

An hourglass-shaped graphic with a globe in the top bulb and another globe in the bottom bulb. The hourglass is light blue and has a dark blue cap at the top. The globe in the top bulb is dark blue, while the globe in the bottom bulb is light blue. The text is centered within the hourglass shape.

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*Gasoline Price Increases: Federal and State Authority to  
Limit "Price Gouging"*

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## CRS Report for Congress

# Gasoline Price Increases: Federal and State Authority to Limit ‘Price Gouging’

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### Summary

During the 2005 hurricane season, gasoline prices rose sharply, both in directly affected areas and elsewhere in the country, and attention turned to the causes underlying these sharp increases. Although gasoline prices have fluctuated since then, Congress continues to consider legislation on fuel pricing, including provisions addressing price gouging. In the 110<sup>th</sup> Congress, both the House of Representatives (H.R. 1252) and the Senate (Title VI of H.R. 6) have passed bills that would make price gouging of gasoline and other fuels a criminal or civil violation. H.R. 1252 passed the House on May 23, 2007, and H.R. 6 passed the Senate on June 21, 2007. Meanwhile, a majority of states have already enacted statutes to curtail price gouging, particularly during emergencies. This report discusses state laws regarding price gouging, the role of the federal government in addressing rising gas prices, and the new federal legislative proposals related to price gouging.

### Introduction

“Price gouging,” a term commonly used to refer to sellers inflating prices to “unfair” levels in order to take advantage of certain circumstances causing a decrease in supply, including emergencies, reached the public consciousness in 2005, when gasoline prices rose sharply in the wake of several hurricanes in the Gulf Coast area, including Hurricane Katrina. Currently, no federal law specifically addresses price gouging. However, bills have been passed in the 110<sup>th</sup> Congress in both the Senate and the House of Representatives that would prohibit price gouging of gasoline and other fuels.<sup>1</sup> Price-gouging laws already exist at the state level and are generally applicable in situations

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<sup>1</sup> H.R. 6, 110<sup>th</sup> Cong. 1<sup>st</sup> Sess. passed the Senate on June 21, 2007, and H.R. 1252, 110<sup>th</sup> Cong. 1<sup>st</sup> Sess. H.R. 1252 passed the House on May 23, 2007.

arising from a declared emergency.<sup>2</sup> An increase in prices alone does not constitute price gouging. Generally, provisions in price gouging statutes are triggered only when prices increase following a statutorily designated event.

Even absent a specific “price gouging” law, federal antitrust laws might apply to price-gouging behavior.<sup>3</sup> The Federal Trade Commission (FTC) monitors gas prices and investigates possible antitrust violations in the petroleum industry.<sup>4</sup> In addition, the Energy Policy Act of 2005 required the FTC to investigate whether the price of gasoline is being “artificially manipulated by reducing refinery capacity or by any other form of market manipulation or price gouging practices.”<sup>5</sup>

This report begins with a discussion of state price-gouging laws, including their triggers and applications, and then moves to a discussion of federal legislation aimed at prohibiting price gouging.

## State Price-Gouging Laws

Many states have enacted some type of prohibition or limitation on price increases during declared emergencies. Generally, these laws prohibit the sale of goods and services in the designated emergency area at prices that exceed the prices ordinarily charged for comparable goods or services in the same market area at or immediately before the declaration of an emergency. However, many statutes include an exemption if the increased prices are the result of increased costs incurred for procuring the goods or services in question.

**Hurricane-Affected States.** Price gouging became a highly publicized concern in the aftermath of the 2005 hurricane season, which saw sharp price increases in gasoline and natural gas prices. The potential for price gouging was of particular concern in the states directly affected by the hurricanes. Of the five affected states on the Gulf of

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<sup>2</sup> At least 30 states — Alabama, Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Mississippi, Missouri, New Jersey, New York, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia, and Wisconsin — the District of Columbia, Guam, and the Northern Mariana Islands have laws that prohibit price gouging, excessive price increases, or unconscionable pricing. Most states have laws that are triggered in the event of a declared emergency, with a few having laws that may be applicable at other times as well. Other states may also exercise authority under general deceptive trade practice laws depending on the nature of the state law and the specific circumstances in which price increases occur.

<sup>3</sup> For more information on the applicability of the federal antitrust laws, see CRS Report RS22262, “*Price Gouging, the Antitrust Laws, and Vertical Integration: How They Are Related*,” by Janice E. Rubin.

<sup>4</sup> For more information on the Federal Trade Commission’s activities with respect to gas pricing, see [<http://www.ftc.gov/ftc/oilgas/index.html>].

