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GASOLINE PRICE INCREASES AND OIL MARKETS

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THE SUPPLY EMERGENCY IS REAL

- **WORLD MARKETS LOST 4 MILLION B/D**
 - Iraq: 2.6-2.7 million B/D exports
 - Kuwait: 1.3 million B/D exports
 - Possible threat/interdiction/involvement of Saudi Arabia, the largest exporter

- **REPLACEMENT VOLUMES COULD TOTAL 3.5 MILLION B/D, BUT ARE UNLIKELY TO BE MORE THAN 3.0 MILLION**
 - Saudi Arabia: 1.5-2.0 million B/D. Now certain, but mixed signals kept the market guessing.
 - Venezuela: probably 500 thousand B/D. Increased, then decreased again. Mixed signals especially surprising. Volumes finally likely.
 - UAE, others?

- **STOCKS WERE HIGH WORLDWIDE, BUT HAVE BEEN QUICKLY RUN DOWN TO MAKE UP FOR LOST SUPPLIES**
 - Lost volumes already equal 45% of the "excess" inventory above normal.
 - In the U.S., crude oil stocks were high but gasoline stocks were not

- **THE SUPPLY SHORTFALL WILL WORSEN AS COLD WEATHER MOVES IN**

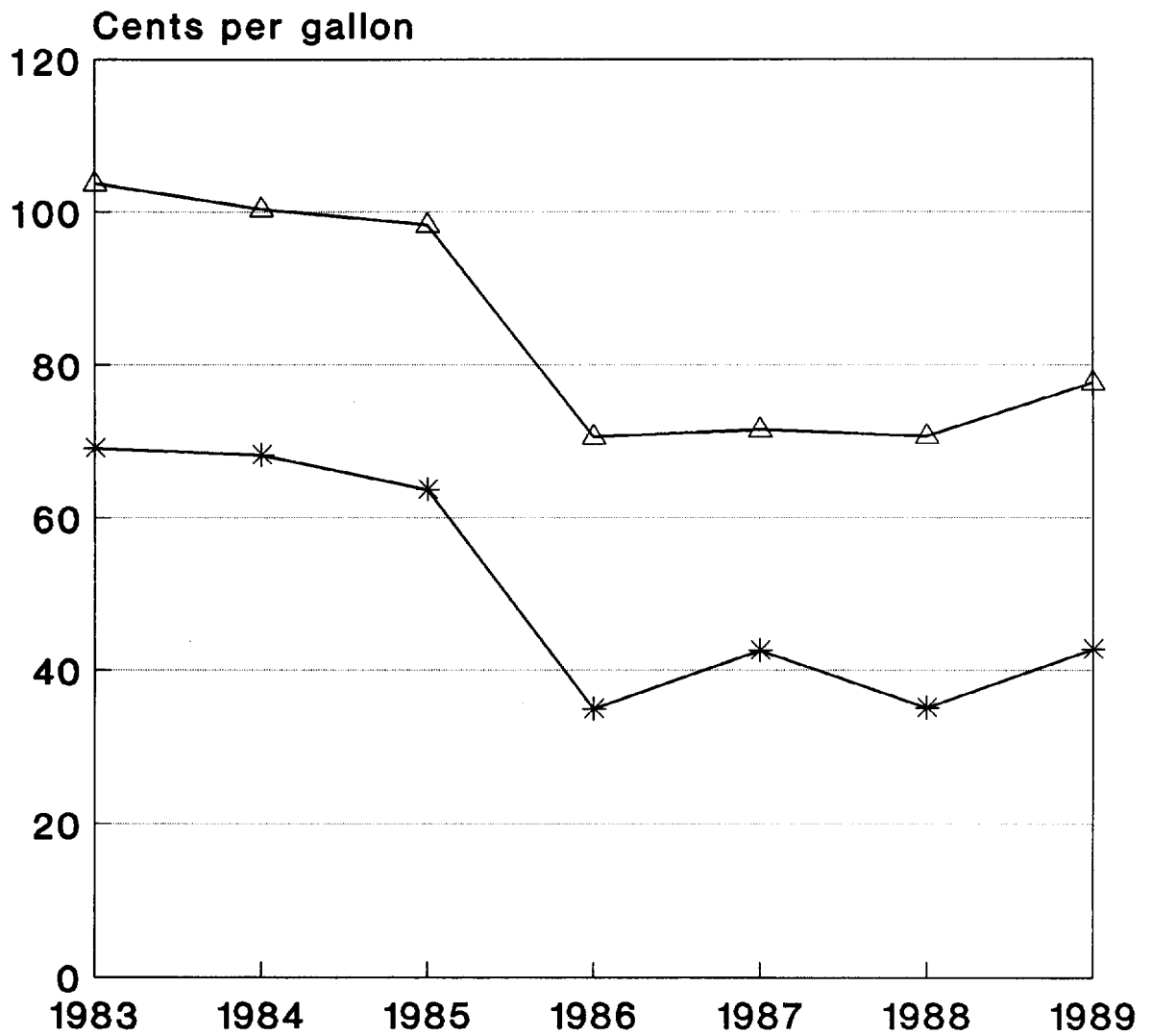
GASOLINE MARKETS WERE ALREADY TIGHT

- **DEMAND WAS RISING**
- **REFINERIES RUNNING FLAT OUT**
 - 94% crude capacity utilization (maximum)**
 - 100% utilization of gasoline units**
- **STOCKS ONLY 10 MILLION BARRELS ABOVE SYSTEM MINIMUMS**
- **SPOT GASOLINE PRICES WERE ALREADY RISING**

WHAT FACTORS SET GASOLINE PRICES?

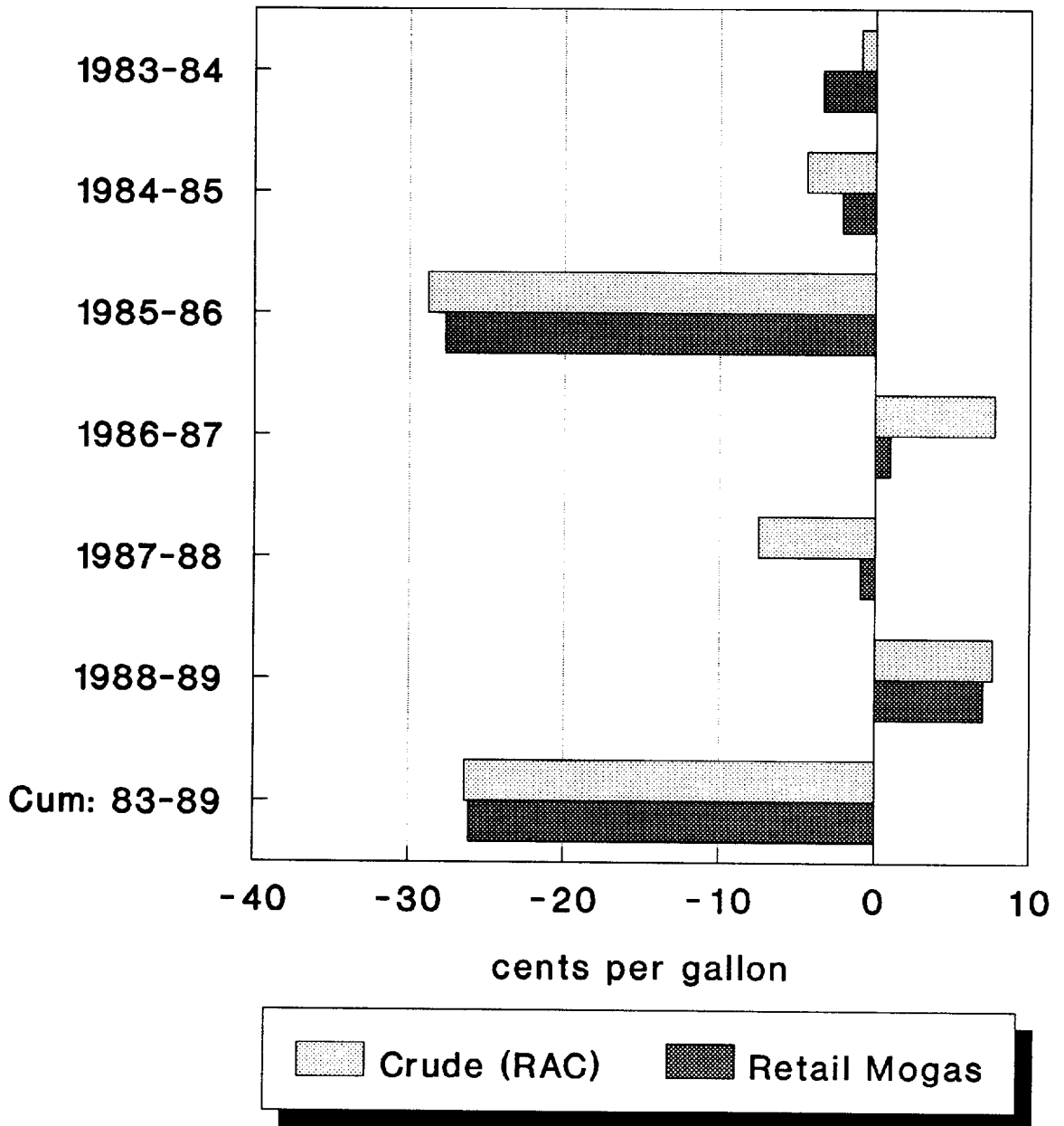
- **RAW MATERIAL COSTS: CRUDE (+ OTHER FEEDS)**
- **REFINING AND DISTRIBUTION COSTS**
- **MARKET SUPPLY/DEMAND BALANCE**

