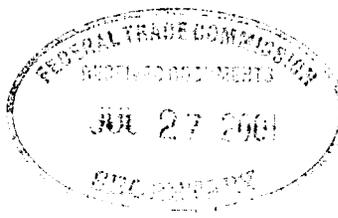




**Public Affairs**



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**Federal Trade Commission  
Public Conference: Factors that Affect Prices of Refined Petroleum Products  
August 2, 2001  
Testimony by Mike Right on behalf of AAA**

Commissioners, panelists and fellow motorists, my name is Michael J. Right, vice president of Public Affairs for AAA Missouri.

While I am honored today to be directly representing the interests of the more than one million AAA members in our club region covering Missouri, Arkansas, Louisiana, Mississippi, southwestern Indiana, southern Illinois and eastern Kansas, I am also pleased to be indirectly representing the interests of all 44 million AAA members in North America at the request of AAA's National Office in Heathrow, Florida.

As you may be aware, AAA has a long history of tracking the availability and price of gasoline in its role as the leading advocate for the fair treatment of the motoring and traveling public. Next year, the AAA federation of motor clubs will be 100 years old, and for a quarter of our existence our association has tracked and reported on fuel prices. Originally, with pencil and paper and now with an Internet site -- [www.fuelgaugereport.com](http://www.fuelgaugereport.com) -- AAA today lists daily average prices for 250 metropolitan locations, all 50 states and the nation as a public service.

The first sustained activity by AAA in tracking fuel prices began in the mid-1970's during the Middle-Eastern oil embargo and the resulting gasoline lines and high prices. Since that time, AAA has consistently reported fuel price information to members, other motorists and the media as it was realized by our organization -- and others -- that future access to affordable gasoline could not be guaranteed, and would remain a continuing problem for many years.

Now, based on our more than 25 years of experience in monitoring fuel prices and fuel issues, we heartily welcome the Federal Trade Commission's decision to convene this much-needed hearing. Consumers and policy-makers alike have read and heard many reasons and causes for the wide swings in gasoline prices experienced during the last two years. But, despite the many and varied opinions about high fuel prices, a public consensus still does not exist as to their chief cause or causes, and what -- if anything -- should be done about it.

Because AAA is not directly involved in the production, shipping, refining, or retailing of gasoline, we are as interested as the Commission in hearing testimony from other panelists today that actually have the power to set prices and control gasoline inventories. It is from these panelists that we hope to learn why sudden and dramatic increases have occurred in the price of gasoline, and what might be done to ensure greater price stability in the future.

This is not to suggest that AAA does not have concerns about specific practices and approaches to supplying the gasoline needs of the motoring public. We do.

We are concerned that economic competition in the gasoline retailing industry may have been overly eroded in recent years by mergers and acquisitions. This appears to be of particular concern in the California market, where the number of major competitors has largely been reduced to three majors -- Texaco/Shell, Tosco/Unocal, and BP/Amoco - and independents have all but disappeared.

We are concerned that the industry has adopted inventory management procedures that quickly eliminate excess gasoline in the marketplace, provide more control over wholesale gasoline prices, and leave regions of the nation vulnerable to fuel supply shortages in the event of a natural or man-made disaster effecting fuel production or shipping.

AAA is concerned that 14 different reformulated fuels are required in different population centers of the United States to attain the worthy goal of a cleaner environment. It seems fewer blends could do the same job at less cost to consumers, and place more competitive pressure on regional refiners and distributors to hold down prices.

AAA is puzzled why the nation continues to drift toward greater reliance on ethanol as an additive in the blending of cleaner gasoline, while lawmakers leave unaddressed the fact that every additional gallon of ethanol mandated for use by state or local governments deprives the nation's highway trust fund of several cents per gallon sold, and will shortchange state and local road and transportation budgets by hundred of millions of dollars annually.

On the subject of ethanol, AAA wonders why the U.S. Environmental Protection Agency continues to proscribe oxygenates as the only answer to cleaner gasoline when this appears not to be the case. Ethanol's inventory, pricing, shipping and blending issues -- which could push gasoline prices to even higher levels -- are seemingly being ignored.

As I said, AAA does have concerns about policy decisions and approaches to the nation's price and supply of gasoline, but as an organization for motorists -- and not an oil company -- we can only hope the Commission will examine these and other issues that may come up in this hearing. We ask the Commission's help in this, as it would be useful in providing our membership with a clearer explanation for the highly unstable price of gasoline.

Of particular interest is anything we can learn about the reasons for this summer's record high increase in gasoline prices which -- unlike last year -- did not seem to involve pipeline shutdowns, refinery outages and the struggle to implement new refining processes associated with reformulated gasolines.

And, why you might ask, do AAA members and consumers care so much about unstable gasoline prices? After all, industry apologists often point out that on an inflation-adjusted basis gasoline prices were actually lower this year than in other years gone by -- despite the fact that no family in America budgets their monthly expenses in inflation-adjusted dollars.

