospective reviews would allow the agency to better inform future merger reviews and to better measure its success in maintaining competition. In addition to FTC's efforts in reviewing proposed mergers, other federal agencies, including FTC, and some states also monitor aspects of petroleum industry markets. For example, the Federal Energy Regulatory Commission monitors petroleum product pipeline markets and regulates pipeline rates accordingly.