As gas prices and oil profits soar, Bush promotes giveaways to corporations

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US President George W. Bush used a White House press conference Tuesday to trot out his familiar litany of right-wing proposals, ostensibly intended to address rising gas prices and the growing economic crisis facing millions of Americans.

The proposals are all designed in one way or another to increase the power of the oil companies, even as these conglomerates have begun posting record profits for the first quarter of 2008. Bush proposed opening up the Arctic National Wildlife Refuge (ANWR) to oil drilling, increasing incentives to companies for refinery construction, and blocking new regulations and emissions targets for domestic energy producers.

Bush sidestepped questions on his administration's position on a limited proposal, advanced by Democratic Presidential candidate Hillary Clinton and Republican candidate John McCain, for a summer moratorium on the federal gas tax. Such a move would have only a marginal impact on gasoline prices.

Bush said there was no "magic wand" to deal with gasoline prices, and he blamed Congress for blocking previous energy bills that included some of his proposals.

Rising gasoline prices are beginning to have a major impact on the living standards of millions of people in the United States and internationally. In the US, prices on Monday topped $3.60 a gallon, a record in inflation-adjusted terms and more than 21 cents above the price just two weeks ago. The price for diesel fuel, used in trucks, tractors, and other vehicles, is at a record $4.20 a gallon.

According to a poll conducted on behalf of the Kaiser Family Foundation, 44 percent of the American population now cites the price of gasoline as a "serious problem"—more than any other economic concern. The effects are predictably felt most keenly by those earning the least. About 63 percent of those with incomes of less than $30,000 said gasoline prices were a serious problem.

In a country where the automobile is the primary and often only available means of transportation, it is not uncommon for a worker to have to fill his or her gasoline tank several times a week, compounding the impact of any price increase and putting a severe dent in household budgets already strained by rising food and other costs.

In some parts of the country, gasoline prices are soaring much higher than the national average. In San Francisco, California, average prices topped $4.00 a gallon over the weekend. The statewide average was $3.91.

In Europe, prices are sharply higher as well. In England, where regressive taxes make up much of the price, gasoline is close to £1.10 per liter, or about $10 a gallon.

In the US and in England, many independent truckers are unable to turn a profit off hauling goods, as the cost of filling a tank with diesel can now exceed $1,200. The cost of transport often exceeds truckers' pay. On Monday, about 100 truckers staged a protest in Washington, while dozens converged on London. Independent truckers staged slowdowns and stoppages throughout the country at the beginning of the month.

Within this context, the position of the Bush administration is essentially to do nothing. White House press secretary Dana Perino emphasized this point on Monday, saying, "I think it would be disingenuous and unfortunate for American consumers for them to be led to believe that there is a short-term fix [to gasoline prices]. There's not going to be one."

The proposals from the Democrats are no more serious. In addition to the tax moratorium, Clinton is proposing a suspension of oil input into the Strategic Petroleum reserve, a marginal increase in spending on alternative energy sources, and an increase in fuel economy over a period of 20 years. Obama has rejected the tax moratorium on the grounds that companies would just increase their prices to make up the difference, and supports fuel economy standard increases and alternative energy investment.

None of the candidates are capable of raising the basic issue: that the energy market, so critical to the livelihood of billions of people and to the functioning of the world economy, is largely controlled by private companies, and that these companies exercise enormous influence over the political establishment in the US.

As usual, the oil companies and wealthy investors are reaping fortunes off of the economic hardship inflicted upon the vast majority of the population. The current sharp spike in gasoline prices has been driven largely by the rise in crude oil prices, which reached close to $120 a barrel on Monday—once considered an unimaginable price. The average price of oil in the first quarter was $97.94, up 68.9 percent from a year ago.

There are a number of factors behind the increase in oil prices, including rising demand from China and India and a weak US dollar, in which oil is priced. One of the principal factors, however, is the flood of cash into basic commodities, including oil and food, as wealthy investors have liquidated holdings in more risky financial assets and are looking for hedges on inflation. This is creating a new bubble in commodity markets, forcing billions of people around the world to pay the higher prices generated by artificial demand.