Crude Oil and Motor Gasoline Prices



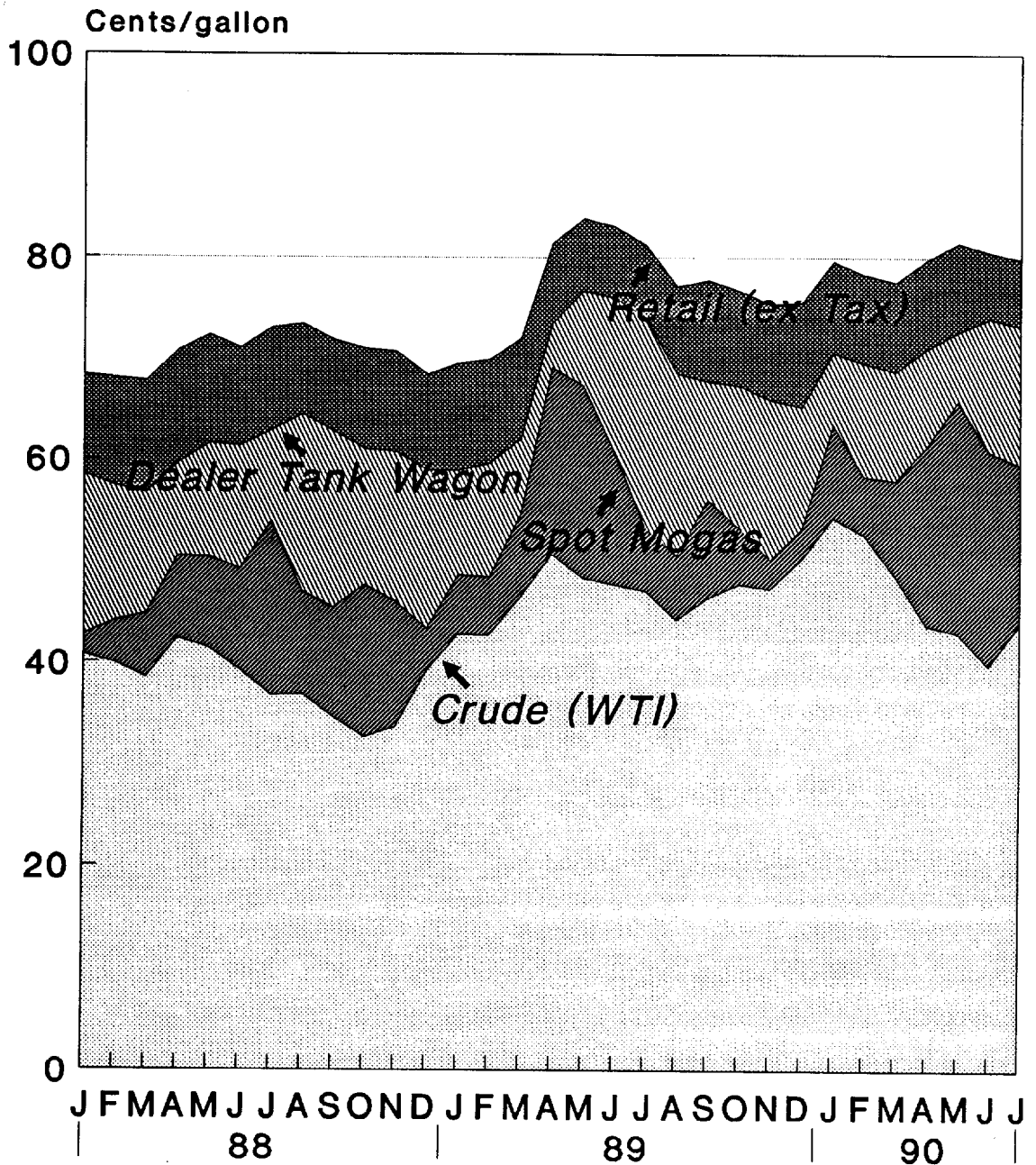
* Crude (Refiner) △ Retail (ex tax)

Changes in Crude Oil and Motor Gasoline Prices



Based on annual averages

GASOLINE AND CRUDE OIL PRICES January 1988 - July 1990



HOW DO PRICES MOVE THROUGH THE MARKET?

