

Statement of

The Honorable Patrick Leahy

United States Senator
Vermont
April 7, 2004

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"Crude Oil: The Source of Higher Gas Prices?"
Hearing Before the Subcommittee on
Antitrust, Competition Policy and Consumer Rights
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This week, when my neighbors in Middlesex, Vermont go to the pumps, they will pay upwards of \$1.70 per gallon of gasoline - for regular grade. And diesel fuels, which farmers depend on, are also experiencing historically high prices. When one of my neighbors asks me why they are paying so much, or why out-of-control gas prices are cutting in to the already-narrow profit margins of hard working Vermont farms, what can I tell them? Right now, to answer honestly, I have to tell them that the U.S. government is not doing anything to ensure that they pay a fair price at the pump. I hope that today's hearing signals - to both the Bush Administration and foreign governments - that the American people and their representatives in Congress demand that the Executive Branch use the tools it has to keep gasoline prices affordable for Americans and if we need more legal tools, we will provide them.

Today, we will hear testimony about the causes of rising gasoline prices, but most Americans already know why they pay such high prices at the pumps: The OPEC cartel that sets production quotas for member countries and prevents the free market from setting crude oil prices.

As of April 5, the U.S. Department of Energy reports that the nationwide average price of one gallon of gasoline is \$1.78. As you can see from this chart, this is an increase of 60 cents per gallon since 2001, and some energy experts are predicting that the price of gas may rise to \$2.50 or \$3.00 per gallon this summer - numbers that would be comparable in real dollars to prices seen during the gasoline shortages of the early 1980s. Indeed, that seems likely since OPEC met on March 31, and decided to cut the output of oil even further. Not only has OPEC decided to cut production by a million barrels a day, they also are discussing a long-term price increase. The Nigerian petroleum advisory stated that OPEC was considering raising prices by \$3 per barrel. If they move forward with this policy, the current prices will be the norm and not a spike.

These high energy costs are not only increasing costs to consumers, but to our small businesses and the dairy industry. Vermont dairies are experiencing diesel fuel price increases of 40 percent above historic averages. In normal times, Americans often ask themselves if they've "Got Milk." Today, our dairy farmers are asking themselves, "Got Enough Money for Gas?" As USDA's Cooperative Extension Office in New Hampshire recently found, the increasing energy costs may increase total costs for a 100-head dairy operation in the Northeast by \$5,000 or more. Dairy farms are extensive users of energy through their milking operations, planting, cultivating and harvesting of crops, fertilizers costs, and daily (or twice daily) milk hauling costs. This is an industry that recently faced an 18-month-period of record low milk prices. Now that milk prices have begun to turn around, our farmers are faced with the prospect of rising energy prices for the foreseeable future. This burden, created by OPEC's artificial price controls, should not and cannot fall on our farmers.

Addressing this concern, we have reintroduced the "No Oil Producing and Exporting Cartel Act of 2004," or NOPEC bill, S.2270. This legislation would subject OPEC to American antitrust laws. I thank Senators Kohl and DeWine for their leadership on this measure. By now it is clear that the Bush Administration is unable - or more accurately, unwilling - to deal with the gas crisis that is now a four-square threat to our families, our farmers, our truck drivers, our businesses and our economic health. If the Bush Administration will not say "no" to OPEC, then Congress should.

OPEC has recently tried to dismiss criticism about the high price of gasoline through disingenuous arguments. In fact, Department of Energy data show us that consumption of oil has remained relatively level over the last few years. And few could argue with a straight face that the 60 cent increase per gallon in price in the last two years could be explained by tougher environmental policies of the Bush Administration. To the contrary, this Administration has done everything it can think of to weaken environmental enforcement and policies.

Although we need to take immediate actions to bring gas prices down, we also need to do more to increase fuel efficiency in cars and trucks. Like so many other issues, the Bush Administration has put special interests above the public interest in blocking every attempt to improve fuel efficiency. If we are going to reduce our dependence on foreign oil, we have to push auto manufacturers to do more to get cars to go further on each gallon of gas.

The Administration shows no inclination to solve this problem, or even to begin to try. The President, who himself has a long history with the oil industry, had promised the American people that he could "jawbone" OPEC into not raising prices. Sadly, he has failed. Still, there are many other things he can do, and do now. I request that Senator Bingaman's recent letter to the President urging him to take a dozen steps now, without delay, be included in the record. When faced with gouging by OPEC, President Clinton made some reserves available to add to our domestic supply. Senator Kerry and others are urging that we supplement the domestic supply by slowing unnecessary contributions to the Strategic Petroleum Reserve, and that we develop and deploy clean energy technology and undertake responsible oil and gas development. Senator Wyden has proposed a Senate Resolution pushing the Bush Administration to pressure OPEC nations to increase oil production. I think it absolutely remarkable that the Administration failed to contact Saudi Arabia before OPEC's decision to cut production last week.

That being said, I am heartened to see this hearing today. I wrote to Chairman Hatch two weeks ago urging such a hearing and asking that this Committee contribute what it can to stem the rise in gas prices. I am hopeful that the testimony from our witnesses will help us move forward to contain rising gas prices and confront anticompetitive conduct where it occurs. We need to goad the Administration into long-overdue action. Sadly, the Administration did not think it was worth sending a witness or even testimony to this hearing. No one from the Department of Energy, whose Secretary used to serve as a Member of the Judiciary Committee, is providing testimony or ideas or action to stem rising gasoline prices. The silence from the Administration is deafening. It is difficult for Congress to take the lead in this crisis. But we will do what we can to work with the enforcement agencies to ensure that we bolster competition.

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