TAXPAYERS for COMMON SENSE

O&G REPORT

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Two Years After the Pandemic First Hit, Big Oil Raking in Record Profits

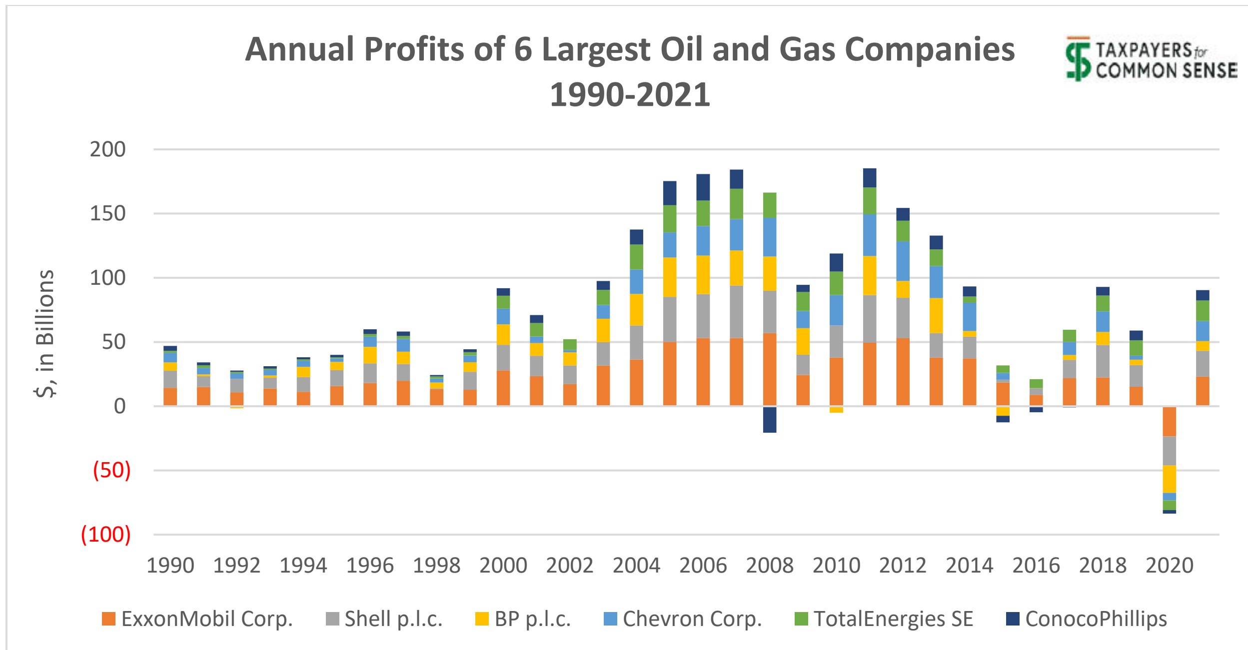
Photo credit: Paul Lowry via flickr

The world's six largest publicly traded oil and gas companies, ExxonMobil, Chevron, Shell, Total SE, ConocoPhillips, and BP, put the "BIG" in Big Oil. Subsidizing Big Oil and the industry at large through sweetheart leasing terms and tax preferences is an unjustified waste of taxpayer dollars at any moment, but their enormous profits provide renewed reason to end the giveaway now.

When the COVID-19 pandemic made the whole world grind to a halt, the demand shock caused oil prices to temporarily drop to $0 per barrel and as a result, the companies reported combined losses of $79.9 billion in 2020.

However, almost two years after the pandemic began, Big Oil reported total annual profits of $90.4 billion for 2021, fully recovered from the brief pandemic-induced decrease in demand, with profits

padded thanks to resurgent oil and gas prices. In fact, from 1990 to 2021, 2020 is the only year that these six companies reported combined losses. Strong oil and gas prices also resulted in strong cash flow in 2021 for these six companies, all of which are funneling money to investors either through dividends or share buybacks. Yet all six of these huge companies, even those that are based in foreign countries, continue to milk generous federal taxpayer subsidies that add up to about $5 billion per year.



ExxonMobil: annual earnings of $23.04 billion, its highest since 2014. The company generated $48 billion cash flow from operating activities, the highest level since 2012, which allowed it to pay down $20 billion worth of debt, returning its debt to pre-pandemic levels. In Q1 2022, ExxonMobil initiated a $10 billion share buyback program.

Chevron: annual earnings of $15.6 billion, its highest since 2014. High oil and gas prices resulted in strong cash flow from operations of $29.2 billion for Chevron as well, which helped pay down $12.9 billion worth of debt and repurchase $1.4 billion worth of company stock.

Shell (formerly Royal Dutch Shell, P.L.C.): $20.1 billion in annual profits and $45.1 billion of cash flow from operating activities. The company reduced its debt by $22.8 billion in 2021, dropping its debt-to-capital ratio from 32.2% to 23.1%. The company also announced a share buyback program of up to $8.5 billion for the first half of 2022 during its latest earning results call.

