



MEMORANDUM

April 4, 2022

To: Subcommittee on Oversight and Investigations Members and Staff

Fr: Committee on Energy and Commerce Staff

Re: Hearing on “Gouged at the Gas Station: Big Oil and America’s Pain at the Pump”

On Wednesday, April 6, 2022, at 10:30 a.m. (EDT), in the John D. Dingell Room, 2123 of the Rayburn House Office Building, and via Cisco WebEx online video conferencing, the Subcommittee on Oversight and Investigations will hold a hearing entitled, “Gouged at the Gas Station: Big Oil and America’s Pain at the Pump.” The hearing will examine the oil industry’s role in the recent increase in gasoline prices in the United States.

I. BACKGROUND

In recent weeks, the price of gasoline in the United States reached its highest levels since July 2008.¹ On February 21, 2022, three days before Russia invaded Ukraine, the price of a gallon of gasoline in the United States was \$3.53.² Since then, the price has increased by 19.9 percent.³ On March 28, 2022, the average price of one gallon of gasoline reached \$4.23.

The price of crude oil is the most influential factor in the price of gasoline, and oil is an internationally traded commodity.⁴ Therefore, while the United States is the largest oil producer in the world, the gasoline prices that Americans pay at the pump are still affected by changes in the price of crude oil on the global markets.⁵ In recent weeks, these prices have also approached near record highs. For example, on March 7, 2022, the price of one barrel of West Texas Intermediate—which serves as a benchmark for the price of crude oil produced in the United States—reached a high of \$130.50 on the futures market, and peaked at \$123.64 on the spot market the next day.⁶ The price of one barrel of Brent Crude Oil—which serves as a benchmark

¹ *National Average for a Gallon of Gas Tops \$4, the Highest Price at the Pump Since 2008*, CNBC (Mar. 6, 2022); Energy Information Administration, *Gasoline and Diesel Fuel Update* (Mar. 28, 2022) (www.eia.gov/petroleum/gasdiesel/xls/pswrgvwall.xls).

² Energy Information Administration, *Gasoline and Diesel Fuel Update* (Mar. 28, 2022) (www.eia.gov/petroleum/gasdiesel/xls/pswrgvwall.xls).

³ *Id.*

⁴ *Id.*

⁵ *Oil Prices Stay High as Russian Crude Shortage Hits Market*, Wall Street Journal (Mar. 27, 2022).

⁶ CNBC, *WTI Crude (May '22)* (www.cnbc.com/quotes/@CL.1) (accessed Apr. 1, 2022); See, e.g., *Q&A: How Oil Markets Work, And Why Prices Fell Below Zero*, Wall Street Journal (Apr. 22, 2020) (Spot market prices

for international oil prices—peaked at \$139.13 in the futures market on March 7, 2022, and hit \$133.18 on the spot market on March 8, 2022.⁷ Though crude oil prices have fallen from their highs in early March, the price Americans pay at the pump remains elevated.⁸

Persistently high gasoline prices are a financial challenge for many Americans and disproportionately impact lower-earning Americans, who are more likely to spend a greater share of their annual income on gasoline.⁹ Oil companies, on the other hand, are making significant profits, with the six companies testifying at this hearing collectively generating more than \$76 billion in profit in 2021.¹⁰

II. GASOLINE PRODUCTION

The price of gasoline is a product of global supply and demand for crude oil and other costs incurred throughout the gasoline supply chain. These other costs include the costs of finding and extracting oil, refining crude oil into gasoline, transporting both crude and refined oil, and retail sales. According to the Energy Information Agency (EIA), 61 percent of the cost of one gallon of gasoline comes from the price of crude oil, and this price is affected by several factors, including global production levels, inventory balances, demand trends, and geopolitical events, such as Russia’s invasion of Ukraine.¹¹ The remaining 39 percent of the price of a gallon of gasoline comes from the costs of refinement (14 percent), distribution and marketing (11 percent), and taxes (14 percent).¹²

A. Upstream Activities and Oil Producers

Oil exploration and extraction (“upstream” activities) involve locating and then extracting petroleum (both oil and natural gas) out of the ground. Oil producers are involved in the upstream portion of the supply chain. The largest oil producers include the vertically integrated

are the physical price of oil barrels based on private deals between buyers and sellers. Futures market prices are set on global exchanges and allow traders to arrange future oil deliveries based on pre-determined prices).

