Gasoline and diesel prices are front-of-mind for Americans, and people are understandably interested in whether there's a connection between higher pump prices (which refiners do not set) and higher profits in the refining industry. That deserves a deeper dive.

TLDR

Refining margins are often cited in public discussions, but without important context about how they are calculated and how they differ from overall earnings.

A refining margin is the difference between what it costs to turn crude oil into fuels (including the cost of crude) and the price those fuels sell for in the wholesale market.

Earnings, by contrast, include additional business items like asset sales or financial gains and do not reflect refining performance alone.

When demand for fuels is strong relative to supply, margins tend to widen. When supply catches up, margins typically come down.

That's what we're seeing right now. There's a global supply and demand imbalance for both crude oil *and refined products* because of the effective closure of the Strait of Hormuz. That's pushing margins higher for now. But refining, like the broader oil and gas sector, is cyclical, with margins and profits moving up and down as supply and demand shift.

Keep reading to find out more about what drives refinery margins, whether margins and profits are the same thing, and what refineries do (and don't do) with their earnings.

Refining margins tell the story of global supply/demand for fuels

The cost of the crude oil — driven by the fundamentals of supply and demand — is the single largest driver of prices. But there's a second supply and demand dynamic that's specific to refined products that also drives prices.

The U.S. Energy Information Administration explains that both crude oil and refined product markets are like global auctions. Participants in the oil markets, including refineries, crude producers, and traders around the world, bid to buy and offer to sell available crude oil. And then fuel distributers around the world bid for the gasoline, diesel, jet fuel and other products refineries make. The combined activity in these two markets is what determines refining margins.

When there's a supply/demand imbalance in either "auction," as there is right now in both, that gets reflected in crude oil costs, refining margins and end prices for consumers.

"Margins" aren't the same as profits

“Margins,” “gross margins” and “crack spreads” — often cited during earnings calls — do not equate to pure profit for refineries. Here’s what these terms actually mean:

- “Margin” and “crack spread” are often used interchangeably and refer to the difference between what refineries pay for crude oil and what they get paid for the fuels they sell to the wholesale market. It’s a snapshot of market conditions, not a full picture of profits because:
    - **Comparing just the cost of feedstock to the cost of products ignores a whole host of other essential, expensive costs**, things like labor, utilities, costs to transport feedstocks, regulatory compliance costs, facility maintenance, etc.
    - **A barrel of oil becomes a lot more than just gasoline and diesel, and some of those fractional products are less valuable than gasoline and diesel,** so crack spreads don’t tell the whole story.
- **“Gross margins”** reflect the difference between product revenues and the costs to make those products. They don’t account for other major business and administrative expenses like taxes, property costs, selling expenses or debt payments, all of which can significantly reduce profits.

How refineries spend and reinvest their earnings

Publicly owned companies, like many U.S. refineries, have a fiduciary responsibility (a legal obligation) to act in the best interest of their shareholders, and that extends to how companies spend their earnings. Often, earnings and profits are used for:

- Reinvestment in facilities (e.g. maintenance projects, upgrades, reliability improvements, safety and environmental performance enhancements, etc.)
- Debt reduction
- Shareholder returns (e.g. dividends or “buy backs,” which involve returning profits directly to shareholders or increasing the value of individual shares, are very common across industries)

Refineries can’t just lower prices

Refiners don’t sell fuel below market value because it would go against the interests of their shareholders to whom they are accountable, including millions of Americans with retirement savings. Selling fuel below market value in a tight supply environment would also send the wrong signal to the market and could increase demand. And it would not necessarily lower prices at the pump either, since refineries do not set retail prices.

Refining margins are typically cyclical

Refining, like the broader oil and gas sector is cyclical, with margins and profits moving up and down as supply and demand shift.

For example, through much of 2024 and 2025, margins in the refining sector were lower because global supplies of gasoline, diesel and jet fuel surpassed demand. The United States Energy Information Administration published analysis in 2024 noting that refining margins had hit multiyear lows. Last year, Boston Consulting Group said, “downstream earnings for integrated oil companies dropped by about 50% in 2024 from 2023 and are some 60% lower than they were in 2022.”

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About AFPM:

The American Fuel & Petrochemical Manufacturers (AFPM) is the leading trade association representing the makers of the fuels that keep us moving, the petrochemicals that are the essential building blocks for modern life, and the midstream companies that get our feedstocks and products where they need to go. We make the products that make life better, safer and more sustainable — we make progress.

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