<sup>5</sup> P.L. 109-58 § 1809, 119 Stat. 594, 1125 (August 8, 2005). The FTC’s report was published in May of 2006 and can be viewed at [<http://www.ftc.gov/opa/2006/05/katrinagasprices.htm>].

Mexico, four have specific price-gouging laws premised on the declaration of a state emergency.<sup>6</sup>

The Florida statute establishes a prima facie case of unconscionable pricing if the amount being charged represents a “gross disparity” from the average price at which the product or service was sold in the usual course of business, or available in the “trade area,” during the 30 days immediately prior to a declaration of a state of emergency. However, unconscionable pricing does not exist if the increase is attributable to additional costs incurred by the seller or is the result of national or international market trends.<sup>7</sup>

In Alabama, prima facie evidence of unconscionable pricing exists “if any person, during a state of emergency declared pursuant to the powers granted to the Governor, charges a price that exceeds, by an amount equal to or in excess of 25%, the average price at which the same or similar commodity or rental facility was obtainable in the affected area during the last 30 days immediately prior to the declared state of emergency”; however, as in the Florida statute, there is no unconscionable pricing if the price increase is attributable to reasonable costs incurred by the seller in connection with the rental or sale of the commodity.<sup>8</sup>

The Mississippi and Louisiana statutes do not specify elements of a “prima facie” case of price gouging, but they are otherwise similar to the Florida and Alabama statutes. Mississippi and Louisiana prohibit the selling of goods and services at prices which exceed “the prices ordinarily charged for comparable goods and services in the same market area at, or immediately before, the time of the [declaration of the] state of emergency.”<sup>9</sup> Under each statute, price gouging does not include price increases due to additional costs or expenses incurred as a result of the emergency.<sup>10</sup>

**Other States.** Many state price-gouging laws are triggered only by a declaration of emergency in response to localized conditions. Thus, in areas not directly affected by a particular emergency or natural disaster, state price-gouging laws are not likely to apply to any price increases subsequent to an emergency or disaster occurring elsewhere.

Some price-gouging laws are less tethered to the occurrence of a local natural disaster. For example, Georgia’s price gouging statute can be triggered by the declaration of an “energy emergency,” which is defined as “a condition of danger to the health, safety, welfare, or economic well-being of the citizens of this state arising out of a present or threatened shortage of usable energy resources,” with no geographical restrictions.<sup>11</sup>

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<sup>6</sup> Texas’s deceptive trade practices law prohibits the exorbitant or excessive pricing of necessities during a declared disaster, but it does not specifically define those activities as price gouging. Tex. Bus. & Com. Code Ann. § 17.46(b)(27).

<sup>7</sup> Fla. Stat. § 501.160(1)(b).

<sup>8</sup> Code of Ala. § 8-31-4.

<sup>9</sup> La. R.S. 29:732; Miss. Code Ann. § 75-24-25(2).

<sup>10</sup> Id.

<sup>11</sup> O.C.G.A. § 10-1-393.4; O.C.G.A. § 38-3-3.

At least two states have laws that do not require the declaration of any type of emergency as a trigger. Maine law prohibits “unjust or unreasonable” profits in the sale, exchange or handling of necessities, defined to include fuel.<sup>12</sup> Michigan’s consumer protection act simply prohibits “charging the consumer a price that is grossly in excess of the price at which similar property or services are sold.”<sup>13</sup>

## Federal Price Gouging Legislation

As mentioned above, currently there is no federal law that deals specifically with price gouging. However, federal antitrust laws may apply to behavior generally seen in price gouging.<sup>14</sup> The Federal Trade Commission (FTC) monitors gas prices and investigates possible antitrust violations in the petroleum industry.<sup>15</sup> In addition, the Energy Policy Act of 2005 required the FTC to investigate whether the price of gasoline is being “artificially manipulated by reducing refinery capacity or by any other form of market manipulation or price gouging practices.”<sup>16</sup> In May 2006, the FTC released its report, finding generally that sellers behaved competitively and that the price increases were the result of increased costs, although there were limited instances of price gouging.<sup>17</sup>

In the aftermath of Hurricane Katrina and the subsequent rise in gasoline prices, a number of bills were introduced in the 109<sup>th</sup> Congress to create a federal price gouging law. The House passed H.R. 3893, the Gasoline for America’s Security Act of 2005, on October 7, 2005. Subsequently, H.R. 5253, the Federal Energy Price Protection Act of 2006, was passed by the House on May 3, 2006. Both bills were aimed at prohibiting price gouging and charged the FTC with enforcement. Neither bill reached a vote in the Senate.