⁷ Energy Information Administration, *Spot Prices* (Mar. 23, 2022) (www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm); CNBC, *ICE Brent Crude (May '22)* (www.cnbc.com/quotes/@LCO.1) (accessed Apr. 1, 2022).

⁸ Energy Information Administration, *Spot Prices for Crude Oil and Petroleum Products* (Mar. 23, 2022) (www.eia.gov/dnav/pet/xls/PET_PRI_SPT_S1_D.xls); See note 2.

⁹ *Why High Gas Prices Fall Harder on Low Earners*, CNBC (Mar. 18, 2022).

¹⁰ ExxonMobil, *ExxonMobil Earns \$23 billion in 2021, Initiates \$10 billion Share Repurchase Program* (Feb. 1, 2022) (press release); Chevron, *Chevron Announces Fourth Quarter 2021 Results* (Jan. 2022) (press release); Shell, *4th Quarter 2021 and Full Year Unaudited Results* (Feb. 2022); BP, *BP’s Fourth Quarter and Full Year 2021 Results and Update on Strategic Progress* (Feb. 8, 2022) (www.bp.com/en/global/corporate/investors/results-and-presentations/quarterly-results-and-webcast.html); Securities and Exchange Commission, *Devon Energy Corporation Form 10-K* (Dec. 31, 2021) (www.sec.gov/ix?doc=/Archives/edgar/data/1090012/000156459022005321/dvn-10k_20211231.htm); Pioneer Natural Resources, *Pioneer Natural Resources Fourth Quarter and Full Year 2021 Financial and Operating Results* (Feb. 16, 2022) (press release).

¹¹ See note 2; Energy Information Administration, *Energy and Financial Markets What Drives Crude Oil Prices?* (www.eia.gov/finance/markets/crudeoil/) (accessed Apr. 1, 2022).

¹² See note 2.

oil majors, such as Shell plc (Shell), BP plc (bp), Exxon Mobil Corporation (ExxonMobil), and Chevron Corporation (Chevron); independent producers, such as Devon Energy Corporation (Devon Energy) and Pioneer Natural Resources Company (Pioneer Resources); and national oil companies (NOCs), such as the Saudi Arabian Oil Company (Saudi Aramco).

Thirteen Middle Eastern, Gulf, African, and South American NOCs collude on production decisions as members of the Organization of the Petroleum Exporting Countries (OPEC).¹³ OPEC members control approximately 80 percent of the world’s known crude oil reserves.¹⁴ Since 2016, Saudi Arabia has led an alliance known as OPEC Plus—made up of OPEC countries and non-OPEC oil-producing allies, including Russia—which have also coordinated on petroleum output decisions.¹⁵

B. Downstream Activities

Transporters, storers, refiners, and retailers affect the price of gasoline through their activities in the “downstream” component of the supply chain.¹⁶ Because crude oil is not usable in its natural state, refiners must convert crude oil into petroleum products, such as gasoline, that can be used by consumers.¹⁷ Gas stations then purchase gasoline and other end-use products, such as diesel, from wholesalers or refineries and sell those products to Americans at the pump.

The vast majority of gas stations are owned by independent operators rather than major oil companies.¹⁸ While retailers set the final prices at the pump for gasoline, these prices primarily reflect the cost of purchasing refined oil products from a wholesaler or through the spot market as well as usual business costs, such as wages, salaries, equipment, and rent.¹⁹ Sales from convenience store items—such as groceries and tobacco products—typically generate higher profit margins for gas stations than gasoline sales.²⁰

¹³ Organization of the Petroleum Exporting Countries, *Member Countries* (https://www.opec.org/opec_web/en/about_us/25.htm) (accessed Apr. 3, 2022).

¹⁴ Organization of the Petroleum Exporting Countries, *Oil Data: Upstream* (asb.opec.org/ASB_Charts.html?chapter=126) (accessed Apr. 1, 2022).