■ RETAILERS POST PUMP PRICES

--150,000 retail outlets

--National Petroleum News survey of distribution patterns lists more than 200 companies selling their own brand; more than 60 in survey market through 100 stations or more

--Most retail outlets are operated by independent dealers, not a refiner; DOE's survey of 23 major energy producers shows 84% of outlets selling company brands are dealer (not company) operated

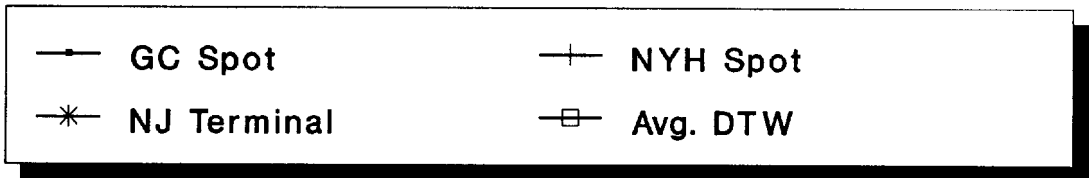
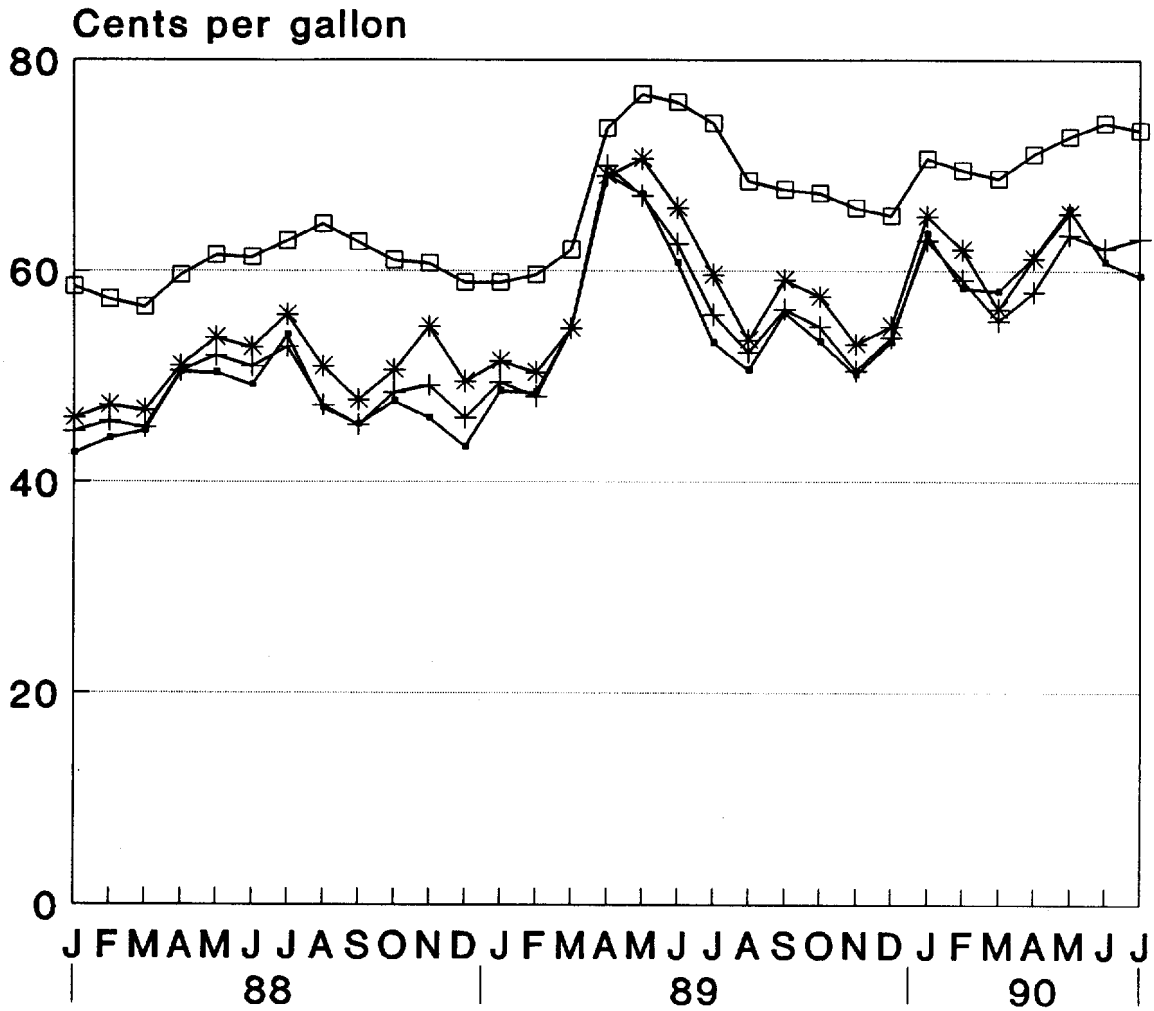
■ PRICE TO RETAILER MAY BE DEALER TANK WAGON OR TERMINAL ("RACK")

