

[Comment] Who's to blame for high petrol prices?

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1 July 2008 @ 09:52 CET

EUOBSERVER / COMMENT - Every day I hear more people complaining about the rising cost of petrol and the inaction of EU member states governments. The argument goes as follows: 'Filling the tank costs a fortune. Since half the cost of petrol consists of tax, governments can solve the problem by cutting petrol taxes!'

The full burden of extra costs cannot be passed on to the consumer.

And it's not just the hard-pressed motorist who says this, but everyone from lorry drivers to fishermen. What's wrong with the argument?

Two things, basically: it ignores the need to raise energy efficiency and reduce environmental pollution and, most important, it ignores the fact that it's the oil companies and the commodity speculators, not the government, who gain at the consumers' expense.

Commodity speculation

The oil speculators are mainly the many fund managers who, partly as a result of the credit crunch, have moved into the futures market for the 'big 25' commodities - mainly food and oil.

According to recent testimony to a US government committee by Alan Masters of Masters Capital Management, "Assets allocated to commodity index trading strategies have risen from \$13 billion at the end of 2003 to \$260 billion as of March 2008, and the prices of the 25 commodities that compose these indices have risen by an average of 183 percent in those five years!"

F. W. Engdahl of Global Research argues that as much as 60 percent of today's oil price is driven by pure speculation. Because future contracts can be rolled over without anybody taking delivery, such speculation can be prolonged.

What are they speculating about with regards to the price? Future Chinese and Indian demand, war in Iran? It is anybody's guess. Moreover, as money pours into these markets and prices rise, more and more speculators are pulled in, leading, ultimately, to a bubble.

But to suggest that the oil price is driven by speculation alone would be highly misleading.

Oil company profits

What about the oil companies themselves? Consider the following figures.

In 2005 Shell's profits were over \$20 billion at a time when crude oil was selling for about \$40 a barrel, while its carbon emissions totaled 102m tonnes.

In 2006, Exxon's profits were \$20 billion, while Shell's were \$25bn. This is equivalent to about \$70 million a day and is about ten times the size of the profits made by Tesco, the UK retail giant.

By 2007, with oil up to \$80-90 a barrel, Shell's profits had climbed to \$27.5 billion - the largest profit ever recorded for a UK-listed company. It doesn't take a rocket scientist to know where big oil's profits are headed in 2008!

The oil companies argue that these profits aren't made from their petrol stations. Forecourt operations turn a very modest profit, they say.

That may be true. However, oil companies manipulate the prices along the production chain in order to take profits where they are least likely to be taxed; i.e., on their extraction operations, where they can claim to be ploughing profits back into new exploration.

In truth, this practice of "transfer pricing" has meant that for decades, big oil has paid very low rates of corporation tax. One study in the US estimates that as a result of various tax breaks and indirect subsidies, the effective rate of corporation tax paid by big oil is 11 percent, less than a third of the official US corporation tax rate (35%).

In short, it is the consumer who pays tax in the forecourt while big oil and the speculators get away without pay much in the way of taxes at all.

Are higher oil prices unequivocally bad?

Should big oil's windfall profits be passed on to the motorist? There are of course good arguments for welcoming high petrol prices.

For one thing, high fuel prices will ultimately force motorists to switch to smaller, more fuel-efficient vehicles or to public transport, which is generally far more fuel-efficient than the private car.

Anyone who has travelled in the United States knows that cheap petrol has created a car-dependent society in which cheap, reliable public transport hardly exists. Furthermore, if governments cuts petrol taxes, this reduces public revenue. Compensating receipts must either be raised from other taxes, or else public services must be cut.

The answer is to tax the companies more and regulate prices (and commodity speculation) so that the full burden of extra costs cannot be passed on to the consumer.

More and better public transport

Of course, some people need to make journeys that are awkward or impossible by public transport. But for most people, it is quite feasible to switch from private to public transport.

In London, for example, the congestion charge has significantly reduced non-essential private journeys while reducing the time needed for buses, taxis, and ambulances to make their journeys.

But what do we do about rural dwellers who have poor access to public transport? One idea would be to improve public transport accessibility, using high volume inter- and intra-city revenues to cross-subsidise low volume public transport in remote rural areas.

The Nordic countries have been particularly successful in this respect, and one might add that countries such as Finland, Norway and Sweden have a greater number of remote corners than most other parts of Europe.

Ensuring a sustainable future means ensuring cheaper, better and more environmentally friendly transport. Fast trains and efficient and reliable bus and tram services are an essential part of the mix. At the same time, there will always be a role for the car - whether privately owned, or (as in Paris under Mayor Bernard Delanoë) supplemented by cheap electric vehicles.

Who should pay? Let's reduce the burden on low- and medium income families and increase it on super rich corporations and individuals. Before joining the chorus of those baying for government merely to lower petrol taxes, we need to think about the underlying issues.

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