Oil Companies Are Enjoying Market Influence and Record Profits, While U.S. Families Foot the Bill for High Gas and Energy Prices

Russia's invasion of Ukraine has driven up the cost of oil more than 60% from six months ago. And the reliance of the United States on fossil fuels has left families footing the bill for higher gas prices, while oil producers make record profits.

A handful of oil-producing countries, including Russia and Saudi Arabia, dominate the oil market and have pushed up prices at the pump, which hurts workers, families and small businesses. Domestic oil producers and shareholders are reaping the rewards of the recent rise in crude oil and gas prices with record profits and stock buybacks.

The Biden administration has taken action by supplying one million additional barrels of oil per day for the next six months from the U.S. Strategic Petroleum Reserve (SPR). Oil production in the United States has more than doubled since the last time oil prices spiked and now exceeds domestic consumption, but U.S. families are still subjected to global prices for oil. Public investments in clean energy are necessary to transition to true energy independence and bring down costs for families, as they shield families from price volatility and protect the environment.

The global oil market lacks competition and is dominated by countries like Russia and Saudi Arabia

More than half of the world's total crude oil is produced by nations that have banded together to exert power over the international market. Although the United States is the single largest producer of crude oil in the world, the 13 countries that comprise the Organization of Petroleum Exporting Countries (OPEC) have much more influence on oil prices. And since 2016, a Russia-led group of 10 countries has coordinated production with OPEC, giving this combined block, known as OPEC+, control of roughly 50% of the world's oil production. OPEC+ is the largest and most important global supply-side driver of oil prices; because it openly manipulates supply, it has the power to substantially affect oil prices.

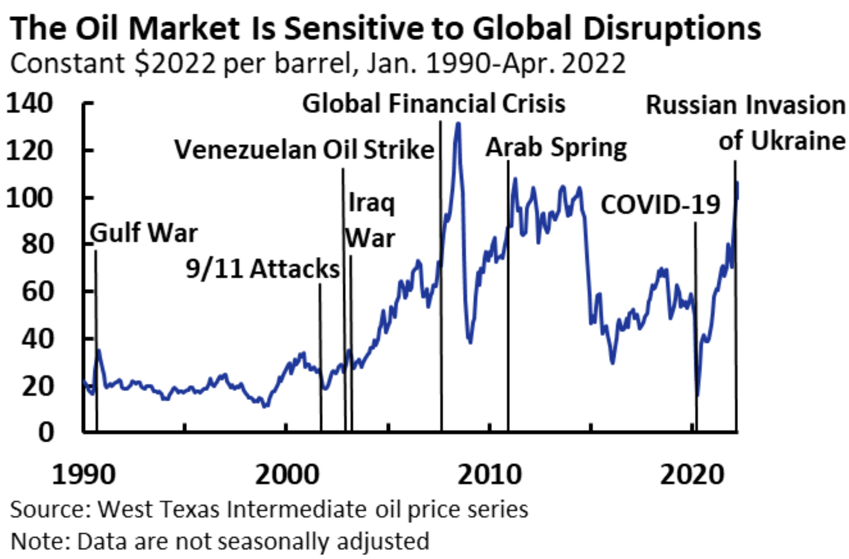
Russia is tied with Saudi Arabia as the second-largest oil producer, and Russia and Saudi Arabia are the largest producers in OPEC+. Saudi Arabia's influence in OPEC+, and thus its power to influence oil prices on the global market, stems from its majority ownership stake in the world's largest oil-producing company, Saudi Aramco. This overwhelmingly state-owned company produces more than twice as much as its closest competitor.

In 2020, Saudi Arabia played a leading role in the decision of OPEC+ to dramatically cut oil production in response to the coronavirus pandemic and ensuing fall in demand. In 2021, a swift recovery in demand and limited oil supply pushed up oil prices around the world, and Saudi Aramco more than doubled its profits, overtaking Apple as the world's most valuable company.

The oil market remains sensitive to global disruptions and shocks like Putin's invasion of Ukraine

Oil is traded and shipped worldwide. This globally integrated market means any disturbances in oil production can create price shocks around the world. High oil dependence leaves economies vulnerable to these shocks, with widespread impacts on households and businesses.

