



CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE

**Congressman Jim Saxton
Ranking Republican Member**

PRESS RELEASE

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**STATEMENT OF
CONGRESSMAN
JIM SAXTON
Ranking Republican Member**

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Oil and Gasoline Prices

I would like to join in welcoming the witnesses testifying before the Committee today. Obviously, we all share a concern about the current level of oil and gasoline prices.

There are many possible factors that can influence oil and gasoline prices. For example, we can examine the impact of oil industry mergers. GAO has performed econometric modeling of a number of such mergers, all of which occurred in the last half of the 1990s. Whatever can be said of the impact of such mergers, the large mergers modeled by GAO reflect the antitrust policies in place during the late 1990s when they occurred.

Another approach is to recognize that the oil market is global in scope, and that most oil reserves and oil production are outside of the United States. Unfortunately, huge reserves of low-cost oil are under the control of members of the OPEC cartel. As the Federal Trade Commission has noted, "OPEC is a functioning cartel whose activities would be illegal if undertaken by private companies." The FTC has also stated that OPEC "plays a significant role in the pricing of crude oil and, accordingly, in the pricing of gasoline."

OPEC accounts for nearly 70 percent of known world oil reserves, but accounts for only about 40 percent of annual world oil production. Restrictive OPEC practices, in the face of rising demand for oil, go a long way to explaining why oil prices are high. OPEC collusion and production quotas, combined with a bias against adequate development of its existing oil resources, have made a major contribution to the current situation.

The bottom line is that production costs for much of the oil in the Persian Gulf can be less than \$5 per barrel, but largely due to OPEC the price of oil is many times that amount. There are issues such as refinery capacity, but these cannot explain the huge discrepancy between the production cost of crude oil and its price. As respected energy economist M.A. Adelman has noted, "the real problem" is a "strong but clumsy monopoly of mostly Middle Eastern exporters cooperating as OPEC."

The machinations of this cartel lead to higher consumer prices as well as destabilizing swings in market conditions. OPEC also has made us much more vulnerable to the potential impact of other factors such as production disruptions and terrorism. The cost of the cartel to American consumers has been huge, estimated at a minimum of \$1 trillion according to one study cited by *The Economist*.

The OPEC cartel's collusion is reflected in its lack of transparency. Basic information about oil production is treated as secret by the cartel of member governments. The fact that these governments score very poorly on Transparency International's corruption index is not surprising.

It is alarming that these governments control such a large proportion of world oil reserves. Much more transparency in OPEC oil production is needed, as noted by the International Energy Agency and others. Obviously, the U.S. must reduce its reliance on the OPEC cartel as a source of oil.

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