TotalEnergies SE: annual profits of $16 billion and cash flow of $30 billion in 2021. The company reduced its debt-to-capital ratio to 15.3% in 2021, compared to 21.7% at the end of 2020. Strong cash flow allowed Total SE to buy back $1.5 billion of the company's stock, with another $2 billion buyback planned for the first half of 2022.

ConocoPhillips: $8 billion in annual profits and $17 billion of cash flow from operations. The company resumed its share buyback program at an annualized level of $1.5 billion in Q1 2021.

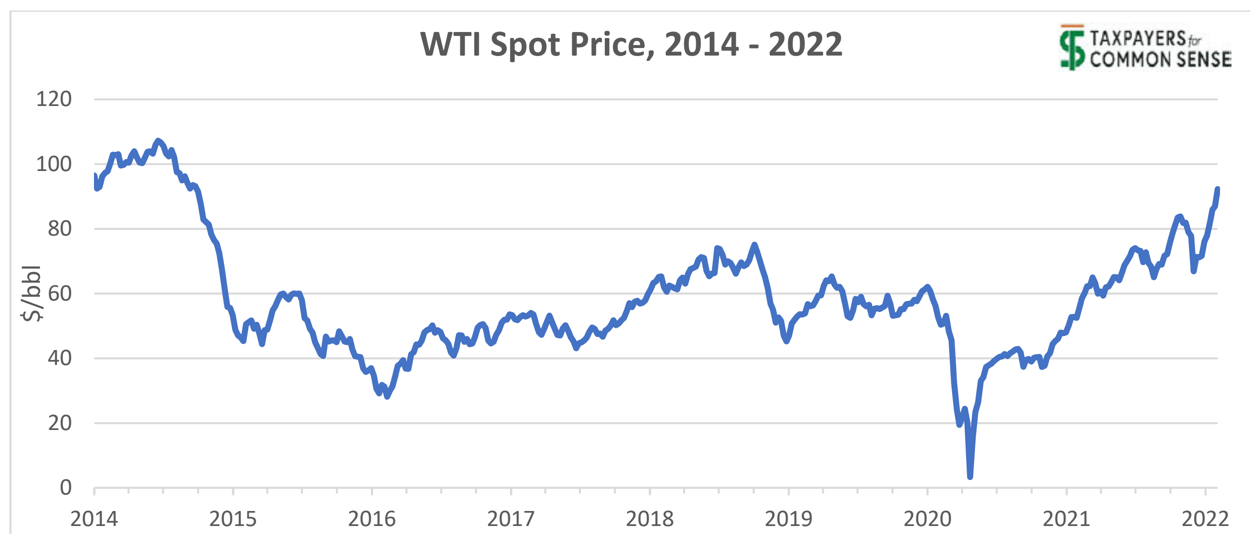
BP: annual profits of $7.6 billion and cash flow from operations of $23.6 billion. Using this surplus cash flow, BP will buy back $1.5 billion of its shares in Q1 2022. It expects a $4 billion/year buyback program to continue under current oil prices and plans to increase dividends by 4% per annum through 2025.

Net Income (Loss) Attributable to the Company ($, billions), 2017-2021

$(2021) in Billions	2017	2018	2019	2020	2021	2017-2021 Total
ExxonMobil Corp.	22	22	15	-23	23	59
Chevron Corp.	10	16	3	-6	16	39
Shell p.l.c.	14	25	17	-23	20	54
TotalEnergies SE	10	12	12	-8	16	42
ConocoPhillips	-1	7	8	-3	8	19
BP p.l.c.	4	10	4	-21	8	4
Big 6 Total	59	93	59	-84	90	217

Oil and gas prices continue to soar in 2022 after a slight dip in Q4 2021 due to demand uncertainties caused by the Omicron variant. The strong rebound after the holidays quickly brought the West Texas Intermediate (WTI) oil spot price to $92.27 per barrel (bbl) in the first week of February, the first time that oil prices have risen above $90/bbl since the oil market realignment in 2014. Compared to the same period in 2021, the oil spot price increased by 66.6%.

As for natural gas prices, the weekly Henry Hub spot price reached $5.78 per million British thermal unit (mmbtu) in February 2022. Since gas prices started to recover at the beginning of 2021, the Henry Hub spot price has surpassed $5/mmbtu nine times. In comparison, gas prices were only higher than $5/mmbtu a total of eight times from 2014 to 2020.

