

**DEPARTMENT OF BUSINESS,
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Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Monday, February 11, 2008

2:05 pm

State Capitol, Conference Room 325

in consideration of
HB 3407
RELATING TO GASOLINE DEALERS.

Chair Herkes, Vice Chair McKelvey and members of the
Committee on Consumer Protection and Commerce.

The Department of Business, Economic Development, and
Tourism (DBEDT) supports HB 3407, whose purpose is to repeal the
service station anti-encroachment laws.

There is a need to help lower the price of gasoline for
Hawaii consumers by ensuring competitive pricing of this
important energy resource. Published economic research studies
showed that divorcement and anti-encroachment laws tend to
increase retail gasoline prices. One such study was done by
Michael G. Vita, Deputy Assistant Director, Bureau of Economics,
Federal Trade Commission. In 1999, he conducted an independent
analysis of the effects of divorcement policies in Hawaii,
Connecticut, Delaware, Maryland, Nevada, Virginia, and the
District of Columbia. His analysis concluded that divorcement
added about 2.7 cents per gallon at retail on regular unleaded

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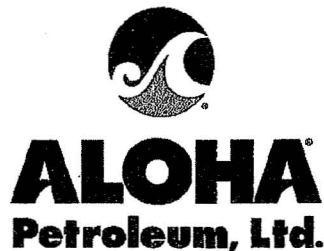
gasoline, costing consumers an estimated \$100 million annually¹. Another economic study found Maryland's divorce law, the first in the nation, raised self-service gasoline prices by 1.4 to 1.7 cents and full-service prices by 5 to 7 cents per gallon at stations that were formerly company-operated.

Further, evidence from the record of *Anzai v. Chevron*, Hawaii's now-settled gasoline lawsuit, showed that Hawaii's divorce law stifled the efforts of BHP, former owner of the Tesoro refinery, to embark on what it hoped would be a low-priced volume retail business.

In conclusion, there is evidence that these policies actually sacrifice market efficiencies and, thus increase prices that gasoline consumers pay at the pump. Removing these restrictions will benefit the public by helping to lower gasoline prices for Hawaii consumers. If passed this measure will lower barriers to entry thereby allow for increased competition, and restore the value of negatively impacted dealers' stations to facilitate a fair return on their investments.

Thank you for the opportunity to offer these comments.

¹ *Regulatory Restrictions on Vertical Integration and Control: The Competitive Impact of Gasoline Divorce Policies*; July 21, 1999, by Michael G. Vita, Deputy Assistant Director, Bureau of Economics, Federal Trade Commission. An econometric analysis of the effects of divorce policies in Hawaii, Connecticut, Delaware, Maryland, Nevada, Virginia, and the District of Columbia, which concluded divorce added about 2.7¢/gallon at retail on regular unleaded gasoline, costing consumers an estimated \$100 million annually.



**TESTIMONY TO THE
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
ON
H.B. 3407 RELATING TO GASOLINE DEALERS
Monday, February 11, 2008 at 2:05 p.m.
State Capitol, Room 325**

**By
Robert F. Maynard
President and CEO
Aloha Petroleum, Ltd.**

Chair Herkes and Members of the House Committee on Consumer Protection and Commerce, I am Robert F. Maynard, President and CEO of Aloha Petroleum, Ltd.

Aloha Petroleum supports House Bill 3407 relating to Gasoline Dealers which repeals the service station anti-encroachment laws.

Anti-encroachment laws have an anti-competitive effect and work to increase gas prices for consumers. As we learned from the FTC during the earlier gas cap hearings, a senior FTC economist conducted a comprehensive study of state divorce and anti-encroachment laws in 2000 and found that these types of laws reduce competition and ultimately result in higher retail prices. For this reason, Aloha Petroleum supports the intent of House Bill 3407.

Thank you for the opportunity to testify in support of House Bill 3407.

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Western States Petroleum Association

Monday, February 11, 2008

2:05 p.m.

House Committee on Consumer Protection & Commerce
Room 325

Testifier: Melissa Pavlicek

Re: HB 3407 Relating to Gasoline

I am testifying in support of HB 3407 on behalf of the Western States Petroleum Association ("WSPA"), a non-profit trade organization representing a broad spectrum of companies in the petroleum industry in Hawaii.

Anti-competitive state regulations further add to the price at the pump according to the Federal Trade Commission. Hawaii's federal court also concluded that barriers to competition in the petroleum industry in Hawaii include an "adverse political climate, including rent controls, government proposals to take over petroleum terminals and restrictions on the location and types of states that may be built." Hawaii's current anti-encroachment legislation, also known as partial divorcement, creates further upward pressure on prices, according to the Federal Trade Commission. The FTC also attributes rent cap legislation and other government regulations with reducing the total number and quality of service stations, raising prices and causing inconvenience to consumers who have fewer service stations to choose from.

We believe that HB 3407 is an important step toward addressing some of the real reasons, identified by experts that contribute to Hawaii's gas prices.