¹⁵ *Oil Producers Aren’t Keeping Up with Demand, Causing Prices to Stay High*, Wall Street Journal (Jan. 14, 2022).

¹⁶ Library of Congress, *Oil and Gas Industry: A Research Guide, Downstream: Refining and Marketing* (guides.loc.gov/oil-and-gas-industry/downstream) (accessed Apr. 1, 2022).

¹⁷ *Id.*

¹⁸ IBISWorld, *Gas Stations with Convenience Stores in the US* (Oct. 2021) (<https://www.ibisworld.com/united-states/market-research-reports/gas-stations-with-convenience-stores-industry/>).

¹⁹ Energy Information Association, *Gasoline explained* (Mar. 15, 2022) (www.eia.gov/energyexplained/gasoline/factors-affecting-gasoline-prices.php).

²⁰ *Id.*; *Economics of a Gas Station*, NBC News (Mar. 10, 2022).

III. RECENT PRICE INCREASES

A. COVID-19 Impacts on Production and Demand

The coronavirus disease of 2019 (COVID-19) pandemic, its corresponding economic upheaval, and the loosening of pandemic-related restrictions each had significant impacts on the global oil market and gasoline prices. In 2020, COVID-19 pandemic lockdowns prompted global demand for oil to drop precipitously.²¹ At the same time, OPEC Plus countries did not immediately come to a collective agreement on how to modify their production levels, resulting in a price war between Saudi Arabia and Russia.²² Shortly after, the price of crude oil briefly dropped below zero for the first time in history.²³ OPEC Plus eventually agreed to cut production by 9.7 million barrels per day to account for the pandemic-induced reduction in demand.²⁴

Global oil production has not rebounded to keep pace with rising demand caused by increased vaccination and the loosening of pandemic-related restrictions.²⁵ In July 2021, OPEC Plus countries agreed to reverse production cuts only gradually, announcing that they would not fully phase-out their pandemic-induced adjustments until September 2022.²⁶ On March 31, 2022, OPEC Plus- essentially reaffirmed that decision.²⁷ Oil production in the United States has increased significantly from its 2020 lows, but is still one million barrels per day below 2019 levels.²⁸

Global oil demand is expected to surpass pre-pandemic levels in 2022 as COVID-19-related restrictions further loosen. In January 2022, the International Energy Agency (IEA) forecasted global demand for oil at 99.7 million barrels a day, which is an approximately 200,000 barrel a day increase over 2019 levels.²⁹ Though it remains to be seen how the current

²¹ Organization for Economic Co-operation and Development, *The Impact of Coronavirus (COVID-19) and the Global Oil Price Shock on the Fiscal Position of Oil-Exporting Developing Countries* (Sept. 2020).

²² *The Price of Oil Was Actually Negative Last Week. What Happens Next?*, Washington Post (Apr. 28, 2020).

²³ *Id.*

²⁴ *OPEC and Allies Finalize Record Oil Production Cut After Days of Discussion*, CNBC (Apr. 12, 2020).

²⁵ Energy Information Administration, *Crude Oil Prices Increased In 2021 as Global Crude Oil Demand Outpaced Supply* (Jan. 4, 2022) (www.eia.gov/todayinenergy/detail.php?id=50738).

²⁶ Organization of the Petroleum Exporting Countries, *19th OPEC and Non-OPEC Ministerial Meeting Concludes* (July 18, 2021) (press release).

²⁷ *OPEC and Russia Stick to a Modest Oil Increase*, New York Times (Mar. 31, 2022).

²⁸ Energy Information Administration, *Crude Oil Production* (Mar. 7, 2022) (www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_a.htm).

