

JUNE 19, 2000

**STATEMENT OF U.S. REPRESENTATIVE JAN SCHAKOWSKY
CHICAGO HEARING ON OUT-OF-CONTROL GAS PRICES**

CHICAGO, IL -- Thank you, Congressman Rush. I want to commend you for your leadership in organizing this hearing today. We are all aware of the high prices our constituents have been forced to pay for gasoline lately and this subject certainly warrants our utmost and immediate attention. I also want to join my colleagues in welcoming our witnesses today.

I have been paying close attention to gas prices. Today, I saw prices like, \$2.25, \$2.36, \$2.39 and so on, extremely high prices to pay for a gallon of gasoline. While I have been concerned about the overall increases in gas prices, mainly, I have been puzzled about the differential in price paid by Chicago and Milwaukee consumers and the rest of the country. Compared to the 15 other pollution "hot spots" like New York City and Los Angeles, which are also subject to the Phase II requirements of the Clean Air Act, why are we paying 40 cents more per gallon? I have looked at the potential explanations and by process of elimination have come up with an answer - the oil companies are gouging Chicago consumers.

I looked at the factors that could contribute to price hikes:

1. Gas Station Owners/Retail Prices:

My district staff spent this week surveying Chicago area gas stations. What we found was that before taxes (about 50 cents/gallon in Chicago) the average wholesale price-per-gallon of regular gasoline station owners are paying is \$1.73. You add on about 50 cents in taxes and that gives you some of the same numbers we are seeing at the pump. I think it is pretty clear that the station owners are not to blame for this situation.

2. Supply Shortages/Pipeline Problems:

The EPA gave the Illinois delegation a detailed briefing about supply, and though supplies are tight, they are tight everywhere and do not explain the dramatic price difference. Some have pointed to the Explorer pipeline problem in March that cut off supply for a week or so. However, the pipeline's Tulsa to Chicago segment is operating at 100% and the Houston to Tulsa segment (A higher volume delivery segment) is operating at 80%-more than sufficient to keep the Tulsa-Chicago line of the Explorer running at 100%.

3. Strengthened Environmental Standards:

Phase II reformulated fuel standards went into effect on June 1. Hearing some of the

comments from oil refineries in our area, you would think these new regulations took them by surprise. In fact, these new standards have been on the books since 1993, and industry took part in the rule-making process. Furthermore, EPA estimates that the new standards at most would result in a production cost increase of a few cents. And in the rest of the country that has been true.

4.Price Gouging:

Which gets me to the only explanation that makes sense to me: Price gouging by the oil companies. The one and only difference here is that in Chicago and Milwaukee, the oxygenate we use to reduce pollution is ethanol - a corn-based product - while the other cities use MTBE, an oil-based compound made by the oil companies.

I'm getting to motive here. Motive 1: How convenient would it be for the oil companies to blame ethanol, which the EPA says should add only 4 to 8 cents to a gallon of gasoline, for fueling these high prices? And the June 1 start date for using more reformulated gasoline (RFG) provides the perfect cover. Add to this that serious questions have been raised about MTBE and its negative impact on ground water quality. The oil companies would like the clean air standards scrapped altogether (to avoid future liability), but they want to bring ethanol down too. Making it appear too costly might do the job.

Motive 2 for oil company gouging: PROFITS. BP Amoco's 1st quarter profits are up 296% over the 1st quarter last year. Conoco is up 371%, its best quarter ever. And then there's Texaco-up 473% from last year. Looks like oil company executives won't have a problem keeping their tanks full.

I welcome the Federal Trade Commission's expedited investigation, the first ever called for by EPA Administrator Carol Browner during her entire tenure. When she was asked at last week's meeting with the Illinois delegation whether or not she thought there was oil company gouging, she responded, "We have our suspicions."

Unfortunately gouging in and of itself is legal, unless collusion can be proven. That doesn't make it right, however. I rest my case, and invite any and all witnesses who wish to take on my theory to do so. In the meantime, I am resurrecting my 1978 STOP BIG OIL button for this occasion. I know we are going to talk today about long-term solutions to this problem and how we can prevent a similar situation from occurring next year. But we need to discuss what we can do now to bring our constituents some immediate relief.□