Energy companies announce record profits amidst soaring prices for US consumers

Joseph Kay, Naomi Spencer
29 October 2005

This week, the major international energy companies announced sharp increases in profits for the third quarter. The energy giants are benefiting from a prolonged period of rising energy costs, exacerbated in September by the effects of Hurricanes Katrina and Rita. The record profits are being paid directly from the pockets of millions of Americans, who face increased gasoline prices and the prospect of sharply higher home heating bills during the winter.

Leading the pack was ExxonMobil, the world's largest oil company. Exxon reported third-quarter profits of $9.92 billion, 75 percent higher than its third-quarter earnings last year and the largest quarterly profit ever reported by a US company. The company also boasted revenues of more than $100 billion, another US record and a 32 percent increase over the company's revenues in the second-quarter.

The *Wall Street Journal* on Friday noted that Exxon's profits amounted to nearly $75,000 a minute, every minute, for the entire three months of the quarter (July, August and September). Exxon's profit for the first nine months of the year, more than $25 billion, already exceeds its annual profit last year. The company made more money in the third quarter than all but eight companies in the S&P 500 made in all of 2004.

ExxonMobil was not alone in reaping huge profits for the quarter. Royal Dutch/Shell reported a company record of $9 billion, up 68 percent from last quarter; BP profits were up 34 percent to $6.53 billion for the quarter; ChevronTexaco reported a 53 percent increase to nearly $4 billion; and ConocoPhillips's profits jumped 89 percent to $3.8 billion. These five multinational companies are the five largest energy companies in the world and dominate the US energy market.

These staggering sums dwarf what the US government has spent on hurricane relief in Katrina, Rita and Wilma combined. The $43 billion raked in by just these five companies in only 90 days would pay for the rebuilding of New Orleans. So much for the claims that urgent social needs can't be met because "there is no money." There is wealth aplenty, but it is in the wrong hands.

Exxon CEO Lee Raymond bristled at the suggestion that Exxon was milking the destruction during the hurricane season to inflate consumer costs. "Profit is not a dirty word," he told Fox News in a recent interview. "And it's absolutely required in our industry to have an adequate level of profit to be able to continue to invest."

In fact, most of Exxon's profits went directly back into the pockets of the wealthy and into executive salaries, not investment. The company spent $6.8 billion in shareholder dividends and in stock buybacks. Buybacks are intended to keep the stock price high, which yields millions of dollars for top executives who hold stock options. In 2004, another record-breaking year for corporate profits, Raymond by himself received more than $38 million in salary, stock, and bonuses from ExxonMobil. This year, his total compensation package is reportedly worth more than $42 million.

The profits for Exxon and the other energy giants come largely from the rise in crude oil prices. The major energy companies are vertically integrated, meaning that they have stakes in many different levels of the energy sector. They are particularly active in both the initial extraction of oil and the oil-refining process, during which the oil is transformed into different forms, including gasoline. Together, the five companies control 50 percent of US refining capacity. Most also have major stakes in the natural gas industry.

A September 25 article in the *Washington Post* noted that the bulk of the profit coming from the rise in gasoline prices over the past several months has gone to these energy giants. "When the average price of a gallon of regular gasoline peaked at $3.07 recently, it was partly because the nation's refineries were getting an estimated 99 cents on each gallon sold," the paper noted. "That was more than three times the amount they earned a year ago when regular unleaded was selling for $1.87." Companies that extract oil from the ground pulled in an additional 47 cents on the gallon, according to the paper.

These record profits involve a massive transfer of wealth from the broad majority of the population. In September, consumer prices shot up 1.2 percent, due largely to a 122 percent rise in energy costs.

Average Americans bore the immediate brunt of the inflation spike last month by paying 18 percent more for gas and considerably more for food, as energy costs worked their way into the prices of other goods. While gas prices have eased back slightly in October compared to September, the current cost per gallon, around $2.60, is still 78 percent higher than in 2001.

The financial strain felt by the majority of households is certain to intensify in the fourth quarter. Home heating is projected to cost average families between $1,400 and $1,600 this winter. According to the federal Energy Information Administration, families that heat their homes with natural gas can expect heating costs to rise by 48 percent over last year's already inflated level.