²⁹ *Oil Demand to Exceed Pre-Covid Levels in 2022, IEA Says*, Wall Street Journal (Jan. 19, 2022).

surge in gasoline prices will affect global demand, the EIA has previously found that changes in the price of gasoline have little impact on demand for gasoline.³⁰

B. Russia's Invasion of Ukraine

On February 24, 2022, Russia invaded Ukraine. Russia is the third largest oil producer in the world behind the United States and Saudi Arabia, producing approximately 7.5 percent of the world's crude oil and refined products.³¹ Since Russia's invasion began, international efforts to economically isolate the country have caused significant volatility in the global oil market and the price of crude oil has increased.³² Although only eight percent of crude oil and refined products in the United States come from Russia, the increase in global crude oil prices resulted in a precipitous increase in U.S. gasoline prices.³³

Both private and government actors have acted to reduce the amount of Russian oil traded and consumed in allied countries. By March 8, 2022, bp, ExxonMobil, and Shell had each announced that they would terminate their activities in Russia by either suspending their active operations, divesting from their holdings in Russian-owned oil entities, or not renewing project contracts.³⁴ In addition, the United States, Canada, the United Kingdom, and Australia have each banned Russian oil imports, and many transporters and financiers have ended their involvement in the Russian oil trade.³⁵ Despite the current supply shortage caused by Russia's invasion of Ukraine, OPEC Plus countries have stated that they will not depart from their July 2021 plan to limit production increases.³⁶

IV. ROLE OF THE OIL MAJORS AND INDEPENDENT PRODUCERS

In the aftermath of pandemic-induced financial losses, oil companies have been reluctant to significantly increase production levels.³⁷ A study of 27 oil exploration and production companies found that companies only intend to increase production by an average of 2.4 percent

³⁰ *OPEC Sticks to Plan of Gradual Output Hikes as Crude Soars*, ABC News (Mar. 2, 2022); Energy Information Administration, *Gasoline Prices Tend to Have Little Effect on Demand for Car Travel* (Dec. 15, 2014) (www.eia.gov/todayinenergy/detail.php?id=19191#:~:text=Gasoline%20is%20a%20relatively%20inelastic,lower%20demand%2C%20and%20vice%20versa).

³¹ *Oil Prices Stay High as Russian Crude Shortage Hits Market*, Wall Street Journal (Mar. 27, 2022).

³² Miguel Bustillo and Anmarie Fertoli, *What Sanctions on Russian Oil Will Cost U.S. Consumers*, Wall Street Journal Podcasts (Mar. 8, 2022).

³³ *Why Are Gasoline Prices So High? Ukraine-Russia War Sparks Price Increases Across U.S.*, Wall Street Journal (Mar. 16, 2022).

³⁴ ExxonMobil, *ExxonMobil to Discontinue Operations at Sakhalin-1, Make No New Investments in Russia* (Mar. 1, 2022) (press release); Shell, *Shell Announces Intent to Withdraw from Russian Oil and Gas* (Mar. 8, 2022) (press release); BP, *BP to Exit Rosneft Shareholding* (Feb. 27, 2022) (press release).

³⁵ *Russia Could Lose 30% of its Oil Output Within Weeks, IEA Warns*, CNN Business (Mar. 16, 2022); *Russia Scrambles to Maintain Oil Sales, Lifeblood of Economy*, Wall Street Journal (Mar. 1, 2022).

³⁶ *As Oil Soars, OPEC and its Allies Decline to Offer Relief*, New York Times (Mar. 2, 2022).

³⁷ *Shale Companies Drilling More, but Oil Output Growing Little*, Wall Street Journal (Mar. 21, 2022).

over 2021 levels.³⁸ Furthermore, in a recent survey of 139 oil and gas firms, 50 percent of all large firms responded that they intend to expand production by no more than 5 percent.³⁹ Companies have expressed their production decisions as a form of “capital restraint” or “capital discipline,” which allows them to prioritize cash flow, debt reduction, and shareholder returns.⁴⁰ A majority of oil companies cite investor pressure as the primary reason for limiting production.⁴¹

Producers are simultaneously generating significant profits. In 2021, ExxonMobil, Chevron, Shell, and bp each reported their largest profits in eight years, with the four companies’ total profits approximating \$71.5 billion in 2021.⁴² Devon Energy and Pioneer Resources each reported \$2.8 billion and \$2.1 billion in net earnings in 2021.⁴³

Many oil companies have elected to distribute their profits to shareholders in the form of dividends and repurchasing programs rather than investments in production.⁴⁴ For example, the seven largest oil majors have announced buyback programs that could total up to \$41 billion in 2022.⁴⁵ In 2022, Chevron and ExxonMobil announced their 35th and 39th consecutive years of dividend increases, and 2020 CEO compensation for ExxonMobil, Chevron, Devon, and Pioneer ranged from over \$13 million to nearly \$30 million.⁴⁶

³⁸ *Id.*

³⁹ Federal Reserve Bank of Dallas, *Dallas Fed Energy Survey: Special Questions* (Mar. 23, 2022) (www.dallasfed.org/research/surveys/des/2022/2201.aspx#tab-questions).

