As Big Oil posts record profits

Washington warns no relief from soaring gas prices

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As gas prices in the US continue to rise, Bush administration officials took to the airwaves Sunday to warn consumers not to expect any relief from the government, or any restrictions on the practices employed by the oil companies to reap near-record profits.

On NBC's "Meet the Press" program, Energy Secretary Sam Bodman declared that the Bush administration sees no evidence of price gouging as gasoline prices have soared to more than $4 per gallon in some parts of the country. Instead, he portrayed the oil companies as merely obeying the inevitable law of supply and demand. "The suppliers have lost control of the market," he said. "Demand exceeds supply."

Bodman suggested that the spike in gasoline prices will not be a short-term phenomenon. "Clearly, we're going to have a number of years—two to three years—before suppliers are in a position to meet the demands of the market." He insisted, however, that the administration is doing "everything it can do" to address the situation.

Josh Bolten, the new White House chief of staff, sounded a similar note on "Fox News Sunday." The problem has been "built up over many years—decades, in fact," he declared. "It's not going to be solved in the short run by some silver bullet." He acknowledged that the various proposals outlined by the President last week—including a raft of incentives for energy companies and the scaling-back of environmental regulations—would have "relatively modest" effects on the price of gasoline.

In announcing his proposals on Friday, Bush made it clear that he would reject any attempt to tax oil company profits. Earlier in the week, he declared that the administration would move to relax clean-fuel standards and halt deposits into the US oil reserve. He also said he would ask Congress to give the administration the authority to raise fuel economy standards on automobiles.

As indicated by Bolten, none of these proposals will do much, if anything, to reduce gasoline prices. Several would amount to further hand-outs to energy companies, coming on top of an energy bill passed last year that included billions of dollars in tax breaks and incentives to the same corporations.

These remarks come just days after the US energy giants reported record profits for the first quarter (January-March) of 2006. ExxonMobil reported profits of $8.4 billion, up 7 percent from the first quarter of 2005. The company's revenues came in at $54.6 billion, up 31 percent.

Exxon is the world's largest publicly traded energy company. In January, it reported $10.7 billion in profits for the fourth quarter of last year, and $36.1 billion for the entire year. These were respectively the largest quarterly and largest annual profits posted by any company in US history. Even the $8.4 billion figure is the fifth largest quarterly profit figure, and the company holds four out of the top five slots.

Exxon's former CEO, Lee Raymond, retired at the end of last year with a final pay package valued at some $400 million.

Several other oil giants also reported huge windfall profits for the first quarter. Chevron, the second largest oil company, pulled in $4 billion, a 49 percent increase over the same period last year. Its revenues were up 31 percent. ConocoPhillips reported $3.29 billion in profits, up 14 percent. Combined, the three companies' profits were up 17 percent from last year.

Since they only record earnings through the month of March, these figures do not reflect the latest jump in gasoline prices, which have risen sharply in the month of April.

Meanwhile, Democrats and Republicans in Congress are again posturing as critics of the oil industry, proposing various toothless measures that will do nothing to ease the burden on ordinary working people in the US. The two parties engaged in a similar process several months ago, in the wake of Hurricane Katrina, when gas prices spiked along with oil company profits in a similar way. As happened then, nothing serious will come out of this round of discussions.

Among the most cynical of the proposals is a Senate Republican initiative that would give a $100 check to families with incomes below a certain level. This would amount to little more than a couple of tanks of gasoline at current prices. At the same time, the sponsors of the bill have sought to bundle it together with a measure that would open up Alaska's Arctic National Wildlife Refuge, a move that has long been sought by oil companies but has failed to pass Congress in previous attempts.

A Senate proposal to eliminate $5 billion in oil company tax breaks provided through an accounting trick that allows the companies to undervalue their inventories was blocked last week by House Republicans. Another measure was also blocked that would have limited the ability of companies to escape paying royalties for oil extracted from public lands.

The proposals being suggested by the Democrats would do little more than those offered by the Republicans. The Democratic measures center on one being pushed by Democratic Senator Robert Menendez that would create a 60-day suspension on the 16.4-cents-per-gallon gasoline tax. There is no guarantee that the elimination of this tax paid by consumers would actually reduce the price of a gallon of gas, however, since there would be nothing to prevent oil companies from simply raising prices to compensate.

Even if they were to be passed by Congress and signed by the President, none of the measures being discussed in Congress will have any serious benefit for working people in the US. This is because none of them address the fundamental issue involved: the subordination of the interests of broad layers of the population to those of the American ruling elite, and in particular the owners of the energy giants, who are benefiting handsomely from the spike in prices.

The actual social forces behind the rise in energy prices were indicated, perhaps inadvertently, last week by Red Cavaney, president of the American Petroleum Institute, the main energy industry organization. "All of the companies here in the US that deal with the consumer are investor-owned companies," he noted while discussing the enormous profits that the companies have pulled in. "The responsibility of the management there is to insure that they are providing for shareholder return."

In other words, these profits, which have come in part from the rise in gasoline prices, are a product of the simple fact that these corporations are operated in the interests of profit for shareholders and not in the interests of the population as a whole. No one in the political establishment will challenge this most basic feature of the capitalist system.

The industry has launched a nationwide advertising campaign, shamelessly suggesting that Americans should be happy about its enormous profits, because many of them are shareholders in these companies and will benefit from their earnings. In fact, the vast majority of the Big Oil stocks, as with those of American businesses as a whole, are owned by a small layer of the population, which is reaping super profits at the expense of millions who are seeing their living standards driven down by higher gas prices.

The driving forces behind the decisions of such companies as ExxonMobil are indicated in the allocation of their profits. Fully 40 percent of Exxon's profit in 2005, or about $14 billion, was spent on repurchasing company shares. Such huge share buybacks are necessary to keep stock prices high under conditions in which top executives at the company are making tens of millions of dollars by exercising stock options.

The energy companies have served their shareholders well, with Wall Street analysts expecting profits for 2006 to top those of 2005.

The ability of these companies to secure such profits is not, as has been argued by administration officials, a question of supply and demand. Rather, over the past decade, the oil industry has undergone a period of wholesale consolidation. One of the reasons that Chevron's profits have surged even more than the other companies is as a result of its purchase last year of Unocal. ConocoPhillips recently acquired Burlington Resources, coming only a few years after the merger of Conoco and Phillips in 2002.

With almost the entire oil and gas sector dominated by a handful of companies, it has been easy for these corporate giants to manipulate prices to suit their interests.