Price shocks have long been a cyclical symptom of the global oil market. The graph below illustrates the relationship between price shocks and global events and illustrates the outsized role OPEC has played in triggering these shocks, with events such as the Gulf War, the Venezuelan oil strike combined with the Iraq war and the Arab Spring inflicting sharp price increases of 53%, 13% and 35%, respectively.



Even as the United States became a net exporter of energy in late 2019, oil shocks have continued to affect U.S. workers and families. For example, Putin's unprovoked invasion of Ukraine has driven up the cost of oil more than 60% from six months ago. As long as U.S. energy prices are exposed to a volatile market, true energy independence will remain elusive, leaving U.S. consumers subject to the consequences of international events and the whims of authoritarian oil-producing governments.

Domestic oil producers and shareholders are reaping profits from the rise in crude oil

U.S. domestic oil producers and their shareholders are reaping the benefits of the rise in crude oil and gas prices. Exxon Mobil, the country's largest oil company, recently doubled its net profit relative to the same quarter last year. The second largest oil company in the United States, Chevron, also reported its highest quarterly profit in about 10 years.

Wealthy shareholders are enjoying the fruits of these record profits. Exxon Mobil recently announced that it would triple its stock buyback program to $30 billion by the end of next year. Similarly, Chevron announced plans to purchase back $5 billion to $10 billion worth of shares per year, north of previous plans for $3 billion to $5 billion in annual repurchases. Both Exxon Mobil and Chevron have seen their share values increase by about 40% this year.

Families and businesses are footing the bill for the global rise in gas prices and the ongoing volatility resulting from Putin's invasion of Ukraine

Recent price volatility in the global oil market has repercussions for all Americans, especially low-income families. When global oil prices increase, drivers have little recourse and see immediate losses in disposable income. One estimate found consumers spend an extra $23 billion a year for each 10% increase in oil and gas prices.

Changes in oil prices also impact workers and families beyond the gas pump. Oil shocks increase costs and prices in other sectors, such as transport, power and food. The San Francisco Federal Reserve compares the spillover effects of increased oil prices to a tax on consumers. This "tax" hits lower-income Americans harder because they spend a greater share of their income on necessities like food, energy and transportation. Workers who must drive to work and who have long commutes, residents in rural areas and those who cannot work from home are hit especially hard.

The Biden administration is using the Strategic Petroleum Reserve to help bring more oil to market, but long-term energy security requires ending America's dependence on fossil fuels

By releasing oil from the Strategic Petroleum Reserve (SPR), the Biden administration has taken decisive action to boost the fuel supply and help provide relief to U.S. families at the gas pump. This historic release from the SPR is expected to help meet the quick recovery of demand after the pandemic and ease the upward pressure on prices.

However, recent events have shown that domestic production does not shield U.S. consumers from global oil shocks and previous efforts to prioritize domestic fossil fuel production to insulate the U.S. from the volatility of international energy markets have had limited results. Even though the United States produced more petroleum than it consumed in 2020 and 2021, U.S. workers and families were still susceptible to recent oil price spikes.

U.S. oil production has more than doubled since the last major oil shock, but the disruption of Putin's war on Ukraine and the pandemic are still putting upward pressure on gas prices. In the long run, transitioning to clean, domestically produced energy would provide energy independence and ensure stable, low-cost energy for U.S. families, workers and businesses.

Transitioning to clean energy provides a path to reliable, affordable energy for households and businesses

Transitioning to clean, renewable energy—including wind and solar power—would further energy independence and reduce costs for families. Wind and solar are already among the lowest-priced and most stable energy sources available. According to the Natural Resources Defense Council, the cost of charging an electric vehicle at home is approximately equivalent to filling a gas tank with one-dollar-a-gallon gasoline. And unlike the price of gas, which has been vulnerable to international price shocks, the average price of residential electricity has remained close to the dollar-a-gallon equivalent for more than 20 years—even after adjusting for inflation.

Transitioning to renewable energy can help to reduce driving costs and strengthen the resilience of electrical grids that power homes and businesses.