



Western States Petroleum Association

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Joe Sparano
President

May 8, 2008

The Hon. Maria Cantwell
U.S. Senate
915 Second Avenue, Suite 3206
Seattle, WA 98174

Dear Senator Cantwell:

You recently expressed concern about rising gas prices. That is understandable. I hope by way of this letter to shed some light on current marketplace factors that have contributed to these increases.

It has been reported that you've questioned why crude oil costs have recently doubled despite a decrease in demand and lack of refinery problems in the United States. The fact is that crude oil – which accounts for over two-thirds of the average retail cost of a gallon of gasoline according to the US Energy Information Administration (EIA) – is a global commodity. It is subject to market influences far beyond our nation's borders.

The EIA and others attribute today's record-high crude oil costs to international conditions that include increasing worldwide demand from rapidly industrializing nations such as China and India, political instability in oil-producing regions, and the weak US dollar. These facts are well documented and have been widely publicized.

What has not been as widely reported is the fact that the investor-owned petroleum companies that are the target of your frequent calls for federal investigations control only about six percent of the world's oil reserves.

Another six percent is held by non-investor-owned foreign interests, with the remainder controlled by foreign national oil companies. These companies and governments operate outside the strict regulations and scrutiny that protect consumers here in America.

Our stringent US regulatory climate has facilitated dozens of investigations by the Federal Trade Commission (FTC), other agencies and state Attorneys General over the past several decades. They have all reached the same conclusion: US gasoline prices are determined primarily by market conditions, not illegal or anticompetitive petroleum industry business practices.

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Just last month in your own state of Washington, Attorney General Rob McKenna released the final results of the state's year-long investigation into gas prices. The Attorney General's report concluded:

- "The investigation, which included an in-depth analysis of factors influencing prices at the pump, found variations across Washington communities are due to the cost of obtaining and transporting fuel to stations and local competition – not illegal price manipulation. Increasing worldwide demand for oil and an inability for regional refineries to meet local supply demands are primary contributors to erratically climbing prices."
- "West coast refineries are running at capacity. We're importing higher-priced refined gasoline to meet consumer demand, which raises average prices at the pump."
- "...crude oil costs nearly four times as much as it did five years ago."
- In April, 2008 the gross differential between retail gas prices and crude oil costs and taxes in Washington had shrunk to less than half of what it was in May of 2007.

On May 5, 2008 the Bangor Daily News reported that an investigation of Maine gas prices by that state's attorney general reached a similar conclusion – that consumers are not being "gouged." Excerpts from that article follow:

- "Gasoline and diesel prices in Maine have soared, but Attorney General Steven Rowe says it's not because of price gouging by retailers or wholesalers in Maine."
- "The prices are high all across the country," he said last week in an interview. "We monitor on a weekly basis the prices in Maine relative to those in other states. The retailers are passing on the price they pay and are getting a reasonable margin."

The global market conditions influencing crude oil and gasoline prices are complex. However, the economic impact is a textbook illustration of the law of supply and demand – in a world where demand for energy is increasing at a rate far greater than is the capacity to produce it, there is upward pressure on prices.

Neither another FTC investigation nor a new regulation on market manipulation – which frankly appears to be a solution in search of a problem – will alter this very basic fact.

The foreign interests that control almost 95 percent of the world's oil reserves are beyond the jurisdiction of US laws and cannot be legally compelled to adopt policies that might benefit consumers here.

What can be done? If we are to meet the enormous challenge of providing adequate, cleaner-burning energy supplies to sustain our economy, mobility and quality of life, we must focus on responsible efforts to locate and develop new sources of those supplies.

This includes researching and developing new and more efficient technologies not only for bringing conventional energy supplies to market, but also for commercialization of alternative and renewable fuels. It also includes building the infrastructure necessary to produce and deliver sufficient supplies.

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US investor-owned oil and gas companies that have been the subject of so much criticism have invested over \$1.25 trillion in a range of long-term energy initiatives between 1992 and 2006. And, in 2007 alone these investments totaled more than \$183 billion.

The men and women who work in our industry are committed to continuing efforts to ensure that Americans have the fuel they need to maintain the standard of living that energy and mobility provide, when and where that fuel is needed.

As I have offered in several previous letters to you, I would be happy to meet with you to discuss these ongoing efforts and to address your concerns in person, at your convenience.

I look forward to hearing from you.

Sincerely,

A handwritten signature in black ink that reads "Joe Sparano". The signature is written in a cursive style with a large, looped initial "J".