ENERGY MARKETERS OF AMERICA **ISSUE BRIEF**

# Factors Impacting Prices at the Pump

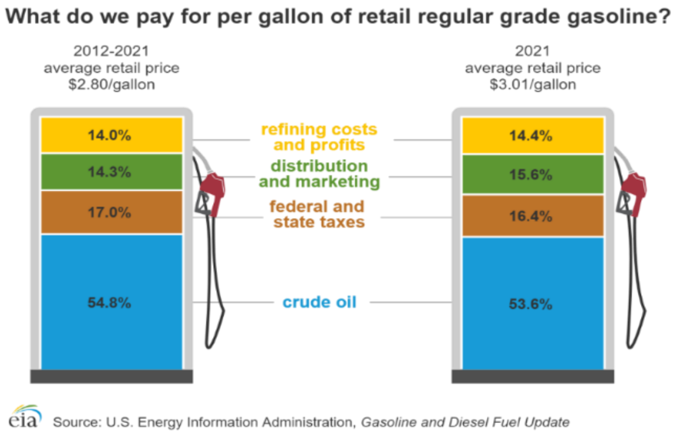
## Issue Background:

Seventy percent of Americans support the ban on Russian oil imports regardless of the rising fuel costs. However, some Americans are falsely directing blame to gas station owners for increased prices at the pump. The retail motor fuels market is the most competitive marketplace in the country. Retailers post their prices on big signs where a one-penny difference can determine where customers choose to fill up. Unfortunately, what the market is currently experiencing is the whiplash effect of prices due to Russia's invasion of Ukraine. Crude oil is traded in a global market where prices are ultimately set by worldwide supply and demand and influenced by Wall Street commodity traders' perceptions about future supply and demand.

## Factors Impacting Prices at the Pump

The U.S. motor fuels production and distribution system is extremely complex and few people outside of the motor fuels industry truly understand how the retail price of gasoline is determined:

1. **Crude Oil:** The price of crude oil is the biggest contributor to the price of gasoline accounting for 54 percent of the price per gallon consumers paid over the last decade. Worldwide industrial growth and geo-political issues as well as U.S. failure to issue quarterly lease sales for onshore energy development and a new five-year plan for offshore development; cancellation of Keystone XL; and the Jones Act contribute to high energy prices.
2. **Refining Capacity:** A new U.S. oil refinery with significant downstream unit capacity has not been built since 1977 and dozens have been shuttered. Cumbersome environmental regulations and permitting processes make refiner plans to maintain or expand production capacity difficult.
3. **Boutique/Renewable Fuels Mandates:** Some states and localities impose 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.
4. **Credit/Debit Card Fees:** Credit card companies and the top five card issuing banks take between two and three percent of every credit card purchase. Furthermore, card companies collect an outrageous percent of the total per gallon price in interchange fees. Interchange fees are the second highest operating cost for retailers. In 2019, the industry's pre-tax profit was $11.9 billion and card fees paid by the industry were $11.8 billion. EMA urges Congress to introduce legislation to require two network routing options on credit cards similar to how debit cards currently operate.
5. **Taxes:** The Federal Government imposes a tax of 18.4 cents on each gallon of gasoline, and the States levy an average tax of 22 cents on each gallon. This does not account for all state and local taxes, such as sales taxes, which can range from 7.5 to 37.5 cents per gallon across states.
6. **Oil Futures Market Speculation:** Futures markets are the dominant wholesale pricing mechanism for daily motor fuels and heating oil prices. The influx of non-commercial commodity market speculative trades (pension, hedge and endowment funds) creates artificial demand for energy products which destroys the price discovery mechanism that commodity markets provide to physical hedgers such as energy marketers, airlines and farmers. EMA supports an open and transparent energy futures market with aggregate position limits on non-commercial traders.




7. **Distribution and Marketing:** Major integrated oil companies have removed themselves from the retail gasoline business. Of the 150,000 U.S. retail gasoline locations, 98 percent are owned by independent motor fuel marketing businesses. 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 and oil companies. Gas prices are set by the owner or operator of each retail outlet who must factor the need to pay for the next delivery of gasoline (i.e. replacement costs) into the street price. If supply is seen as dropping relative to demand, this can place upward pressure on price and can be factored into the retailer's pricing decision. **Because gasoline retailers operate in such a competitive environment, the higher prices climb, the further margins are squeezed. Gas station retailers are also hurt by high fuel prices.**

## Lack of Evidence

According to the Federal Trade Commission (FTC) in its Spring 2006 report, *Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases*, 99 retailers were sent investigative orders for violating the FTC's definition of price gouging. Of those who had not already settled state charges, only 24 individual retailers were further investigated by the FTC. Of those 24, only six were found to have had "price increases that could not be substantially attributed to increased costs or national market trends." In any industry with 150,000 retail locations, a 99.9 percent compliance rate for the industry as a whole shows that state laws are working and that further federal legislation is not needed.

## Federal Gas Tax Holiday

EMA opposes a proposed federal gas tax holiday because it would lead to a logistical accounting nightmare. Should a gas tax holiday be enacted, retailers must recoup the 18.4 cpg tax paid on the amount of gasoline remaining in their underground tanks (floor stocks) at the time of enactment. However, the time involved for the IRS to establish a claims procedure and then process and pay credit or refund claims could take a year or more. Small business retailers lack the capital to float hundreds of thousands in gasoline taxes owed to them for this length of time. A gas tax holiday would also create an increased risk of liability for underreporting or overreporting claims given the difficulty of retailers measuring gasoline inventory simultaneously across multiple sites while consumers operate pumps. It would also raise unrealistic expectations among consumers of significant price reductions at the pump. If consumer expectations are not met, retailers who have little control over cost, could be accused of price gouging and unfairly exposed to onerous civil and criminal penalties.

## "The Ask"

What the President must do is issue quarterly lease sales for onshore energy development and a new five-year plan for offshore development; renew Keystone XL; and provide for a general waiver of the Jones Act among other actions to strengthen domestic energy production. Furthermore, Russia's invasion of Ukraine, and corresponding oil prices, reinforces the value of America's traditional fuel sources. While the Administration prioritizes EV charging, we must not forget the millions of Americans who rely on mom-and-pop gas stations to fuel vehicles daily.

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