

Statement of API President and CEO Red Cavaney before the Joint Economic Committee

May 23, 2007

Thank you, Mr. Chairman. I request the Committee's permission to submit a more detailed statement following today's hearing.

Industry mergers are not a cause of higher gasoline prices. In fact, mergers contribute to production efficiencies that benefit consumers. As with all industries, mergers have occurred only after careful Federal Trade Commission (FTC) scrutiny to ensure the competitiveness of markets. The FTC reviews all proposed mergers and acquisitions in the oil and natural gas industry. It has required divestitures, or challenged mergers in the industry, at lower levels of concentration than in any other industry and has stated that "despite some increases over time, concentration for most levels of the petroleum industry has remained low to moderate."

Those who allege that mergers cause gasoline price increases fail to recognize that there is no shortage of competitors today, and market power is not heavily concentrated. The eight largest refiners in the U.S. account for 66 percent of the market, a level of concentration that is exceeded by 15 other consumer product industries. In fact, in eight other major industries, the top eight companies, on average, account for 85 percent or more of their respective markets, according to U.S. Department of Commerce 2006 data.

There are 55 refining companies, 142 operating refineries, and approximately 165,000 motor fuel outlets. In the case of the latter, all but a small percentage are owned and operated by small businessmen and women, not refiners. According to the FTC, the share of U.S. refining capacity owned by independent refiners with no production/exploration operations rose from 8 percent in 1990 to over 25 percent in 2006.

In part, as a result of mergers, the industry has become more efficient, which has reduced costs to consumers, with gasoline prices dropping to all-time record lows in the late 1990s. Sharp increases in crude oil prices and costly investments made to reduce emissions have masked this benefit in later years.

Recent price increases reflect supply and demand. The same is true for past price increases, which have been thoroughly investigated by government agencies who would have taken the industry to task, if illegal or improper activity had been discovered. Invariably, these agencies have explained price spikes by supply/demand conditions that had nothing to do with manipulation of supplies or illegal agreements among companies.

Moreover, a 2006 investigation by the U.S. Federal Trade Commission found [quote] “no evidence indicating that refiners make product output decisions to affect the market price of gasoline. Instead, the evidence indicated that refiners responded to market prices by trying to produce as much higher-valued products as possible.... The evidence collected in this investigation indicated that firms behave competitively.”

Those who persist in suspecting that the industry is holding back supplies overlook the fact that, over the past 10 years, existing refineries have expanded capacity equivalent to building 10 new refineries and, based on public announcements of refinery expansions, are projected to add the capacity equivalent of an additional eight new refineries through 2011.

We recognize that today's higher prices are a burden to people and a threat to the economy. The cause of the higher prices is an imbalance between supply and demand, worsened by policy shortcomings. So far in 2007, total U.S. gasoline demand has set a record. U.S. gasoline production is also at record highs. However, because of maintenance at European refineries, an extended port-workers' strike in France, refinery problems in Venezuela and refining disruptions in Nigeria, less imported gasoline has been available to contribute to the traditional seasonal build in inventories.

Oil company mergers and acquisitions have not caused higher gasoline prices. We need to focus on the factors shaping those higher prices and not be misled by claims that have been repeatedly disproved, have no basis in fact, and mask root causes.