Gas prices rise as oil companies take in record profits

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The average price for a gallon of gas in the United States has surpassed the $3.00 mark and is currently at $3.07 per gallon. The sharp rise in gas prices has contributed to record high profits of the major oil companies.

Rising fuel prices have put an increased burden on working class families. The average American household is expected to spend $2,600 on gas this year, a significant jump from 2002 when gas expenses averaged $1,600.

According to the Energy Information Administration, the US Department of Energy's statistical agency, the recent increase in gasoline prices has been due to a "rise in crude oil prices, persistent refinery outages, and seasonal demand growth."

In fact, crude prices have been fluctuating in recent weeks, but are about at the same level they were one month ago. In the past week, they have actually declined significantly, even as gasoline prices have continued to escalate. Analysts are already predicting that the continued rise in demand will keep gas prices at least at their present levels throughout the summer—the peak driving season.

There have been indications of decreased refining capacity. Refinery outages and a decrease in imports have led to a sharp decline in gasoline inventories and are considered to be largely responsible for most of the recent increase in gasoline prices. Although gasoline inventories rose by 400,000 barrels last week, for the previous 12 weeks inventories were in decline, down a total of 15 percent since February.

Since the mid-1990s, due to a deliberate policy on the part of oil companies, US refineries have been operating near capacity. Outages like those that occurred in the wake of Hurricane Katrina in late 2005 have a large impact on gasoline inventories and have consequently driven up prices. Typically, refineries are shut down in the spring, usually justified on the grounds of regular maintenance and repairs. This spring has seen additional outages with a fire at a major refinery in Texas and other major supposedly unplanned outages.

Among the reasons given for the rise in gas prices, one of the more plausible is the most simple: price gouging. Direct manipulation of the energy market, including through the manufacturing of "unplanned" refinery outages, has precedents. During the 2000-2001 energy crises in California, Enron played a leading role in the rolling blackouts and the $5.7 billion in price hikes that afflicted California energy consumers. Enron's manipulation of the Californian market included forcing power plants to shut down, price gouging, and over-scheduling the power supply.

In the run-up to the 2006 election, gasoline prices dropped an unprecedented 82 cents over a four-week period. Many Americans felt at the time that the sudden drop was related to the upcoming elections and the attempt to limit pessimism over the economy by temporarily reducing gas prices. This would presumably have had the effect of improving the chances of the Republicans in the elections.

The WSWS noted at the time: "Large energy companies certainly feel they have an interest in maintaining Republican control of the government. Not that they have anything serious to fear from the Democrats, but there are divisions within the ruling elite and no administration has been so closely tied, personally and financially, to the interests of the energy giants as the current one."

The article concluded with the prediction, " Regardless of the exact forces behind the present decline in gasoline and oil prices, one can bet that by

January or February prices will be back to their ‘normal’ exorbitant levels.” (See “US gasoline prices: the ‘free market’ and the November election”)

As a result of a large number of mergers since the 1990s, 10 companies control 81 percent of the nation’s oil refineries. The nation’s top five oil companies—ExxonMobil, British Petroleum (BP), Royal Dutch Shell, Chevron and ConocoPhillips—own more than 40 percent of US refineries. With the absence of additional refining capacity and no government regulation on gasoline prices, there is ample opportunity to control gasoline prices.

The concentration of ownership of gasoline refineries is such that unplanned refinery outages at one or two corporations can have a significant effect. The Texas refinery that caught fire in February supplies the US with 15 percent of its gasoline.

Whatever the cause of the present increase in prices, there is no question that refineries are benefiting greatly as a consequence. On May 4, gross profit margins on gasoline refining rose 57 percent from the start of April to $31.22 a barrel. This is the second widest margin recorded in history, according to the New York Mercantile Exchange, and is double the margins from a year ago. The profits per barrel nearly surpassed the record set on September 1, 2005 in the aftermath of Hurricane Katrina, with a per barrel gross profit margin of $31.71 per barrel.

The profits of the major oil companies are presently at record levels. Of the five top oil companies all but BP show an increase in first quarter profits from the previous year. First quarter profits for ExxonMobil were $9.3 billion, up 10 percent from last year. Royal Dutch Shell reported $7.3 billion, up 6 percent; Chevron reported $4.7 billion, up 18 percent. ConocoPhillips reported $3.5 billion, up 8 percent from last year. Over the past six years the five top oil companies have taken in a staggering $440 billion in profits.

These profits are coming directly out of the pockets of the American population as a whole. Lacking alternatives in transportation, workers have had to accept the higher gas prices. According to the Labor Bureau of Statistics, transportation costs account for 18 percent of average household expenditures—the third largest component. From 2000 to 2005 average expenditures on gasoline and oil rose by 56 percent to $2,013 in 2005. As a percentage of total household expenditures the amount spent on gasoline and oil rose from 3.4 percent in 2000 to 4.3 percent in 2005.

The rising price of gas has already shown its impact on consumer spending. Forced to pay higher gasoline prices, workers have cut back on food, clothing, cars and other consumer goods. As a result, retail sales declined by 0.2 percent in April, the first decline in seven months.

The sharp rise in gasoline prices and the corresponding profiteering of the large oil corporations has led again to a series of symbolic measures and proposals from congressional Democrats. Everything from investigations into refinery outages, bans on price gouging, and windfall profit taxes has been suggested. This is largely for show, and the Democrats have no intention of seriously carrying through reforms that would alleviate the burden on working people from the rise in gas prices. Similar measures were proposed a year ago—and in the aftermath of Katrina—but were subsequently dropped.

For its part, the Bush administration has signaled that it will take no action on gas prices. In remarks yesterday at the White House, billed as a statement on oil prices and global warming, Bush made no mention of the rising gasoline prices. He proposed reducing gasoline consumption by 20 percent over the next 10 years through the increased use of biofuels and an increase in fuel efficiency. In other words, nothing will be done to help those hardest hit by rising gas prices.