Consumer ire grows over oil profits
>By Sheila McNulty in Houston
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The major oil and gas companies knew there would be a public backlash against their massive profits from higher fuel prices and took out advertisements urging conservation, suggesting they were looking out for consumers. Yet Amy Myers Jaffe, energy expert at Rice University's Baker Institute for Public Policy, says they could have done more than signal higher fuel bills; they could have helped prevent them.

She says the majors must reinvest more profits in new exploration and production, substantially increase refining capacity and store refined products in the US to prepare for the sort of emergency the country experienced this summer, when two hurricanes struck at the heart of the nation’s energy infrastructure.

It is because those measures are not being taken, she says, that global inventories are so low and prices are so high. “You and I are paying for that,” Ms Jaffe says.

The situation is worse in the US because the government does not mandate refined stocks, whereas most countries in Europe regulate private company inventory levels. When the hurricanes struck, Europe provided its stocks as US-based refiners scrambled to recover petrol production. They then fell behind on building stocks for winter, setting the stage for a doubling in heating prices.

Critics say the majors have been pandering to investors with measures such as share buy backs. They point, for example, to the third quarter, when Exxon spent $5.5bn (€4.5bn, £3.1bn) buying back shares as it pulled in nearly $10bn in profit, up 75 per cent from the year-earlier period.

“Someone who owns Exxon stock in a pension would be better served by having that $5bn find a giant field somewhere, and so would the public,” Ms Jaffe says.

“You have to have assets. You have to have production.”

Exxon says it reinvests enough, noting it spent $13bn last year on new capital investments when earnings were high and spent a similar amount in 1998, when earnings were lower. “While earnings rise and fall with oil prices, our investments do not.”

Yet critics object that that $15bn has not grown. They say Exxon and other oil majors should be growing capital investments, but instead are leaving challenging exploration and production in places such as Tunisia, and even in the US, to smaller companies such as Marathon, Devon and Apache.

Robin West, chairman of the PFC Energy consultancy, says the majors are in a predicament on oil. “The challenge is they have rapidly rising costs, and they have problems finding the kind of projects for companies of their size, requiring huge scales as well as returns.”

And he believes rocketing natural gas prices are the politicians’ fault for imposing environmental barriers on new sources and bureaucracy that makes new terminals difficult.

As for charges that the majors add only incrementally to refining capacity, John Disney, spokesman for the American Petroleum Institute (API), a national trade organisation, notes they spend billions modifying processes to meet changing regulations while trying to predict trends, “There have been times in decades past when oil has been very cheap by today's standards, and it didn't seem there would be a big payoff to boost refining capacity.”

Critics understand the companies' priority is to make money but say that is not going to block public outrage with oil at $60 a barrel and companies seeking incentives to repair infrastructure damaged by the hurricanes and build new refineries. “They don’t know when to stop asking,” says an energy analyst. “The numbers are obscene.”

Yet Exxon believes the oil industry is being targeted unfairly.

“We earned $9.9bn on $100.7bn in revenue – 9.8 per cent. Citigroup and Microsoft earned 33 per cent, by comparison,” said Mark D. Boudreaux, Exxon spokesman. “There only seems to be talk about windfall profit taxes on oil, while there are over 20 Fortune 500 companies who made significantly more than ExxonMobil on an ‘apples to apples’ comparison – cents income per dollar of revenue.”

Nonetheless, with record profits by Exxon, Royal Dutch/Shell and others, and polls showing anger over rising prices, politicians are talking about imposing a windfall profit tax.

“Even Republicans are scrambling,” says Richard Murray of the University of Houston. Yet, with the Bush administration’s ties to the energy sector and resistance to regulations, he says all that Republicans can do is ask companies “to be more responsible”. Democrats can make more noise, but they cannot push through punitive legislation.

“This is the most oil-friendly administration in the history of America,” says Harry Reid, Democratic leader in the Senate. In five years of Bush administration, he adds, “we've done nothing to lessen our dependence on fossil fuel”.

The API says it would be counterproductive to tax profits that could be used to meet consumers' needs. Yet if the public believes not enough of those earnings are being invested, Ms Jaffe says, the government will have to act. “If they have profits like this for the next two years and don’t substantially reinvest, they will end up being taxed.”

Additional reporting by Holly Yeager in Washington

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