

Return to: [Opinions](#)

## Separation Of Oil And State

Steve Kretzman

October 20, 2006



Steve Kretzmann is Executive Director of [Oil Change International](#). He has worked on environmental and social issues surrounding the oil industry for the last seventeen years.

As gas prices continue to decline, it's only natural to wonder about the apparent coincidence between this trend and Republican interests in the election. Indeed, [a recent poll](#) found that 42 percent of Americans believe that gas prices have been "deliberately manipulated" in advance of the election. Countless articles have been written on blogs and in the mainstream press speculating on the possibility of a gas price conspiracy, either supporting the supposition or shooting it down.

The trouble with conspiracies is that they're wickedly difficult to prove, particularly without a smoking gun. There may be a conspiracy, or there may not be. However, there doesn't have to be a specific conspiracy on gas prices in the run-up to the election—there just has to be a collective recognition of self-interest among the Bush administration, oil industry executives, investment fund managers and oil traders.

What we're seeing in the oil markets right now is a chilling demonstration of the mutual and constantly converging interests of oil and state in the U.S. In other words, it's not a conspiracy—it's the gasoline market, which is an oligopoly, recognizing that its collective self-interest lies in more Republican rule. In the current election cycle, the [Center for Responsive Politics reports](#) that donations from the oil industry and its employees are running 83 percent in favor of Republicans, which is the most pronounced slant by the oil industry—and possibly the most pronounced in any industry—ever. Clearly, they know which side their bread is buttered on, and can take actions to protect those interests.

Oil companies have a lot they can do to influence the price of gas at the pump, [despite their frequent protestations to the contrary](#). By raising and lowering its profit margins in the refining business, Big Oil can have a major impact on the price of gas. A [recent study](#) by the California-based Foundation for Taxpayer and Consumer Rights found that, over the summer of 2006, the oil majors had been making almost three times as much profit—a 334 percent increase since 2003—off of their refining and marketing operations in the U.S. than they were in Europe. Over the last two months, those margins have dropped sharply, particularly in the Midwest and the Gulf, where the price of gas now approaches \$2.

Oil industry analyst Tim Hamilton argues that this difference is due to the fact that these refineries overproduced in the late spring and summer, in anticipation of the heavy hurricane season that never arrived. This led to a glut of gasoline on the market and a corresponding drop in prices this fall. Although Hamilton is skeptical that refiners purposely reduced their profit margins in August, he says that political pressure does impact production decisions. The initial move to crank up production in the spring was "a political decision, based on them not wanting to get their asses handed to them for being unprepared like they were last year after Katrina," Hamilton says.

What does this imply? Not that a small cabal is trying to rig the elections, but rather that there is an ongoing and systemic confluence of interests between oil and state in this country. The U.S. government needs the oil industry to maintain power, literally. The horror that was Katrina and the ensuing gas price rise felt by almost every voting American revealed an impotent government

### LATEST

- [Terror War On The Border](#) October 20, 2006
- [HOPE's Lost Hopes](#) October 20, 2006
- [Blindness: Your Letters](#) October 20, 2006
- [How Green Is Your Vote?](#) October 19, 2006
- [Foreign Policy Blindness](#) October 19, 2006

### ARCHIVES

### SUBSCRIBE

Sign up for our free daily dispatch.  
[Privacy Policy](#)



ENRICH PUBLIC DISCOURSE,  
**Tax Free.**  
Give to [TomPaine.com](#).

unable to assist its own people. Lots of people in Washington had every incentive to make sure that that did not happen again this fall. Not all of those incentives were charitable (although, to be fair, some undoubtedly were).

The oil industry needs the government to continue to maximize their profits by providing an atmosphere conducive to market dominance in the transportation energy sector—and it needs the government to continue to not shine too much light on their ongoing practices. Witness oil industry CEOs brought to Congress and not sworn in. Big Oil also appreciates and enjoys a lax regulatory atmosphere, [\\$6 billion in new subsidies just last year](#), [ongoing annual subsidies](#) that are worth at least \$5 billion, continuing diversion of millions of dollars intended for developing world poverty alleviation into [international oil projects](#), favorable international trade regimes and investment agreements and a willingness to use American military power to ensure ongoing supply.

Government also has a lot it can—and does—do about oil prices, whether formally or informally. The Bush administration has taken at least two, and possibly more concrete steps to lower the price of oil and gasoline over the past two months.

Two weeks ago, the administration [decided not to replenish](#) the Strategic Petroleum Reserve, despite the fact that, last April, they said they would do so in the fall. But the price of oil is quite low now, and with the announcement that OPEC will formally cut back production at the end of October the time to get the best buy for the American taxpayer is now. There isn't any logic to not refilling the SPR now, other than to keep more oil on the market and thus keep gas prices low.

Second, [as Michael Klare recently observed](#), much of the “fear premium” in the global oil markets was due to administration saber rattling—i.e., Iran and Hezbollah—in the first place. The solution? Behave calmly, for once. Iran casually blew through a U.N.-set August 31 deadline to stop nuclear work. The reaction? Mild rebuke. Iraq continues to be a bloodbath, kidnappings and community unrest are still the norm in Nigeria and North Korea tests a bomb. Rather than bellicose rhetoric, we're now seeing an emphasis on diplomacy and calm.

And finally, in the realm of interesting coincidence, Goldman Sachs, which runs the country's largest commodities index, started selling gasoline futures in mid-August. Henry Paulson, the new Bush administration treasury secretary, was formerly CEO of Goldman Sachs. "Goldman has been liquidating its gasoline position, and that's put a lot of pressure on prices," said Citigroup Inc. oil analyst Doug Leggate in [The Washington Post](#). "It's a very large part of why gasoline has fallen."

The government pressuring oil companies or OPEC nations to keep prices low and constituents happy is nothing new—it's been happening since the '70s at least. But this arrangement is under strain now from peak oil, climate change and national security concerns. Increasingly, these three factors will reduce the power of the oil industry to bail the government out of tight spots. For the moment, though, Big Oil's influence in Washington is clearly intact.

There is reason for hope for the next Congress, though. If current trends hold, this next Congress will be the least beholden to the oil industry in a generation. As of September, almost twice as many senators and representatives are completely free of oil industry donations as was the same group in 2000. This increasing number of principled politicians is reacting in part to a growing coalition calling on Congress to reject oil industry contributions, end oil subsidies and stand for a [“Separation of Oil and State.”](#)

Republicans have generally been Big Oil's biggest friends in Washington, but Democrats have not exactly blazed a path for clean energy—although that may be changing now. If the next Congress is going to get serious about ending our oil addiction though, they're going to have to go beyond winning a few for the caribou. They're going to have to get down to a Separation of Oil and State.