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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Tuesday, January 29, 2008
8:30 am
State Capitol, Conference Room 312

in consideration of
HB 3407
RELATING TO GASOLINE DEALERS.

Chair Morita, Vice Chair Carroll and members of the Committee on Energy and Environmental Protection.

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 gasoline, costing consumers an estimated $100 million annually[1]. Another economic study found Maryland's divorcement 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 divorcement 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.

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