Energy costs are in large part responsible for the declining real wages of working people in the US. It is not only the poor who are affected, but the vast majority of the population. Household budgets are under intense strain across the country, and millions of people this winter will face the necessity of choosing between basic necessities such as heat, food and health care.

The Bush administration has made clear that consumers will be left largely on their own. On Thursday, Energy Secretary Samuel Bodman rejected calls from a few Senate Democrats to tax the profits from the energy companies at a higher rate in order to pay for heating assistance to low-income families. That would be “some kind of windfall profits tax,” he said. “We have proven, I thought, to our general satisfaction back in the ’70s and ’80s that that didn’t work.”

Legislation that would have increased funding for the Low-Income Home Energy Assistance Program (LIHEAP) was defeated in the Senate for the third time this month on Thursday, leaving the program stagnating with the smallest budget relative to demand since it was created in 1981. Instead, congressional leaders are planning to cut billions of dollars from social programs such as food stamps and Medicaid. On Wednesday, Bush urged them to “push the envelope” in finding ways to scale back federal programs.

There are several other factors that are combining to worsen the financial position of American workers. The new bankruptcy bill went into effect earlier this month, making it harder for ordinary people to escape increasing debt burdens. Moreover, interest rates are rising in line with federal policy, meaning workers face higher rates on credit card and home mortgage loans. With the threat of inflation rearing its head, the Federal Reserve will likely raise interest rates even further, which could have disastrous consequences, particularly given the increased use of adjustable rate home mortgages.

The rise in energy prices is the product of a long-term consolidation within the industry. According to a March 2004 report by the consumer group Public Citizen, the five largest energy companies together control 14.2 percent of global oil production, more than 50 percent of US domestic refinery capacity, 62 percent of the retail gasoline market and 22 percent of US domestic natural gas production.

In contrast, in 1993, the top five companies controlled only 7.7 percent of global oil production, 33 percent of domestic refinery capacity, 27 percent of the retail gasoline market and 12.7 percent of domestic natural gas production.

The concentration of the industry has not produced any increase in refining capacity in the United States, which now lags seriously behind the demand for gasoline. The shortage in refining capacity is generally cited as one of the main causes behind the rise in prices, a shortage exacerbated due to the damage to refining facilities caused by the hurricanes.

The oil companies indicated on Friday that they had no plans for increasing supply to bring down prices. “A surplus of supply is not good for the industry,” declared Shell president John Hofmeister. “Just as a surplus of demand is not good for industry. We strive for balance.”

There is a justified sense of outrage within the population that these companies have benefited from the Hurricane Katrina, which wrecked havoc on the lives of hundreds of thousands of people, destroying homes, jobs and much of the city of New Orleans.

Energy companies share responsibility for the devastation, as they have been the principal bulwark within the ruling elite opposing any measures to address the problem of global warming, which many scientists believe is in part responsible for the record number of intense hurricanes in recent years. Completely beholden to the energy corporations, the Bush administration has scuttled even the most limited measures to contain carbon dioxide emissions, which cause warming and are produced by the combustion of oil and other fossil fuels.

The enormous corporate profits have engendered a certain nervousness within the energy companies and their close allies in government. Exxon was so concerned about negative public reaction to the massive profits that it ran advertisements in major newspapers on Thursday arguing that its profits were not out of line with those of other major companies.

Politicians of both parties have felt obliged to make certain noises and empty threats. Senate Majority Leader Bill Frist, a right-wing Republican from Tennessee, said in a statement on Thursday, “If there are those who abuse the free enterprise system to advantage themselves and their businesses at the expense of all Americans, they ought to be exposed, and they ought to be ashamed.”

This nervousness expresses an understanding within ruling circles that the situation in the energy industry could engender a sharp increase in oppositional moods within the population as a whole.

However, the entire political establishment is completely committed to the defense of the basic principle underlying the conditions in the energy market: that decisions profoundly affecting the lives of millions of people should be made based upon the profit interests of private companies and the self-enrichment of a corporate elite.

The solution to the problem could not be clearer: these energy companies should be transformed into public utilities, run democratically and in the interests of the population as a whole.