



## Gas Prices: Why the Government Can't Lower Them

### Description

Gas prices are a hot topic around the world these days. In many countries — including Canada — they are near all-time highs, and they show no signs of cooling off. On Monday, the price of WTI crude dipped briefly, only to start rising again later. It looks like Canadians are facing at least another few weeks of high gas prices. They could be looking at an entire year of pain at the pump.

Naturally, this situation has gotten a lot of people upset. Many are wondering why they're paying so much for gas and what the government can do about it. Unfortunately, the answer to the latter question is, *not much*. The vast majority of the factors impacting the price of gasoline are international, beyond the Federal Government's influence. In this article, I will explore the factors keeping the price of oil high, and why they're so hard for the government to influence.

### The factors keeping prices high are international

There are two main factors causing gas prices to rise this year, and both of them are “international” (i.e., involving countries other than Canada):

1. The War in Ukraine
2. OPEC's production levels

The war in Ukraine contributes to high oil prices because it keeps oil off the market. The lower the supply of something, the more its price rises if demand is held constant. To disincentivize Russia's war on Ukraine, countries have stopped buying its oil. Unfortunately, this means that there is now more competition for a smaller supply of oil, which is causing the global price to rise.

The second factor behind the rising price of oil is OPEC's production levels. OPEC accounts for a large percentage of the world's oil supply, and Western governments want the cartel to supply more of it. Unfortunately, OPEC is not really moving. At its most recent meeting, OPEC pledged to pump 600,000 more barrels per day. That's only a 2% increase to the 30 million barrels a day they're already pumping. So, OPEC is not helping to lower the price of oil — at least, not much.

## Canadian companies can contribute, but only a little

Broadly speaking, Canadian companies can't do much to lower the price of oil. Oil companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) are profit motivated, and they make more money when the price of oil is high. Naturally, they are a little bit hesitant to pump more oil.

If you look at Suncor's most recent quarter, you'll see that it produced \$4 billion in adjusted funds from operations and \$2.9 billion in net income. These are staggering amounts of money. But it was quite a different story in 2020, when the price of oil was low. That year, Suncor lost money [four quarters in a row](#), and even slashed its [dividend](#) in half! Things are looking better now, but the 2020 case study illustrates a point: oil companies make more money when the price of oil is high.

The Federal Government could perhaps compel these companies to pump more oil. But the effect would probably be minimal. There is only so much oil in the ground, and oil companies only have so much capacity with which to drill for it. So, the government can't do much about the price of gasoline in the short term. There are too many factors beyond its control.

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