



# **No Competition: Oil Industry Mergers Provide Higher Profits, Leave Consumers with Fewer Choices**

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**Public Citizen's Critical Mass Energy & Environment Program**

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### EXECUTIVE SUMMARY

- C As a result of recent mergers, the five largest oil companies operating in the United States now control 61% of the domestic retail gasoline market, 47% of the domestic oil refinery market, and 41% of domestic oil exploration and production. The five corporations are: Exxon-Mobil (Irving, TX), BP Amoco-Arco (London, England), Chevron-Texaco (San Francisco, CA), Phillips-Tosco (Oklahoma), and Marathon (Ohio).
- C When their international oil production is included, these five corporations control 15% of the *world's* oil production. To put it another way, these top five corporations now produce more oil every day than Saudi Arabia, Kuwait, and Yemen *combined*.
- C Since the announcement or enactment of the four largest domestic oil mergers in 1999 and 2000, after-tax profits for these top five corporations rose 146%, from \$16 billion in 1999 to nearly \$40 billion in 2000.
- C After-tax profits for the first three months of 2001 for these five corporations rose 38%, from \$8.7 billion in the first quarter of 2000 to over \$12 billion in the first quarter of 2001.
- C The five companies with vertically integrated market power enjoyed significantly higher profits in both upstream (exploration and production) and downstream (refining and marketing) domestic operations. Exxon-Mobil enjoyed 2000 income 146% higher in upstream and 171% higher in downstream compared to 1999. A combined Chevron-Texaco merger enjoyed upstream income 220% higher and downstream 23% higher. Phillips-Tosco had upstream income 327% higher and downstream income 227% higher. Marathon had upstream income rise by 126% and downstream income rise 108%. BP Amoco-Arco had global upstream income increase 141% and downstream income increase 166%. **Since these companies are enjoying significant income increases in every sector, this indicates that OPEC's influence is not a major factor in the ability of the top five corporations to affect domestic gasoline prices.**
- C These record profits have come at the expense of profits in nearly every other sector of the American economy. An analysis of the profits of America's 1,400 largest corporations in 1<sup>st</sup> quarter 2001 reveals net income 43% lower than in 2000, mostly due to "rising labor and fuel costs."



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The week after Memorial Day weekend 2001, the average national price for a gallon of gas, including state and federal taxes, was \$1.70. As recently as two months earlier, the average price of gas was more than 20% cheaper (\$1.40/gallon). American consumers spent roughly \$40 billion more on gasoline in 2000 compared to 1999 due to increasing prices.<sup>1</sup>

While blaming OPEC and America’s thirst for fuel-inefficient SUVs for a portion of these higher prices is legitimate, the role of non-OPEC oil exporting nations, and specifically the multinational corporations which extract and export the oil to the United States, is important to consider.

**Table 1**

<b>Crude Oil &amp; Petroleum Product Imports to the US, 1999</b>		
	(Million Barrels/day)	% of sum of Imports & US Production
OPEC	5.0	27%
non-OPEC	5.9	32%
Total Imports to US	10.9	58%
US Production	7.7	42%
<b>Total domestic production &amp; imports</b>	<b>18.6</b>	<b>100%</b>
<i>addendum:</i>		
Canada & Mexico	2.9	15%
<i>SOURCE: Energy Information Administration, "Petroleum Supply Annual 1999"</i>		

In 1999, the United States met nearly 75% of its oil demand through a combination of domestic oil sources and non-OPEC foreign sources. Canada and Mexico contribute 15% of our oil, and Canada is the single-largest exporter of oil to the U.S. The United States produced 56% more oil domestically (7.7 million barrels/day) than we imported from the 13 OPEC nations (5.0 million b/d).

While OPEC’s 27% contribution to our oil needs is significant, recent mergers and consolidations in America’s domestic oil industry are depriving consumers of fair prices. As a result of recent mergers, the five largest oil companies operating in the United States now enjoy control over 61% of the domestic retail gasoline market, 47% of the domestic oil refinery market, and 41% of domestic oil exploration and production.<sup>2</sup> The five corporations are: Exxon-Mobil (Irving, Texas), BP Amoco-Arco (London, England), Chevron-Texaco (San Francisco, CA), Phillips-Tosco (Oklahoma), and Marathon (Ohio). Restoring competitive energy markets will benefit consumers with fair energy prices and more reliable supply.

