



United States House of Representatives Committee on Natural Resources

Democratic Member Roundtable on “Holding Big Oil Accountable for Extortion,  
Collusion, and Pollution”

Remarks of Kristina Karlsson

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Thank you, Ranking Member Grijalva and members of the Committee. My name is Kristina Karlsson. I am the Deputy Director of Climate Policy at the Roosevelt Institute. I am grateful for the opportunity to contribute to this timely discussion.

My testimony today will focus on the ways that the structure and behaviors of oil and gas companies create risk for the macroeconomy with few, if any, commensurate public benefits.

The US produces more oil than any other country on earth, but oil and gas firms—subsidized by taxpayers—are not delivering on their promise of providing stable and cheap domestic energy. In June of 2022, inflation peaked at 9.1 percent. One-third of that came from energy prices,<sup>1</sup> with gasoline prices contributing the lion’s share. To add insult to injury, the Federal Trade Commission (FTC) alleged in a complaint related to Exxon Mobil Corporation’s acquisition of Pioneer Natural Resources Company that Pioneer’s CEO had attempted to collude with the Organization of Petroleum Exporting Countries (OPEC) to keep oil prices high.

Pioneer and other big oil firms behaved like many other large corporations during the last several years—they exercised their market power to take advantage of rising inflation by increasing their prices beyond necessary adjustments to account for input costs or supply shortages. Across the economy, firms engaged in beyond-cost pricing that

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<sup>1</sup> Karlsson, Kristina, and Lauren Melodia. “Fossil Fuel–Driven Price Volatility Demonstrates the Need for a Renewable Transition.” Roosevelt Institute, November 2023.

<https://rooseveltinstitute.org/publications/energy-price-stability/>

exacerbated inflation. My Roosevelt colleagues found that, in general, corporations with outsized market power increased their markups over input costs to 76 percent in 2021, a sharp increase from an average of 56 percent throughout the 2010s.<sup>2</sup> Further, corporate profits accounted for approximately 35 percent of price inflation between 2022 and 2024, nearly three times the average over the previous three decades.<sup>3</sup> Even as labor and nonlabor input costs have come down as of late, corporations are keeping prices high and taking home the difference. This behavior is a product of several factors, including: 1) increasing consolidation in a high number of sectors, giving rise to an oligopolistic structure in which firms have power to set prices beyond their costs; and 2) perverse advantages and incentives in the tax code.

The pricing behavior of the oil and gas sector has been generally consistent with these trends. Firms in this sector have taken advantage of global supply disruptions following Russia's invasion of Ukraine to raise their prices beyond market-driven increases, in an effort to extract more profit from American buyers. Exacerbating these market power effects are several factors particularly relevant to oil and gas firms:

First, fossil fuels are an underlying input to nearly all other sectors of the economy—transportation, manufacturing, plastics, retail, etc.—in the form of either petrofuels or fossil fuel-generated electricity. Consequently, energy price shocks are not limited to the gas pump or home heating bills; their price effects reverberate throughout the economy. Fossil fuel prices in particular “pass through” to increase input costs across the board.<sup>4</sup>

Second, fossil fuel prices are inherently volatile due to their production dynamics, exposure to geopolitical conflict, and high levels of unpredictable bouts of speculation. Longer-term price volatility is also present because of the effects on these firms' operations and strategies of extreme weather, which can compromise supply and distribution. Exacerbating this volatility, firms have no consistent incentive to address the negative externalities that their emission-generating activities impose on the public. As long as they are permitted to push these costs onto the public, firms will persist in overprojecting global demand for their product, creating uncertainty in the course of future prices.

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<sup>2</sup> Konczal, Mike, and Niko Lusiani. “Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups.” Roosevelt Institute, June 2022.

[https://rooseveltinstitute.org/wp-content/uploads/2022/06/RI\\_PricesProfitsPower\\_202206.pdf](https://rooseveltinstitute.org/wp-content/uploads/2022/06/RI_PricesProfitsPower_202206.pdf).

<sup>3</sup> Bivens, Josh. “Profits and Price Inflation Are Indeed Linked.” Working Economics Blog (blog), September 5, 2024. <https://www.epi.org/blog/profits-and-price-inflation-are-indeed-linked/>.

<sup>4</sup> Weber, Isabella, Jesus Lara Jauregui, Lucas Teixeira, and Luiza Nassif Pires. “Inflation in Times of Overlapping Emergencies: Systemically Significant Prices from an Input–Output Perspective.” *Industrial and Corporate Change* 33, no. 2 (April 2024). <https://academic.oup.com/icc/article/33/2/297/7603347>.

