Follow-up Questions of Senator Charles E. Schumer
Senate Judiciary Committee Hearing
"Consolidation in the Oil and Gas Industry: Raising Prices?"
March 14, 2006

For All Panel I Witnesses:

QUESTION:

1) We often here the justification for consolidation that resources abroad are more expensive to develop, but why does that mean we have to consolidate downstream at refining and retail levels? In 2004 the GAO found that market concentration in the downstream sector had increased significantly, and that oil company merger activity had in fact had an upward effect on gasoline retail prices. Wouldn't the market benefit from more independent activity in the downstream sector? Wouldn't competition and the consumer be better served by a higher degree of competition at each segment of the supply chain?

RESPONSE BY JOSEPH M. ALIOTO: Yes to both questions.

QUESTION:

2) In a market this tight on supply and this concentrated, where is the disincentive for oil companies to "take their foot off of the pedal" by only barely keeping place with market trends? Is it realistic with so much vertical integration, to assume that if a company does not act swiftly to a price signal another company will competitively respond?

RESPONSE BY JOSEPH M. ALIOTO:: No.

QUESTION:

3) We've seen a lot of the so called "rockets and feathers" phenomenon where prices spike, supposedly because retailers have to instantly react to the wholesale price, but then when the wholesale drops retail lags at the high price. What do you believe is the explanation for this phenomena and what role has consolidation played in creating it?

RESPONSE BY JOSEPH M. ALIOTO:: Consolidation has played a major role in the stabilization of prices. The retailer is not independent in a true sense. Rather, the so-called independent retailer is used as a buffer between the oil companies and the public.