**Mergers Inhibit Competition**

We warned in our October 1999 report *Black Gold* that the Exxon-Mobil and BP Amoco-Arco mergers would lead to less competitive markets, thereby harming consumers. Not since 1984's 'Year of the Merger'—Royal Dutch's acquisition of Shell, Chevron's procurement of Gulf, and Mobil's purchase of Superior—has America seen a similar frenzy of consolidations in the oil and gas industry. In November 1999 Exxon and Mobil become one company and in April 2000 BP Amoco and Arco merged. Chevron and Texaco announced their union in October 2000; Phillips announced in February 2001 it would acquire Tosco; and Valero declared in May 2001 it would buy Diamond Shamrock.

The important thing to note about these new mega-corporations is that they are involved in all facets of the oil and gas industry: exploration, production, refining, transportation, and retail sales. This *vertical integration* has resulted in a handful of corporations controlling a substantial chunk of the domestic oil and gas market. These uncompetitive markets provide no incentives for these companies to adequately respond to consumer demand and price preferences. As a result, prices are kept artificially high.

By concentrating such large market share in so few corporate hands, these companies are discouraged from attempting to expand market share through traditional competitive techniques. When corporations get as big as these have, engaging in a price war to compete for new consumers' business can be seriously debilitating to a company's revenues and profits. The more palatable approach these Big Five have adopted, for the benefit of their shareholders, is to silently agree not to directly challenge each other's market share (unless it involves a merger!).

Using 1999 crude oil production data<sup>3</sup> extrapolated to current ownership arrangements, these top five corporations produce over 41% of crude oil recovered in the United States. Their non-U.S. exploration and production accounts for 71% of their aggregate petroleum extraction. When both U.S. and non-U.S. petroleum production is taken into account, these five corporations control 15% of the *world's* oil production. To put another way, these top 5 corporations now produce more oil every day than Saudi Arabia, Kuwait, and Yemen *combined*.

With worldwide production rivaling OPEC's most formidable members and controlling a 41% chunk of the domestic oil production market, these five corporations are in a position to reap windfall profits

**Table 2**

<b>OPEC Who?</b>				
<b>Prices charged for domestically-produced crude oil</b>				
<i>Dollars Per Barrell of Oil Produced</i>				
	1998	1999	2000	% change 99-00
Phillips-Tosco	\$10.85	\$15.64	\$28.83	+84%
Texaco	10.40	14.97	26.20	+75%
Chevron	11.42	16.11	27.20	+69%
Marathon	10.60	15.78	25.96	+65%
Exxon-Mobil	9.87	14.96	23.94	+60%
BP Amoco-Arco	12.06	16.74	26.63	+59%
<i>SOURCE: Company Financial Reports.</i>				
<i>BP Amoco-Arco price is average for worldwide production.</i>				

when crude oil prices skyrocket. Indeed, a quick glance at the prices these corporations charged for oil extracted in the United States (Table 2) shows that they charged significantly higher amounts for a barrel of crude in 2000 compared to 1999. Phillips led the pack, as its price lurched 84% from 1999-2000 (from \$15.64/barrel to \$28.83/barrel).

Once crude oil is extracted from the ground, it must be refined to produce gasoline and other by-products. These same five

corporations have an even larger share of the domestic refinery market, controlling 47% of refinery capacity. Before the mergers, the top five companies controlled only one-third of the refinery market. While cleaner-burning gasoline formulas, federally mandated in certain markets in a successful effort to improve air quality standards, have placed some strains on refining capacity, the over-concentration of market share has made the industry far less responsive to recent changes in consumer demand than if truly competitive markets were present.

These five corporations enjoy their largest market share at the retail end of their vertically integrated monopoly. All five own thousands of retail gas stations across the country, bearing their name and serving nothing but their own products. As a result of these recent mergers, the five corporations now control 61% of the retail market, an increase by one-third prior to the mergers and acquisitions.

### **Profits: Records at Every Stage of Production**

While the current Administration casually applies the term “crisis” to our nation’s current energy situation, it is really only a crisis for consumers, not for corporations. It is therefore important to examine how profitable each segment of these oil giants are. After all, can there really be a crisis if the corporations supplying the product are enjoying record profits? As illustrated in Table 3, the five companies with vertically integrated market power enjoyed significantly higher profits in both upstream (exploration and production) and downstream (refining and marketing) domestic operations. In 2000, Exxon-Mobil enjoyed income 146% higher in upstream and 171% higher in downstream compared to 1999. A combined Chevron-Texaco merger enjoyed upstream income 220% higher and downstream 23% higher. Phillips-Tosco had upstream income 327% higher and downstream income 227% higher. Marathon had upstream income rise by 126% and downstream income rise 108%. BP Amoco-Arco had global upstream income increase 141% and downstream income increase 166%. Since these companies are enjoying significant income increases in every sector, this indicates that OPEC’s influence is not as major a factor as many lawmakers and analysts would lead us to believe.