The ubiquity and volatility of oil and gas make our reliance on fossil fuels a significant vulnerability to the macroeconomy. Of the past 12 economic recessions that have taken place in the post-war US, 10 were preceded by large oil price increases.<sup>5</sup> This is a vulnerability that can ultimately only be resolved by a complete and equitable transition to renewable energy sources, which are low-cost and exhibit higher degrees of price stability. Over the long term, effectively managing energy price inflation while retaining a fossil fuel–dependent economy is nearly impossible, especially as energy commodity markets become more, not less, volatile.<sup>6</sup>

In addition to their ubiquity and volatility creating macroeconomic vulnerability, fossil fuels are characterized by a third feature of note: Oil and gas firms are heavily subsidized by state and federal governments, and have been since the early 1900s, despite recurring calls to end “wasteful” fossil fuel subsidies.<sup>7</sup> Since its genesis, the domestic oil and gas sector has developed as a public-private partnership in which state intervention and support provide patient capital for new exploration, research and development support, tax exemptions, etc.<sup>8</sup> But these public supports, intended to secure domestic energy independence, have failed to produce a commensurate level of public benefit.

For example, the US is the largest liquified natural gas exporter in the world, and starting in 2023, the US has been a net exporter of crude oil. The profit incentive to sell abroad means that new fossil fuel production does not necessarily contribute to boosting domestic supply and stabilizing prices. Indeed, there are currently no mechanisms in place to require fossil fuel firms to meet domestic demand first. Vulnerable communities directly suffer the health and environmental consequences of a booming export business, while they—along with the rest of US taxpayers—subsidize an inherently destructive industry without reaping commensurate supply or pricing benefits.

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<sup>5</sup> Hamilton, James D. “Historical Oil Shocks.” NBER Working Paper, September 2011.

[https://www.nber.org/system/files/working\\_papers/w16790/w16790.pdf](https://www.nber.org/system/files/working_papers/w16790/w16790.pdf).

<sup>6</sup> Melodia, Lauren, and Kristina Karlsson. “Energy Price Stability: The Peril of Fossil Fuels and the Promise of Renewables.” Roosevelt Institute, May 2022.

[https://rooseveltinstitute.org/wp-content/uploads/2022/05/RI\\_EnergyPriceStability\\_IssueBrief\\_202205.pdf](https://rooseveltinstitute.org/wp-content/uploads/2022/05/RI_EnergyPriceStability_IssueBrief_202205.pdf).

<sup>7</sup> Friedman, Lisa. “The Zombies of the US Tax Code: Why Fossil Fuels Subsidies Seem Impossible to Kill.” *New York Times*, March 5, 2024. <https://www.nytimes.com/2024/03/15/climate/tax-breaks-oil-gas-us.html>.

<sup>8</sup> Aronoff, Kate. “Green Industrial Policy’s Unfinished Business: A Publicly Managed Fossil Fuel Wind-Down.” Roosevelt Institute, July 2024.

[https://rooseveltinstitute.org/wp-content/uploads/2024/07/RI\\_Green-Industrial-Policy-Fossil-Fuels\\_Report\\_072024.pdf](https://rooseveltinstitute.org/wp-content/uploads/2024/07/RI_Green-Industrial-Policy-Fossil-Fuels_Report_072024.pdf).

Not only has domestic energy independence not been secured,<sup>9</sup> but outsized and outmoded federal subsidization incentivizes firms to mislead the public about the costs associated with their behaviors. Firms wanting to retain these federal subsidies downplay the existence of climate change and biodiversity loss or overstate levels of global demand for fossil fuels, leading to significant harm to human health and well-being, alongside price instability.

In conclusion, in addition to contributing to broad-based inflation across fossil fuel-dependent sectors, US oil and gas firms are presenting outsized levels of macroeconomic risk by virtue of their high cost, non-assured levels of supply, and incentives to misrepresent the future of the risks they are creating. This cannot continue. We need a publicly managed wind-down of fossil fuels that includes repealing regulatory loopholes afforded to fossil fuels, repealing subsidies for fossil fuels designated by the federal tax code, planning for the next fossil fuel bailout by attaching strings on any federal aid they receive, and evaluating mergers and acquisitions for their emissions intensity and environmental regulation compliance.

As Kate Aronoff argues in her latest report for Roosevelt, “Protecting against energy shortages, managing price volatility, and ensuring equity throughout that inevitably messy process will require a sizable expansion of state capacity so that the losses of the energy transition do not accrue to the public and spoil the potential for future progress at home and abroad.”<sup>10</sup>

I commend Committee members for hosting a discussion on ways that the public can not only hold big oil and gas accountable for their dishonest and destructive behavior, but also take steps to create an economy that is free from the burden of volatile fossil fuel reliance.

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<sup>9</sup> US Energy Information Administration. “How Much Petroleum Does the United States Import and Export?” March 29, 2024. <https://www.eia.gov/tools/faqs/faq.php?id=727&t=6>.

<sup>10</sup> Aronoff, Kate. “Green Industrial Policy’s Unfinished Business: A Publicly Managed Fossil Fuel Wind-Down.” Roosevelt Institute, July 2024. [https://rooseveltinstitute.org/wp-content/uploads/2024/07/RI\\_Green-Industrial-Policy-Fossil-Fuels\\_Report\\_072024.pdf](https://rooseveltinstitute.org/wp-content/uploads/2024/07/RI_Green-Industrial-Policy-Fossil-Fuels_Report_072024.pdf).