Whatever the cause, the rise in oil prices has been a boondoggle for oil companies, which have begun announcing their first quarter 2008 profits this week. Europe's two biggest oil producers, Royal Dutch Shell and BP, announced profits on Tuesday that far exceeded analysts' expectations.

The combined profit for the two companies was close to $17 billion—$9.08 billion for Shell and $7.6 billion for BP. These figures include earnings attributed to the rise in oil prices. If this rise is factored out (as is done in the so-called current cost of supplies figures), Shell's profits were $7.8 billion and BP's were $6.6 billion. That is, at least $2 billion in profit for the two companies can be attributed solely to the recent rise in oil prices.

Analysts expect the profits for Exxon Mobil, the largest private energy company, to soar to $11.2 billion in the first quarter, an increase of 22 percent over 2007. If the company's profits exceed expectations, however, it could beat its fourth quarter profits from 2007 of $11.66 billion—the record for a US company.

Of course, the top executives and investors will benefit enormously from these windfalls. Exxon CEO Rex Tillerson received an 18 percent raise in 2007, pulling in $21.7 million. The oil companies will also give back billions to investors in the form of stock buybacks and dividends.

The news from Shell and BP came as a surprise to analysts, who have been concerned about profit troubles in the refinery component of production, which transforms crude oil into useable products like gasoline and diesel. Giants like Shell and BP, and US companies Exxon and Chevron, are vertically integrated, including in their operations both oil extraction and refining.

In fact, independent refinery operations are fairing poorly, which could indicate that gasoline prices will continue their upward march over the next several weeks as refiners struggle to raise their own profits. Valero Energy, a refiner, reported a 77 percent drop in first quarter net income on Tuesday, complaining that it had been unable to shift all of its increased costs (from purchasing crude oil) onto consumers.

According to a report in the *Wall Street Journal*, "While the price of gasoline has been rising at the pump, those increases have so far been modest in comparison to oil. In a bid to save their bottom lines, companies operating refineries, especially on the West Coast, are reducing their output. That would likely drive fuel prices higher."

The *Sacramento Bee* reported that some of California's refineries "have had problems returning to full production following their usual winter-spring overhauls," and that this has contributed to the near-$4 a gallon price of gasoline in that state. There are indications that refiners have in the past artificially manipulated capacity and downtime in order to influence prices.

The integrated oil giants can make windfall profits on either the oil extraction or refining (the upstream or downstream) sides of the energy market. Last summer, when gasoline prices were at $3.22 a gallon, much of the profits were booked on the refining end, and attributed to a shortage in refining capacity. This has been the long term trend, as oil companies have shut down refineries in response to low prices.

In this context, Bush's insistence Tuesday that Congress grant incentives to increase refining capacity is absurd. Bush noted on several occasions, "It's been more than 30 years since America built its last refinery." This fact—an indictment of the state of American infrastructure—has been a product of a deliberate policy of reducing refining capacity in order to force gasoline prices up. The oil companies have no interest in building new refineries, with or without tax incentives.

Prices of basic foods such as rice and wheat also have soared in recent months. Among the factors behind this price explosion is the shift to ethanol production, which has increased demand on some food items, particularly corn in the US. Ethanol production, which Bush championed on Tuesday, has largely been intended as a boondoggle for agribusiness. Also on Tuesday, Archer Daniels Midland, one of the world's largest processors of grains and other foods, posted a 42 percent increase in its quarterly profits ending on March 31.

The ability of the oil companies to maintain record profits has been facilitated greatly by the enormous consolidation of the industry over the past 20 years. The top five energy companies now control about 15 percent of global oil production, more than 50 percent of US domestic refinery capacity, and 62 percent of the retail gasoline market.

The entire structure of energy production on a global scale is completely irrational. However, the consolidation of the energy industry has made the rational solution clearer: There is no conceivable reason why these giant corporations—which straddle the globe in search of profits, have done much to encourage war and colonial occupations in key strategic areas, and have worked assiduously to block any attempt to deal with global warming—should remain in the hands of private individuals and under the sway of the profit motive.

Instead, the giant productive forces that control the lives of billions—including the energy and food infrastructure of the globe—must be transferred into public utilities, socially owned and democratically controlled.