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Consumer Federation of America

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Despite Supply Glut, Consumers Face Soaring Gasoline Prices, New Report Finds

Washington – Despite declining gasoline consumption, high inventory levels and increased production of ethanol, America's gasoline consumers continue to face escalating prices at the pump, according to a new report released today by the Consumer Federation of America (CFA).

"For half a decade the major oil companies have exercised their market power," said Dr. Mark Cooper, research director of CFA and author of the report. "In response to record high prices, consumers are cutting their consumption and lower priced alternatives, like ethanol are expanding supplies. But these market responses are being counteracted by high crude prices driven up by speculators and reduced oil company refinery runs."

Entitled "Rising Gasoline Prices: Why Can't Consumers Catch a Break," the report examines the key strategies used by major U.S. oil refiners to create tight markets in the past decade. It shows that these markets have come under pressure in the past few months as demand declined and inventories have climbed. The report shines a spotlight oil company refinery operations and the degree to which refiners manage their runs in the next couple of months.

According to the report:

- If oil stays around $100 per barrel and refiners cut their production runs to increase their margins, consumers could see gasoline increase as much as $0.75 per gallon or more in the coming weeks before the Memorial holiday weekend.
- Contrary to the past several years, there is plenty of gasoline available, demand has fallen, and increased amounts of less expensive ethanol is being blended into more than 60 percent of the nation's gasoline.
- Refiners, in an effort to pass through higher crude costs and increase their margins (and profits) are extending maintenance operations and cutting refining runs to reduce the gasoline surplus.
- Since 2002, oil companies have earned excessive profits, above the normal return on equity earned by all manufacturing, of over $190 billion in after tax dollars.
- The Federal Trade Commission and others have documented oil industry efforts to consolidate the market and cut excess capacity which keeps gasoline supplies tight and prices high.
- The recent modest decline in crude oil prices is not likely to bring relief to consumers if oil refiners succeed in cutting gasoline production.

“This is a key moment for consumers. If major oil companies have the ability to keep gasoline prices high despite dramatic changes in market fundamentals, then it is clear the market isn’t working,” said Cooper. “Further, while many Washington politicians complain about high gasoline prices, they do little about it. Consumers deserve better.”

“It is critical for policy makers to shine a spotlight on the industry so it does not cut back on refinery runs to tighten the market,” Cooper concluded, “and they need to ensure that the 2007 Energy Independence and Security Act” is implemented vigorously since it emphasized the two key long-term elements that can help consumers escape from the grip of both the domestic refining oligopoly and the crude oil cartel – expansion of alternative fuels and reduction of demand through increased fuel economy.”

The report can be found at: http://www.consumerfed.org/pdfs/2008gasolineprices.pdf

Consumer Federation of America (CFA) is a non-profit association of 300 consumer groups, with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer’s interest through advocacy and education.