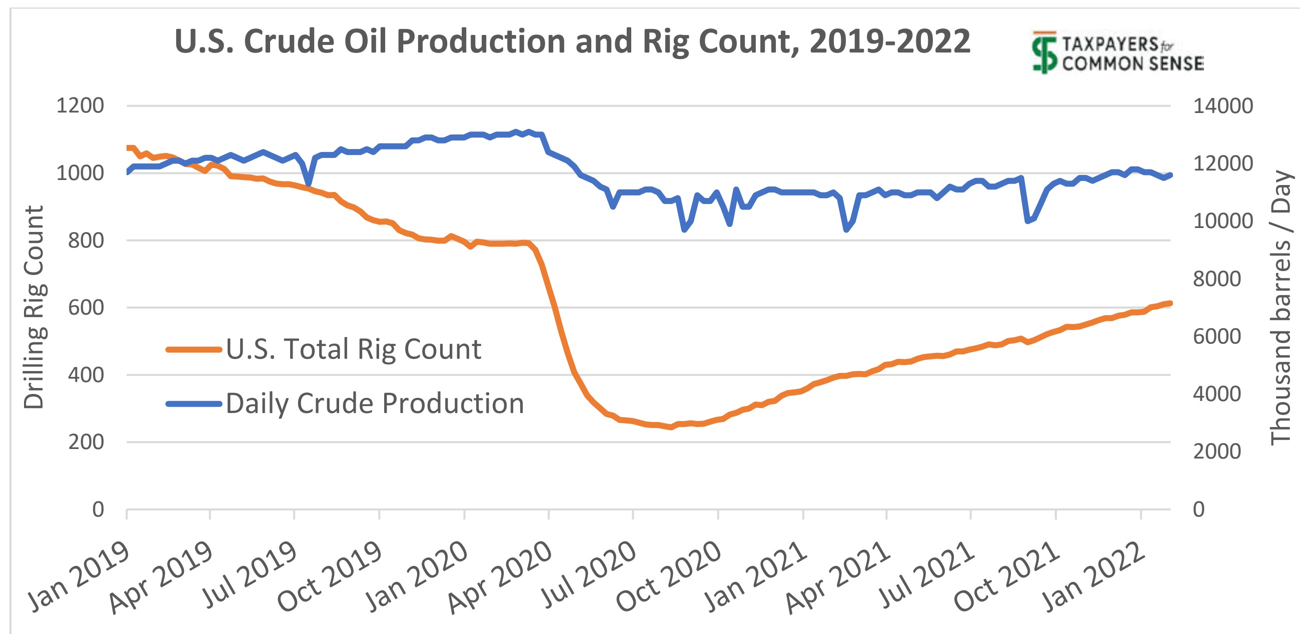


Source: EIA Spot Prices, https://www.eia.gov/dnav/pet/pet_pri_spt_s1_w.htm

The U.S. Energy Information Administration (EIA) expects the Brent crude oil spot price, the international benchmark for oil prices, to remain at current levels, or $90/bbl on average in the coming months. However, the EIA anticipates oil prices to decrease as global oil production outpaces declining growth of global oil demand, dropping to $87/bbl in 2022 and $75/bbl in 2023.[1] The EIA also forecasts that global oil demand will average 100.6 million barrels per day (mb/d) for all of 2022, more than the 2019 average of 100.3 mb/d. The International Energy Agency (IEA) oil market report predicted a similar outlook and expects world oil demand to return to its pre-pandemic levels of 99.7 mb/d. Persistent demand will likely ensure the companies' continued record-breaking profits in the near term.

The price of oil is set in the global market and many factors led to its steady rise over the last year. Consistent draws on oil stocks after the 2020 dip in production, ongoing volatility associated with COVID-19 infection waves, and geopolitical events all played some role. The price surge and the industry's 2021 profits preceded Russian's incursion into Ukraine and drillers' profits are primed to continue under all foreseeable circumstances, with drilling and production increasing.

The IEA forecasts the world oil supply to grow rapidly this year, with the U.S. set to pump at the highest ever annual levels.[2] Although Hurricanes Ida and Nicholas disrupted production in Gulf of Mexico in August and September, U.S. crude oil production steadily increased otherwise throughout 2021. Total U.S. oil production is set to return to pre-pandemic levels as oil and gas companies respond to high prices by adding more rigs. In 2023, EIA forecasts that U.S. production will top previous records, suggesting the industry's profits are likely to continue piling up.



Source: EIA Weekly Petroleum Status Report, https://www.eia.gov/petroleum/supply/weekly/

[1] https://www.eia.gov/outlooks/steo/report/global_oil.php
[2] https://www.iea.org/reports/oil-market-report-january-2022

Conclusion

Soaring oil and gas prices have greatly benefited the largest oil and gas companies, all of which reported increased revenues and profits compared to 2020 levels as well as record high cash flows. The oil and gas industry is NOT suffering from the pandemic—it has well recovered from the demand hit and is still a highly profitable industry. Oil demand was disrupted by the pandemic, and production was impacted by natural disasters on a smaller scale, but this industry is returning to pre-pandemic levels of profitability, which is expected to increase as producers respond to higher prices. The U.S. federal government and taxpayers should not continue to subsidize big oil through sweetheart leasing terms and tax preferences.

Photo credit: Babette Plana via flickr