



Highlights of [GAO-04-96](#), a report to the Ranking Minority Member, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

Starting in the mid-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 example, as shown in the figure, Exxon, the largest U.S. oil company, acquired Mobil, the second largest, thus forming ExxonMobil.

GAO was asked to examine the effects of the mergers on the U.S. petroleum industry since the 1990s. For this period, GAO examined (1) mergers in the U.S. petroleum industry and why they occurred, (2) the extent to which market concentration (the distribution of market shares among competing firms) and other aspects of market structure in the U.S. petroleum industry have changed as a result of mergers, (3) major changes that have occurred in U.S. gasoline marketing, and (4) how mergers and market concentration in the U.S. petroleum industry have affected U.S. gasoline prices at the wholesale level. Commenting on a draft of GAO's report, FTC asserted that the models were flawed and the analyses unreliable. GAO used state-of-the-art econometric models to examine the effects of mergers and market concentration on wholesale gasoline prices. The models used in GAO's analyses were peer reviewed by independent experts. Thus, GAO believes its analyses are sound.

www.gao.gov/cgi-bin/getrpt?GAO-04-96.

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.

ENERGY MARKETS

Effects of Mergers and Market Concentration in the U.S. Petroleum Industry

What GAO Found

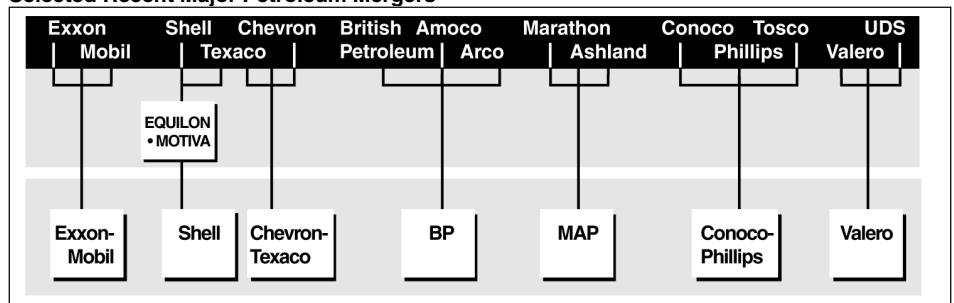
Over 2,600 mergers have occurred in the U.S. petroleum industry since the 1990s. The majority occurred later in the period, most frequently among firms involved in exploration and production. Industry officials cited various reasons for the mergers, particularly the need for increased efficiency and cost savings. Economic literature also suggests that firms sometimes merge to enhance their ability to control prices.

Market concentration has increased substantially in the industry, partly because of these mergers. Concentrated markets can enable firms to raise prices above competitive levels but can also lead to cost savings and lower prices. Evidence suggests mergers also have changed other factors that affect competition, such as the ability of new firms to enter the market.

According to industry officials, two major changes have occurred in U.S. gasoline marketing related to these mergers. First, the availability of generic gasoline, which is generally priced lower than branded gasoline, has decreased substantially. Second, refiners now prefer to deal with large distributors and retailers, which has motivated further consolidation in distributor and retail markets.

GAO's econometric analyses indicate that mergers and increased market concentration generally led to higher wholesale gasoline prices in the United States from the mid-1990s through 2000. Six of the eight mergers GAO modeled led to price increases, averaging about 1 cent to 2 cents per gallon. GAO found that increased market concentration, which reflects the cumulative effects of mergers and other competitive factors, also led to increased prices. For conventional gasoline, the predominant type used in the country, the change in wholesale price due to increased market concentration ranged from a decrease of about 1 cent per gallon to an increase of about 5 cents per gallon. For boutique fuels sold in the East Coast and Gulf Coast regions, wholesale prices increased by about 1 cent per gallon, while prices for boutique fuels sold in California increased by over 7 cents per gallon.

Selected Recent Major Petroleum Mergers



Source: GAO.