Or, as the argument goes, consumers in the United States pay far less for gasoline than motorists in other parts of the world and ought not to complain -- despite the fact that as much as 80 percent of the cost of gasoline in some European countries is tax-based, as compared to 25 percent of the cost of gasoline in the United States being comprised of federal, state and local taxes.

Or, finally, a third justification for uncritically accepting higher prices is that consumers brought this situation on themselves by purchasing gas-guzzling SUVs, and fuel prices have gone up in response. Nevermind that average fuel prices had never exceeded \$1.38 per gallon until March of last year, and had never been even close to the \$2 per gallon level seen in some markets last year and again this year.

All of the forgoing aside, the reality is consumers care deeply about high gasoline prices and their concern manifests itself in ways that are disruptive to the economy, jeopardizing industries far removed from the oil and gas sector.

A recent Harris Poll, taken June 7 - 17, shows consumers' response to higher gasoline prices has been a dramatic cutback in spending. The poll showed that 46 percent of respondents said in reaction to higher gasoline prices they have reduced spending on other products and services in general, including movies, clothing and food purchases. Seventy-two percent said they reduced expenditures on weekend travel, 71 percent cut recreational spending of all types, and 53 percent specifically reduced vacation spending. The current economic slowdown seems to confirm this research.

This poll also verifies what AAA has long told the national media and others. Sudden and steep increases in the price of gasoline do not contain themselves to simple reductions in the number of long-distance summer driving vacations. High gasoline prices wreck havoc on monthly family budgets, cause a fundamental re-examination of spending by consumers, and hurt overall economic growth.

The reasons for this are fairly simple in our view.

**1) Gasoline consumption by most motorists is non-discretionary in the short-term.**

Motorists make a variety of important economic decisions that affect total fuel consumption over a period of several years. Most of these decisions are not easily

altered, and can only be undone over a period of months, if not years. These decisions include the number and type of vehicles in a household, distances from home to work, distances between home and school, number and kinds of after work and after school activities, recreational choices and the purchase of various motorized recreational vehicles.

Fulfilling all of the fuel-consuming obligations these choices entail are in many cases mandatory, and the opportunities to significantly conserve fuel and reduce gasoline expenditures are few, or they may be more easily addressed by curtailing spending in other areas.

For these reasons, an increase in fuel costs largely means a decrease in other areas of consumer spending.

## **2) 40 percent of American families are estimated to live paycheck-to-paycheck.**

The average motor vehicle in the United States is estimated to consume 606 gallons of gasoline per year, and since the average household has more than 2 vehicles, this means total gasoline consumption per household is more than 1,200 gallons per year, or 100 gallons per month.

Based on average gasoline prices over the past two years, an average family's monthly expenditure on gasoline has fluctuated from an approximate low of \$115 per month in June of 1999 to an approximate high of \$170 per month in May of this year, an average increase of \$55 per month. While this increase be small compared to total household expenditures, it does appear many consumers view a rise in monthly gasoline costs with the same concern they would have for an increase in rent, insurance, or other semi-fixed monthly expenses.

When one considers the large numbers of families living paycheck to paycheck, as well as those on fixed incomes, it is easier to understand the apprehension rising fuel prices create.

## **3) A sudden increase in the price of gasoline was a precursor to the last three recessions in the United States, and has been contributing to our current economic difficulties.**

While the United States is not technically in recession, economic growth slowed considerably following the advent of markedly higher gasoline bills last year, thus strengthening the historic tie between high fuel prices and hard times.

For millions of middle-aged and older Americans, the return of high fuel prices recalls the 1974-75 middle-eastern oil embargo and the recession that followed. They and the late Baby-Boomers also remember gas prices shooting upward after the Iranian revolution in the late 1970's and the painful recession that lasted throughout the early 1980's. The start of the Gulf War in 1990 and that year's high gasoline prices is well known to Generation X, their parents and grandparents, as is the recession that occurred at the end of the first Bush administration.

With this shared social experience of high gas prices and recessions -- linked either overtly or subconsciously in the minds of millions of motorists -- it is easy to see why Americans tend to be hyper-sensitive to increased costs at the gas pump and why they predictably react by slowing spending in other sectors of the economy.

For these three reasons:

- the inelasticity of demand for gasoline in the short-term
- the inability of many families to easily absorb higher fuel bills
- and, the cultural link between higher gasoline costs and impending economic difficulty

AAA believes it is crucial for the United States to develop and implement energy policies that result in stable and predictable fuel prices.

We hope today's hearing, coupled with the introduction of the Bush Administration's energy plan and companion bills in Congress, will help move the nation toward adoption of a national energy strategy that results in a reasonably stable gasoline price on which consumers can safely make decisions effecting their future economic security.

Thank you for this opportunity to testify and I would be happy to answer any questions you might have.