

OVERVIEW

Since 2003, Floridians, like the rest of Americans, have been experiencing soaring gasoline prices. To determine the causes behind these price increases and whether the increases were the result of unlawful conduct by the oil companies, Attorney General Charlie Crist launched an antitrust investigation in May 2004. Over the next twelve months, the Attorney General's Antitrust Division issued dozens of subpoenas, pored through nearly 240,000 pages of documents and computer discs containing nearly 60,000 files. To assist in this endeavor, the Attorney General retained two well-known experts with substantial expertise in the study of the petroleum industry, Dr. Keith Leffler, an economist with the Department of Economics for the University of Washington with over 25 years' experience analyzing the economics of the petroleum industry, and Mr. Peter Ashton, the President of Innovation and Information Consultants, Inc., an economic and financial consulting firm specializing in the economics of the petroleum industry.

The Attorney General's Office concluded its detailed review finding no clear evidence of state or federal antitrust violations. However, the review left many questions unanswered regarding the structure of the industry and, in particular, the causes of certain price spikes during 2004. As the antitrust investigation ended, the Attorney General asked Dr. Leffler and Mr. Ashton to further examine the information and data obtained during the investigation and prepare a report examining the gas price increases in the past year, looking specifically at the price increases experienced in early to mid-2004 to determine their likely causes.

In their report, Dr. Leffler and Mr. Ashton find that while the primary contributors to the high gasoline prices experienced by Floridians in early to mid-2004 included many of the factors often pointed to as the key causes of higher gas prices--like high crude oil prices, growing demand, and very tight supply--they also determined that there were two other primary contributors that exacerbated a very delicate situation. The first factor was the low inventory levels that are deliberately maintained by the major refiners to maximize profit. The second factor was the high level of concentration within the petroleum industry in the United States, with its implicit and well-recognized interdependence among the major gasoline suppliers. Due to increasing concentration and integration within the industry, especially in recent years, the petroleum industry's market structure has evolved into an oligopoly, which essentially is an economic climate where there are too few sellers selling a standardized product. Companies within an industry that is an oligopoly know that their behavior within the marketplace is interdependent and that actions taken by one firm will affect another. If one firm raises prices, others will likely follow. Consequently, express price collusion was not necessary in early 2004 because each company recognized that supply was tight--due largely to the deliberate decision of each oil company to maintain decreasing levels of inventories--and demand was high. The result was that consumers paid more for gasoline than ever before and the oil companies made billions in profits.