Indeed, Table 4 shows the cumulative effect on after-tax profits of their market dominance. Since the announcement or enactment of the four largest domestic oil mergers in 1999 and 2000, after-tax profits for these top five corporations rose 146%, from \$16 billion in 1999 to nearly \$40 billion in 2000. After-tax profits for the first three months of 2001 for these five corporations rose *another* 38%, from \$8.7 billion in the first quarter of 2000 to over \$12 billion in the first quarter of 2001.

In all, the largest 12 oil and gas companies with the most significant domestic presence enjoyed 2000 profits 122% higher than 1999, from \$31.4 billion to nearly \$70 billion. Profits for the first three months of 2001 for these 12 corporations were over \$21 billion, a 35% increase over the \$15.7 billion in after-tax profits from the first three months of 2000.

And these oil companies are enjoying these record profits while other US industries are suffering. Net income for over 1,400 of America’s largest corporations (all sectors) for the first three months of 2001 *fell by 43%* compared to the same period of 2000. The decline in overall corporate profits was attributed to “rising labor and fuel costs”.<sup>4</sup> But the oil majors and oil secondary industries thrived off the higher fuel prices they charged, ranked 2<sup>nd</sup> and 3<sup>rd</sup> best performing (behind only the pharmaceutical

industry), with profit increases of \$3.24 billion and \$2.96 billion, respectively.

## **Recommendations**

While there are several variables involved in the complex oil and gas industry which affect prices and supplies, it is clear that America's domestic energy markets are uncompetitive. These uncompetitive markets have resulted in concentrated market power for the five largest oil and gas corporations. This market power hurts consumers and nearly all other segments of the economy due to inflated fuel prices.

First, the federal government must strengthen Section 5 of the Federal Trade Commission Act, because it is clear that the market enforcement capabilities of the Federal Trade Commission (FTC) are woefully inadequate to protect consumers by ensuring that markets are functional and fair.

In March 2001, the Federal Trade Commission released a report (*Midwest Gasoline Price Investigation*) which had been mandated by Congress in response to high gasoline prices. The FTC reached a curious conclusion. While it claimed that no collusion had taken place under current law, it found that "conscious (but independent) choices by industry participants" to intentionally withhold supplies resulted in artificially high prices. The report, however, could not publicly name the names of the companies it alleged to have caused price spikes, since federal law considered the information proprietary. Therefore, federal anti-trust law must be strengthened to broaden the scope and definition of "collusion." This is an important first step to fixing our nation's dysfunctional oil and gas market.

Second, Public Citizen supports pending Congressional windfall profits tax proposals. Such a tax would discourage these five market giants from price gouging American consumers by serving as an effective short-term fix until longer-term market-correction activities outlined above could take effect.

Third, the federal government must conduct a regular review of the status of competitive markets in our energy industry. Recent FTC reports were not the result of investigations conducted on a routine basis, but rather had to be specifically requested by Congress. Consumers would be better protected if the conduct of these large energy companies were routinely supervised.

Finally, minimum reserve requirements should be mandated as a way to reduce price volatility. Currently, it is up to market forces to determine levels of oil and gas supply. Unfortunately for consumers, oil companies have no incentive to maintain adequate reserve margins during times of high prices. Therefore, the government should require companies to maintain such reserves.

