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Highlights

Highlights of GAO-06-412T, a report to the Committee on the Judiciary, United States Senate

February 1, 2006

ENERGY MARKETS

Factors Contributing to Higher Gasoline Prices

Why GAO Did This Study

Soaring retail gasoline prices, increased oil company profits, and mergers of large oil companies have garnered extensive media attention and generated considerable public concern. Gasoline prices impact the economy because of our heavy reliance on motor vehicles. According to the Department of Energy's Energy Information Administration (EIA), each additional ten cents per gallon of gasoline adds about $14 billion to America's annual gasoline bill.

Given the importance of gasoline for the nation's economy, it is essential to understand the market for gasoline and how prices are determined. In this context, this testimony addresses the following questions: (1) What factors affect gasoline prices? (2) What has been the pattern of oil company mergers in the United States in recent years? (3) What effects have mergers had on market concentration and wholesale gasoline prices?

To address these questions, GAO relied on previous reports, including (1) a 2005 GAO primer on gasoline prices, (2) a 2005 GAO report on the proliferation of special gasoline blends, and (3) a 2004 GAO report on mergers in the U.S. petroleum industry. GAO also collected updated data from a number of sources that we deemed reliable. This work was performed in accordance with generally accepted government auditing standards.

www.gao.gov/cgi-bin/getrpt?GAO-06-412T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov..

What GAO Found

Crude oil prices are the major determinant of gasoline prices. A number of other factors also affect gasoline prices including (1) refinery capacity in the United States, which has not expanded at the same pace as demand for gasoline and other petroleum products in recent years; (2) gasoline inventories maintained by refiners or marketers of gasoline, which as with trends in a number of other industries, have seen a general downward trend in recent years; and (3) regulatory factors, such as national air quality standards, that have induced some states to switch to special gasoline blends that have been linked to higher gasoline prices. Finally, the structure of the gasoline market can play a role in determining prices. 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 prices above competitive levels.

During the 1990s, the U.S. petroleum industry experienced a wave of mergers, acquisitions, and joint ventures, several of them between large oil companies that had previously competed with each other for the sale of petroleum products. During this period, more than 2,600 merger transactions occurred—almost 85 percent of the mergers occurred in the upstream segment (exploration and production), while the downstream segment (refining and marketing of petroleum) accounted for about 13 percent, and the midstream segment (transportation) accounted for about 2 percent. Since 2000, we found that at least 8 additional mergers have occurred, involving different segments of the industry. Petroleum industry officials and experts we contacted cited several reasons for the industry's wave of mergers since the 1990s, including increasing growth, diversifying assets, and reducing costs.

Mergers in the 1990s contributed to increases in market concentration in the refining and marketing segments of the U.S. petroleum industry, while the exploration and production segment experienced little change in concentration. GAO evaluated eight mergers that occurred in the 1990s after they had been reviewed by the FTC—the FTC generally reviews proposed mergers involving the petroleum industry and only approves such mergers if they are deemed not to have anticompetitive effects. GAO's econometric modeling of these mergers showed that the majority resulted in small wholesale gasoline price increases. While mergers since 2000 also increased market concentration, we have not performed modeling on more recent mergers and thus cannot comment on any potential additional effect on wholesale gasoline prices.