Chairman Bart Stupak Hearing Statement
Oversight and Investigations Subcommittee
"Gasoline Prices, Oil Company Profits, and the American Consumer"
May 22, 2007

The American public is paying record high gas prices while Big Oil companies are reaping record profits. Across our nation, people are struggling to pay to fill their gas tank and their frustration with gas prices is boiling over. In my vast rural district, my constituents have to travel long distances to and from work and there is little or no public transit options. Many people can't afford the higher gas bills, so they are putting them on credit cards and digging deeper and deeper in debt.

I was at a funeral Saturday and when the Monsignor greeted me he said, "My God Bart, you have to do something about these gas prices!" The Monsignor explained how gas was $3.28 per gallon when he drove to the rectory in the morning and it jumped 21 cents by the time he left that night. In 10 hours, a gas station had raised its prices 21 cents to $3.49/gallon. That was on Saturday. Our collective prayers must have worked, because on Sunday gas prices dropped 10 cents to $3.39/gallon. In four days gasoline raised 21 cents, then dropped 10 cents, and remains at $3.39/gallon today.

I received a call from a constituent who owns several gas stations throughout northern Michigan and Wisconsin. The station owner told me how he had to raise gas prices 15 cents over night and his competitor in the same town raised his prices 16 cents! He added that there was no excuse for his supplier to raise prices other than the fact that refineries continue to raise their prices dramatically.

Today's hearing will explore why gas prices have continued to be at record high levels, even as the price for a barrel is lower than last year. We will be investigating the factors that go into the price of a gallon of gas and whether or not gouging is occurring in the oil and gas industry.

According to the Energy Information Administration (EIA), the average price of gasoline from 2002 through 2007 has more than doubled, while the consumer price index rose only 13.6 percent. According to the EIA's website, the nationwide average price for gasoline is now $3.22 a gallon. This is higher than any time in history, and we have yet to reach the peak driving season for 2007.

The Government Accountability Office (GAO) has estimated that each additional 10 cents per gallon of gas adds $14 billion to American's annual gas bill. In effect, this is an enormous transfer of wealth – billions of dollars – from consumers to the oil industry.

Many people wonder just what factors makeup the price of a gallon of gasoline and what is a "reasonable" profit for each company along the supply and distribution chain? Why do we have wild fluctuations in the price of gas from day to day, week to week?

In answer to some of these questions, we know that the price of crude oil and the refinement of oil into gasoline make up roughly 75% of the price of gasoline. Big Oil is often quick to blame world crude oil prices, but that argument doesn't appear to be the full story.

In April 2007, a barrel of oil cost $63. In April of 2006, a barrel of crude oil was $70. Despite the fact that crude oil was $7 a barrel cheaper than last year, gas prices were approximately 50 cents per gallon higher. Clearly, this year's run up in gas prices has not been the result of crude oil prices, but some other factor or factors.

Many have pointed to the oil refineries as the most recent cause for high gas prices. Since 1980, more than 200 United States refineries have been closed and a new refinery has not been built since 1976. In 1981, U.S refineries were operated by 189 different companies. Today, the remaining refineries are operated by about 60 companies. Over the past 25 years the more than 50% of refineries have been closed and the number of companies owning refineries is less than one-third of what it once was.

We will hear today from the Government Accountability Office (GAO) about their 2004 study which confirmed that these mergers have caused higher gas prices.

Historically, the average profit margin between a barrel of crude oil and a barrel of refined gasoline (known as the crack spread) has been around $8 to $9 per barrel or 20 cents profit per gallon of refined gasoline. Today, the profit margin is $30 per barrel as reported in a May 18, 2007 ***Wall Street Journal*** article. Based on a $3.00 gallon of gas, that is roughly 70 cents in refinery profits for every gallon of gas. In fact, according the the oil industry publication ***Platts***, the crack spread on the June futures market is nearly $36/barrel! Unfortunately, $4.00 gallon of gas is right around the corner

As a result of these enormous profit margins, in the first three months of 2007, Valero, the nation's largest refinery company, announced profits of $1.1 billion, up 30% over last year. ExxonMobil's refineries alone made $1.9 billion in the first quarter of 2007. Chevron reported over $1.6 billion in refining profits.

These high refining margins have led to record profits throughout the oil industry. During the first 3 months of 2007, Royal Dutch Shell's profit was $7.3 billion. Chevron made $4.7 billion. ConocoPhilips reported more than $3.5 billion. And ExxonMobil's total profits were more than $9.2 billion.

In order to crack down on price gouging, the Federal Trade Commission (FTC) needs to define when the oil industry is gouging the American consumers. I have introduced legislation, the Federal Price Gouging Prevention Act (HR 1252) to protect American consumers from being gouged at the pump.

Similar to my legislation last session, H.R. 1252 would give the Federal Trade Commission (FTC) the authority to investigate and punish those who artificially inflate the price of energy. The FTC would be empowered to exercise this authority at each stage of the energy production and distribution supply chain.

Over 120 Members of Congress have already co-sponsored this legislation, and I look forward to moving it soon.

In its spring 2006 study on gas prices after Hurricane Katrina, the FTC found that 23 percent of refineries, 9 percent of wholesalers, and 25 percent of the retailers studied had price increases that “were not substantially attributable to increased costs” and “could not be attributed to national market trends.” In his Concurring Statement, FTC Commissioner Jon Leibowitz admitted that “the behavior of many market participants, on balance, leaves much to be desired.”

According to the *Washington Post*, after Hurricane Katrina, refinery profits were 255 percent higher than they were a year before.

While 29 states and the District of Columbia currently have state price gouging laws, these states typically do not have the resources to go after refineries and oil companies.

Last week, however, Kentucky Attorney General Greg Stumbo announced that after an 18 month investigation, he has filed suit against three oil companies he believes gouged Kentucky residents after Hurricanes Katrina and Rita. Citing the absence of a federal price gouging statute, Stumbo is the first Attorney General to file suit against major oil refiners.

While consumers pay record prices, oil companies make record profits. Unfortunately, the Big Oil companies are not re-investing those record profits into the safety and infrastructure of their refineries. When I asked British Petroleum’s Chairman in a hearing last week whether cost cutting pressures could have lead to a culture that discouraged preventative maintenance, his response was that “It not only could have, we believe it did.” Even with record profits, BP cut preventative maintenance to save money, which as of yesterday lead to another oil pipeline shut down in Alaska. This reduced preventative maintenance to cut costs so they can increase profits and corporate executive pay and bonuses jeopardizes the nation’s most strategic oil supply and risks the health and safety of workers. This was most apparent in BP’s Texas City refinery disaster that killed 15 workers and injured 180 others.

By investigating the factors that go into a gallon of gas, Congress must work to protect consumers from price gouging and market manipulation.

I thank all of our witnesses, especially Mr. Pruss, who will be testifying on behalf of Michigan’s Governor Jennifer Granholm and I look forward to their testimony.

Lastly, I will note that we invited 4 of the major oil companies to come testify, but all of them declined our invitation. In addition, the head of the President’s Council of Economic Advisors expressed an interest in testifying. They were invited to do so, but later declined as well.