**Table 3**

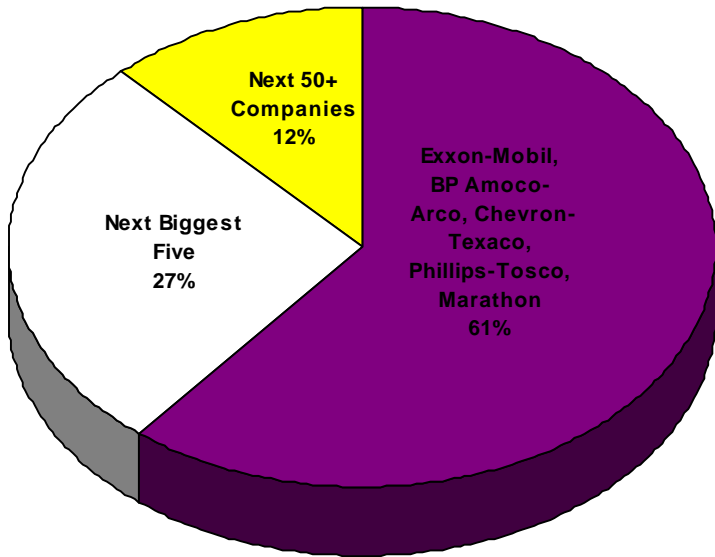
<b>Upstream, Downstream: Oil Companies Profit at Every End</b>							
Major Corporations with Domestic Production, Refining, & Retail Market Share							
Income, in Millions, of US Operations unless otherwise noted							
	1998	1999	2000	% change 99-00	1st Quarter 2000	1st Quarter 2001	% change, 00-01
<b>Exxon-Mobil</b>							
exploration & production	\$ 850	\$ 1,842	\$ 4,525	+146%	\$ 880	\$ 1,628	+85%
refining & marketing	1,199	577	1,561	+171%	182	409	+125%
<b>Chevron</b>							
exploration & production	330	482	1,889	+292%	365	720	+97%
refining & marketing	572	357	549	+54%	55	141	+156%
<b>Texaco</b>							
exploration & production	381	666	1,788	+168%	361	589	+63%
refining & marketing	276	287	243	-15%	13	38	+192%
<b>Combined Merger</b>							
exploration & production	711	1,148	3,677	+220%	726	1,309	+80%
refining & marketing	848	644	792	+23%	68	179	+163%
<b>Phillips-Tosco</b>							
exploration & production	178	316	1,348	+327%	241	581	+141%
refining & marketing	167	84	275	+227%	23	46	+100%
<b>Marathon</b>							
exploration & production	190	494	1,115	+126%	309	600	+94%
refining & marketing	896	611	1,273	+108%	276	140	-49%
<b>Conoco</b>							
exploration & production	223	322	719	+123%	143	332	+132%
refining & marketing	141	119	182	+53%	(11)	68	+518%
<b>Shell</b>							
exploration & production	(1,523)	1,442	2,853	+98%	688	902	+31%
refining & marketing	172	65	395	+508%	12	12	0%
<b>Hess</b>							
exploration & production	(18)	324	868	+168%	218	275	+26%
refining & marketing	(18)	133	288	+117%	48	105	+119%
<b>TOTAL, US Only</b>							
exploration & production	\$ 1,322	\$ 7,036	\$ 18,782	+167%	\$ 3,931	\$ 6,936	+76%
refining & marketing	\$ 4,253	\$ 2,877	\$ 5,558	+93%	\$ 666	\$ 1,138	+71%
<i>addendum:</i>							
<b>BP Amoco-Arco</b>							
International & Domestic							
exploration & production	3,553	5,872	14,131	+141%	3,227	5,136	+59%
refining & marketing	2,958	1,506	4,007	+166%	584	994	+70%
<i>SOURCE: Company Financial Statements. Compiled by Public Citizen &lt;www.citizen.org/cmep&gt;.</i>							
<i>BP Amoco-Arco did not provide US-specific segment income data.</i>							