⁴⁰ Motley Fool, *Devon Energy (DVN) Q4 2021 Earnings Call Transcript* (Feb. 16, 2022) (www.fool.com/earnings/call-transcripts/2022/02/16/devon-energy-dvn-q4-2021-earnings-call-transcript/); Motley Fool, *ExxonMobil (XOM) Q4 2021 Earnings Call Transcript* (Feb. 1, 2022) (www.fool.com/earnings/call-transcripts/2022/02/01/exxonmobil-xom-q4-2021-earnings-call-transcript/); Motley Fool, *Chevron (CVX) Q4 2021 Earnings Call Transcript* (Jan. 28, 2022) (www.fool.com/earnings/call-transcripts/2022/01/28/chevron-cvx-q4-2021-earnings-call-transcript/); *Frackers Hold Back Production as Oil Nears \$100 a Barrel*, Wall Street Journal (Feb. 18, 2022); BP, *BP Update on Strategic Progress* (Feb. 8, 2022) (press release); Shell, *Fourth Quarter 2021 Results Delivered by Ben van Beurden, Chief Executive Officer of Shell* (Feb. 3, 2022).

⁴¹ Federal Reserve Bank of Dallas, *Dallas Fed Energy Survey: Special Questions* (Mar. 23, 2022) (www.dallasfed.org/research/surveys/des/2022/2201.aspx#tab-questions).

⁴² *You’d Think \$90 Oil and Record Electricity Prices Would Mean More Green Investment. You’d Be Wrong*, Fortune (Feb. 10, 2022); ExxonMobil, *ExxonMobil Earns \$23 billion in 2021, Initiates \$10 billion Share Repurchase Program* (Feb. 1, 2022) (press release); Chevron, *Chevron Announces Fourth Quarter 2021 Results* (Jan. 2022) (press release); Shell, *4th Quarter 2021 and Full Year Unaudited Results* (Feb. 2022); BP, *BP’s Fourth Quarter and Full Year 2021 Results and Update on Strategic Progress* (Feb. 8, 2022) (www.bp.com/en/global/corporate/investors/results-and-presentations/quarterly-results-and-webcast.html).

⁴³ Securities and Exchange Commission, *Devon Energy Corporation Form 10-K* (Dec. 31, 2021) (www.sec.gov/ix?doc=/Archives/edgar/data/1090012/000156459022005321/dvn-10k_20211231.htm); Pioneer Natural Resources, *Pioneer Natural Resources Fourth Quarter and Full Year 2021 Financial and Operating Results* (Feb. 16, 2022) (press release).

⁴⁴ See, e.g., *Exxon, Chevron Hit Gushers of Cash as Big Oil Companies Lure Back Investors*, Wall Street Journal (Feb. 1, 2022).

⁴⁵ *Big Oil on Course for Near-Record \$38bn in Share Buybacks*, Financial Times (Feb. 20, 2022).

⁴⁶ Chevron, *Chevron Increases Quarterly Dividend* (Jan. 26, 2022) (press release); ExxonMobil, *Dividend information* (Oct. 27, 2021) (corporate.exxonmobil.com/Investors/Investor-relations/Dividend-information);

V. FEDERAL ACTION

The Biden Administration has taken steps to mitigate the effects of low oil supply and high prices. On November 23, 2021, the Administration announced that it would release 50 million barrels of oil from the Strategic Petroleum Reserves (SPR) to drive up oil supply.⁴⁷ In response to Russia's invasion of Ukraine, on March 1, 2022, the Administration announced the release of an additional 30 million barrels from the SPR in coordination with other IEA countries, which likewise released 30 million barrels from their strategic stocks.⁴⁸ On March 31, 2022, the Administration announced plans to release one million barrels of oil per day from the SPR for the next six months.⁴⁹ Furthermore, in its first year, the Biden Administration approved an average of 333 drilling permits per month, approximately 35 percent higher than the number of permits approved during President Trump's first year.⁵⁰ The Administration has also urged the Federal Trade Commission (FTC) to investigate allegations of anti-competitive activity in the oil and gas industry.⁵¹

