Independent Oil Marketers Association of New England

Honorable General Law Committee Member,

Re: HB-6518 – AN ACT CONCERNING THE FAIR PRICING OF GASOLINE

The Independent Oil Marketers Association of New England (IOMA) opposes this bill. We believe this bill will adversely affect the consumer. You are sacrificing, in our opinion, a free market which reacts accordingly to supply and demand, in exchange for controlling less than 5% of the cost of a gallon of gasoline.

ISSUE BACKGROUND

IOMA represents gasoline wholesale marketers throughout New England, Wholesalers and their independent dealers represent over 50 percent of the gasoline sold throughout New England. The vast majority of wholesale petroleum marketers are small businesses, often family-owned, who engage in fair business practices and are partners in the communities in which they operate. Local marketers are not subdivisions of major oil companies. In large part, it is these companies and small retailers who are harmed by the price controls put-fourth in government market manipulation programs.

HOW GASOLINE IS PRICED

The motor fuels production and distribution system in the United States is extremely complex. Unfortunately, few people outside of the petroleum industry truly understand how the retail price of gasoline is determined. This lack of education allows misinformation to spread rapidly, the result being punitive legislation, which ultimately hurts retailers and consumers alike.

1) **Crude Oil:** The price of crude oil is the single biggest contributor to the price of gasoline, accounting for more than 50% of the price per gallon. Worldwide industrial growth and geo-political unrest have pushed crude oil prices to record levels. In addition, the United States has failed to develop its own crude oil reserves in places such as the Gulf of Mexico, the Outer-Continental Shelf (OCS) and the Arctic National Wildlife Reserve (ANWR), tightening supply and pushing prices even higher.

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2) **Refining Capacity:** A new oil refinery has not been built in the United States in more than 25 years, and dozens have been shuttered. While many refiners are implementing plans to expand their production capacity, cumbersome environmental regulations and permitting processes make these expansions more difficult than they should be.

3) **Futures Market Speculation:** Future markets have become the dominant wholesale pricing mechanism for daily gasoline, diesel and heating oil prices. With the massive inflow of capital and speculators into commodity markets, prices on energy contracts have become increasingly volatile. Recent experience has shown that even small disruptions in production, refining capacity, or transportation networks can significantly affect prices.

4) **Boutique/Renewable Fuels Mandates:** Some states and localities have imposed specific recipes for gasoline and diesel supplies sold within their jurisdiction. These boutique fuels requirements create supply shortages, and in most circumstances, supply shortages foster higher prices.

5) **Credit Card Fees:** In 2005, gasoline retailers paid $5.4 billion to banks and credit card companies in fees. Card companies collect approximately 2.5% of the total per gallon price in interchange fees, and consumers are none the wiser.

RETAIL PROFITS

For the most part, the major, integrated oil companies are removing themselves from the retail gasoline business. Of the more than 167,000 retail gasoline locations in the United States independent businessmen and women own more than 95%. While those small businesses may sell a particular brand of gasoline, they do not share in any of the profits (or losses) generated by refiners.

EFFECTS OF PRICE CONTROL LEGISLATION ON CONSUMERS

Gasoline price control legislation will not just affect small businesses. The FTC report, "Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases," includes general findings on the impacts that price control legislation may have on consumers. The FTC recognizes the balance that must be struck in any such price control legislation that will separate those industry bad actors from those who are acting in a rational, responsible manner. When faced with an emergency or a similar time of rapidly rising prices, government controlled prices may cause dysfunction in the market. The result will be product shortages in affected areas, creating further price discrepancies and building higher hurdles for consumers and emergency responders who desperately need fuel. Instead of being protected from unconscionable pricing, consumers would pay dearly at a time when their needs are the greatest.

IN SUMMARY

Any legislation to control market prices is potentially dangerous to the market and to the consumer. It is essential that retailers are able to respond to changing conditions in a competitive market and set prices based upon their own strategies, not according to artificial parameters established by the government.

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