**Table 4**

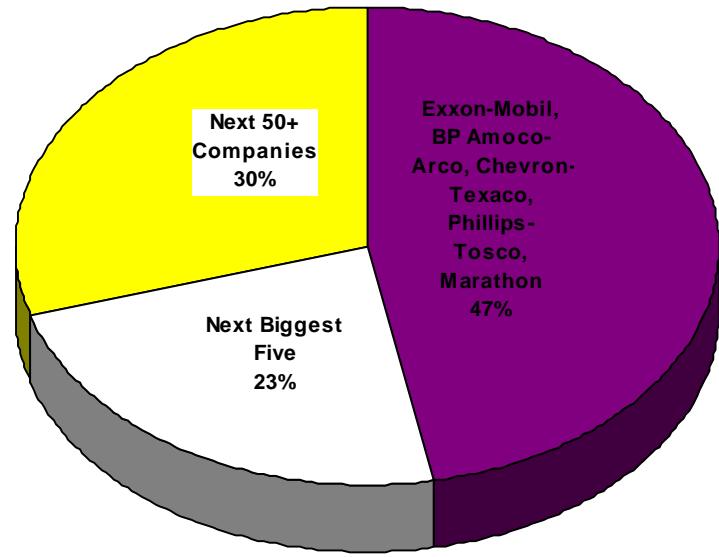
<b>Top Oil Company Profits, Millions</b>								
	1998	1999	2000	% change 99-00	1st Quarter 2000	1st Quarter 2001	% change, 00-01	Merger Date?
Exxon-Mobil	\$ 8,074	\$ 7,910	\$ 17,720	+124%	\$ 3,480	\$ 5,000	+44%	Nov-99
BP Amoco-Arco	4,611	3,280	11,142	+240%	2,553	3,542	+39%	Apr-00
Chevron	1,339	2,070	5,185	+150%	1,494	1,600	+7%	
Texaco	894	1,214	2,898	+139%	602	836	+39%	
Combined Merger	2,233	3,284	8,083	+146%	2,096	2,436	+16%	Oct-00
Phillips	237	609	1,862	+206%	250	490	+96%	
Tosco	116	452	540	+19%	75	87	+16%	
Combined Merger	353	1,061	2,402	+126%	325	577	+78%	Feb-01
Marathon	310	654	432	-34%	254	471	+85%	
Shell	350	8,584	12,719	+48%	3,335	3,890	+17%	
Citgo	194	146	232	+58%	38	79	+108%	
Conoco	450	744	1,902	+156%	399	653	+64%	
Sunoco	280	97	422	+335%	78	106	+36%	
Hess	(459)	438	1,023	+134%	224	337	+50%	
Valero	(47)	14	339	+2,274%	31	136	+343%	
Diamond Shamrock	(78)	173	444	+157%	69	137	+98%	
Combined Merger	(125)	187	783	+318%	100	273	+173%	May-01
Occidental	363	448	1,570	+250%	271	484	+79%	
<b>TOTAL</b>	<b>\$ 19,095</b>	<b>\$ 31,366</b>	<b>\$ 69,698</b>	<b>+122%</b>	<b>\$ 15,674</b>	<b>\$ 21,134</b>	<b>+35%</b>	
<i>addendum:</i>								
Top 5 with largest market share:								
Exxon-Mobil, BP Amoco-Arco, Chevron-Texaco, Phillips-Tosco, Marathon	\$ 15,581	\$ 16,189	\$ 39,779	+146%	\$ 8,708	\$ 12,026	+38%	
SOURCE: Company Financial Statements. Compiled by Public Citizen < <a href="http://www.citizen.org/cmap">www.citizen.org/cmap</a> >.								



**US Retail Gasoline Market Share**

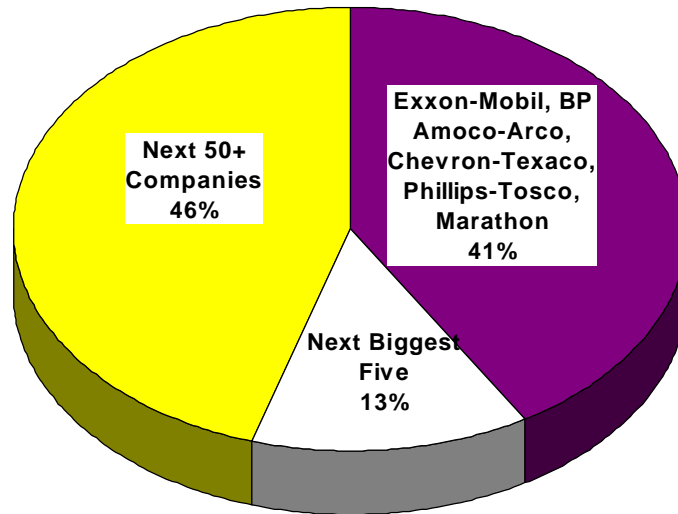


**US Oil Refinery Market Share**



SOURCE: National Petroleum News. Compiled by Public Citizen

## Market Share of Domestic Oil Production, 1999



*SOURCE: Company Financial Statements; the Department of Energy, Energy Information Administration, "Annual Energy Review 1999".*

1. Calculation by Public Citizen using data from the US Department of Energy, Energy Information Administration.
2. Data from National Petroleum News. Compiled by Public Citizen.
3. U.S. Department of Energy, Energy Information Administration.
4. Steve Liesman, "Corporate Profits Fell 43% in 1<sup>st</sup> Quarter". *The Wall Street Journal*, page A1, 5/15/01.