New price-gouging bills have since been passed in both the Senate and the House of Representatives in the 110<sup>th</sup> Congress. The House bill, the Federal Price Gouging Prevention Act (H.R. 1252), passed the House on May 23, 2007. H.R. 1252 grants the President the authority to issue an “energy emergency proclamation” for any area within the jurisdiction of the United States.<sup>18</sup> The bill would forbid the sale of crude oil, gasoline, natural gas, or petroleum distillates in the area and during the period of this energy emergency at a price that (a) is unconscionably excessive or (b) indicates that the

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<sup>12</sup> 10 M.R.S.A. § 1105.

<sup>13</sup> MCL 445.903(1)(z).

<sup>14</sup> For more information on the applicability of the federal antitrust laws, see CRS Report RS22262, “*Price Gouging, the Antitrust Laws, and Vertical Integration: How They Are Related*,” by Janice E. Rubin.

<sup>15</sup> For more information on the Federal Trade Commission’s activities with respect to gas pricing, see [<http://www.ftc.gov/ftc/oilgas/index.html>].

<sup>16</sup> P.L. 109-58 at § 1809 (August 8, 2005).

<sup>17</sup> The FTC’s report can be viewed at [<http://www.ftc.gov/opa/2006/05/katrinagasprices.htm>].

<sup>18</sup> H.R. 1252 at § 2(a)(2).

seller is taking unfair advantage of the circumstances related to an energy emergency to increase prices unreasonably.<sup>19</sup>

H.R. 1252 lists a number of factors to be considered in determining if an “unconscionably excessive” or “unfair” sale has taken place in violation of the provisions of the bill.<sup>20</sup> These factors include whether the price grossly exceeds the average price offered for sale by the seller during the 30 days prior to the energy emergency proclamation, whether the price grossly exceeds the price at which the gasoline or other petroleum distillate was readily obtainable in the same area from competing sellers during the same period, and whether the price reasonably reflects additional costs, not within the seller’s control, that were paid, incurred, or reasonably anticipated, or reflect additional risks taken by the seller to produce, distribute, obtain, or sell the product.<sup>21</sup> In addition, H.R. 1252 would make it unlawful to report false fuel pricing information to the FTC.<sup>22</sup> The FTC would be charged with enforcement of the act through its authority to penalize unfair or deceptive acts and practices under the Federal Trade Commission Act.<sup>23</sup> The bill also establishes criminal penalties for violations, to be administered by the U.S. Department of Justice.<sup>24</sup> State attorneys general would also be given limited enforcement authority.<sup>25</sup>

The price-gouging provisions of the Senate version of H.R. 6, found in Title VI, are substantially similar to H.R. 1252. Under Title VI of H.R. 6, it would be unlawful to sell or offer to sell crude oil, gasoline, or petroleum distillate at an “unconscionably excessive price” during an energy emergency, as declared by the President.<sup>26</sup> The bill defines an “unconscionably excessive price” as one that constitutes a gross disparity from the average price of the commodity in the supplier’s normal course of business over the previous 30 days, and also grossly exceeds the price at which the commodity was available from other suppliers in the same market.<sup>27</sup> The bill also states that a price is unconscionably excessive if it “represents an exercise of unfair leverage or unconscionable means on the part of the supplier” during a declared emergency period.<sup>28</sup> However, it would not be considered unconscionable pricing if the price increase is attributable to increased wholesale or operational costs.<sup>29</sup> These provisions are very similar to the language found in H.R. 1252. Also, as with H.R. 1252, Title VI of H.R. 6

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<sup>19</sup> *Id.* at § 2(a)(1).

<sup>20</sup> *Id.* at § 2(a)(3).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at § 2(b).

<sup>23</sup> *Id.* at § 3; 15 U.S.C. § 57a(a)(1)(B).

<sup>24</sup> H.R. 1252 at § 4.

<sup>25</sup> *Id.* at § 5.

<sup>26</sup> H.R. 6 at § 603.

<sup>27</sup> *Id.* at § 602(4)(A)(i).

<sup>28</sup> *Id.* at § 602(4)(A)(ii).

<sup>29</sup> *Id.* at § 602(4)(B).

would make it unlawful to report false fuel pricing information to the FTC,<sup>30</sup> would charge the FTC with enforcement through its authority to penalize unfair or deceptive acts and practices defined in a rule promulgated pursuant to 15 U.S.C. § 57a(a)(1)(B), using the authority granted to it under the Federal Trade Commission Act,<sup>31</sup> and would grant state attorneys general limited enforcement authority.<sup>32</sup> The most significant difference between the two bills is that H.R. 6 contains a prohibition on “market manipulation” that is not found in H.R. 1252.<sup>33</sup>

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<sup>30</sup> *Id.* at § 605.

<sup>31</sup> *Id.* at § 607.

<sup>32</sup> *Id.* at § 608.

<sup>33</sup> *Id.* at § 604.