Factors That Influence Gasoline Prices

The price of crude oil is a major determinant of gasoline prices. However, a number of other factors also affect gasoline prices including (1) increasing demand for gasoline; (2) refinery capacity in the United States that has not expanded at the same pace as the demand for gasoline; (3) a declining trend in gasoline inventories and (4) regulatory factors, such as national air quality standards, that have induced some states to switch to special gasoline blends.

Consolidation in the petroleum industry plays a role in determining gasoline prices as well. For example, mergers raise concerns about potential anticompetitive effects because mergers could result in greater market power for the merged companies, potentially allowing them to increase and sustain prices above competitive levels; on the other hand, these mergers could lead to efficiency effects enabling the merged companies to lower prices. The 1990s saw a wave of merger activity in which over 2600 mergers occurred in all segments of the U.S. petroleum industry. This wave of mergers contributed to increases in market concentration in the refining and marketing segments of the U.S. petroleum industry. Econometric modeling that GAO performed on eight of these mergers showed that, after controlling for other factors including crude oil prices, the majority resulted in wholesale gasoline price increases—generally between about 1 and 7 cents per gallon. While these price increases seem small, they are not trivial because according to FTC’s standards for merger review in the petroleum industry, a 1-cent increase is considered to be significant. Additional mergers occurring since 2000 are expected to increase the level of industry concentration further, and because GAO has not yet performed modeling on these mergers, we cannot comment on any potential effect on gasoline prices at this time. However, we are currently in the process of studying the effects of the mergers that have occurred since 2000 on gasoline prices as a follow up to our previous work on mergers in the 1990s. Also, we are working on a separate study on issues related to petroleum inventories, refining, and fuel prices.