On March 31, 2022, the Biden Administration also announced measures to achieve energy independence beyond increasing domestic oil supplies. First, President Biden invoked the Defense Production Act of 1950 to ensure a secure supply of five critical minerals used in the production of batteries for electric vehicles, grid storage and similar uses.⁵² Second, the Administration took additional steps to increase energy efficiency, decrease demand for oil, and lower costs for consumers. Recent measures include a \$3 billion expansion of Weatherization Assistance Program funding and efficiency upgrades for home appliances and equipment to help families save on utility costs, the release of \$5 billion through the National Electric Vehicle Infrastructure Formula program to build out a national electric vehicle charging network, and

Securities and Exchange Commission, *Devon Energy Corporation Form 10-K* (Dec. 31, 2021) (www.sec.gov/ix?doc=/Archives/edgar/data/1090012/000156459022005321/dvn-10k_20211231.htm#StockholdersEquity); Devon Energy Corporation, *2021 Proxy Statement & Notice of Annual Meeting* (2021); Chevron, *Delivering Higher Returns, 2021 Supplement to the Annual Report* (2021); Chevron, *2021 Proxy Statement* (2021).

⁴⁷ The White House, *President Biden Announces Release from the Strategic Petroleum Reserve as Part of Ongoing Efforts to Lower Prices and Address Lack of Supply Around the World* (Nov. 23, 2021) (press release).

⁴⁸ Department of Energy, *U.S. and 30 Countries Commit to Release 60 million Barrels of Oil from Strategic Reserves to Stabilize Global Energy Markets* (Mar. 1, 2022) (press release).

⁴⁹ The White House, *Fact Sheet: President Biden's Plan to Respond to Putin's Price Hike at the Pump* (Mar. 31, 2022) (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/31/fact-sheet-president-bidens-plan-to-respond-to-putins-price-hike-at-the-pump/>).

⁵⁰ *Biden Is Approving More Oil and Gas Drilling Permits on Public Lands than Trump, Analysis Finds*, Washington Post (Dec. 6, 2021).

⁵¹ *Read Biden's Letter to the Federal Trade Commission*, New York Times (Nov. 17, 2021).

⁵² The White House, *Memorandum on Presidential Determination Pursuant to Section 303 of the Defense Production Act of 1950, as Amended* (Mar. 31, 2022) (www.whitehouse.gov/briefing-room/presidential-actions/2022/03/31/memorandum-on-presidential-determination-pursuant-to-section-303-of-the-defense-production-act-of-1950-as-amended/).

updated fuel economy standards for cars and trucks to insulate American consumers from global gasoline market volatility.⁵³

VI. WITNESSES

The following witnesses have been invited to testify:

David Lawler

Chairman and President
bp America, Inc.

Michael K. Wirth

Chairman and Chief Executive Officer
Chevron Corporation

Richard E. Muncrief

President and Chief Executive Officer
Devon Energy Corporation

Darren W. Woods

Chief Executive Officer
ExxonMobil

Scott D. Sheffield

Chief Executive Officer
Pioneer Natural Resources

Gretchen Watkins

President
Shell USA, Inc.

LTG H.R. McMaster (U.S. Army, retired)

Senior Fellow
Hoover Institution, Stanford University

⁵³ The White House, *Fact Sheet: President Biden's Plan to Respond to Putin's Price Hike at the Pump* (Mar. 31, 2022) (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/31/fact-sheet-president-bidens-plan-to-respond-to-putins-price-hike-at-the-pump/>); Department of Transportation, *President Biden, USDOT and USDOE Announce \$5 billion over Five Years for National EV Charging Network, Made Possible by Bipartisan Infrastructure Law* (Feb. 10, 2022) (press release).