--Dealer Tank Wagon is the price for product delivered into a service station's tanks; price is set by supplier (either refiner or large marketer); usually lags spot market

--Terminal or "rack" is the price for product sold at a bulk storage facility; the purchaser transports product to stations; follows spot markets very closely

■ MANY ACTORS AT EACH STAGE OF THE MARKET

Gasoline Spot and Wholesale Price January 1988 - July 1990



MANY ACTORS AT EACH STEP

■ LARGEST 23 ENERGY PRODUCERS:

- Produce 58% of U.S. crude oil and NGL's**
- Operate 75% of U.S. refining capacity**
- Operate 7% of U.S. gasoline retail outlets**
- Supply branded gasoline to 44% of U.S. gasoline retail outlets (dealer + company operated)**

■ OTHER MARKET PARTICIPANTS

- Thousands of crude oil producers**
- Import availability; 54 importers of crude 1H90**
- More than 100 refiners**
- Thousands of marketers**

WHAT IS THE SPOT MARKET?

- **SINGLE TRANSACTION BETWEEN UNRELATED PARTIES**
- **NOT ONE, BUT MANY--DIFFERENT CRUDES, DIFFERENT PRODUCTS, DIFFERENT LOCATIONS**
- **MANY PARTICIPANTS, AND MUCH MORE IMPORTANT THAN A DECADE AGO**
 - Producers, refiners, marketers, traders, brokers
 - Balance system volumes, arbitrage time/location
- **TRANSPARENT**
 - NYMEX provides price discovery, instantly transmitted electronically
 - Open outcry
 - Thousands of transactions
 - Trade publications report spot prices
Examples: Platt's Oilgram Price Report, Petroleum Argus, Oil Buyers' Guide; also The New York Times, The Wall Street Journal, The Journal of Commerce, et al.
- **EVEN CONTRACT VOLUMES MOVE AT "MARKET-SENSITIVE" OR "SPOT-RELATED" PRICES**
 - Developed to protect buyers in weak markets

**ALL MARKET PRICES HAVE SOARED SINCE THE
INVASION; RETAIL PRICES HAVE NOT GONE UP
BY THE FULL AMOUNT**

■ **SINCE AUGUST 1, SPOT GASOLINE PRICES HAVE
RISEN FASTEST AMONG MAJOR INDICATORS**

--Crude oil: 16 cents

--Spot motor gasoline: 29 cents (NY Harbor)

--Rack motor gasoline: 15 cents (NJ)

--Retail: 8 cents (U.S. Avg., self-serve, unl. reg.)

■ **BECAUSE OF TIGHT SUPPLY, SPOT MOTOR
GASOLINE PRICES BEGAN RISING IN JULY**

--July 6 to August 1: +7.5 cents

■ **GASOLINE SUPPLY GETTING TIGHTER; MARKET'S
MESSAGE CAN'T BE IGNORED**

--Stock draw in most recent week: 6 million bbls

--Disappearance from primary supply: 8.6
MMB/D, compared to 7.7 in previous 4 weeks

--Inventories only 7 million bbls above system
minimum

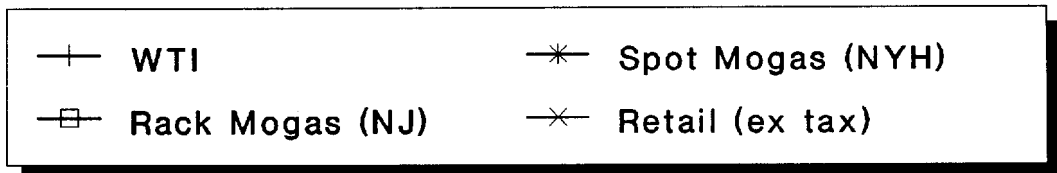
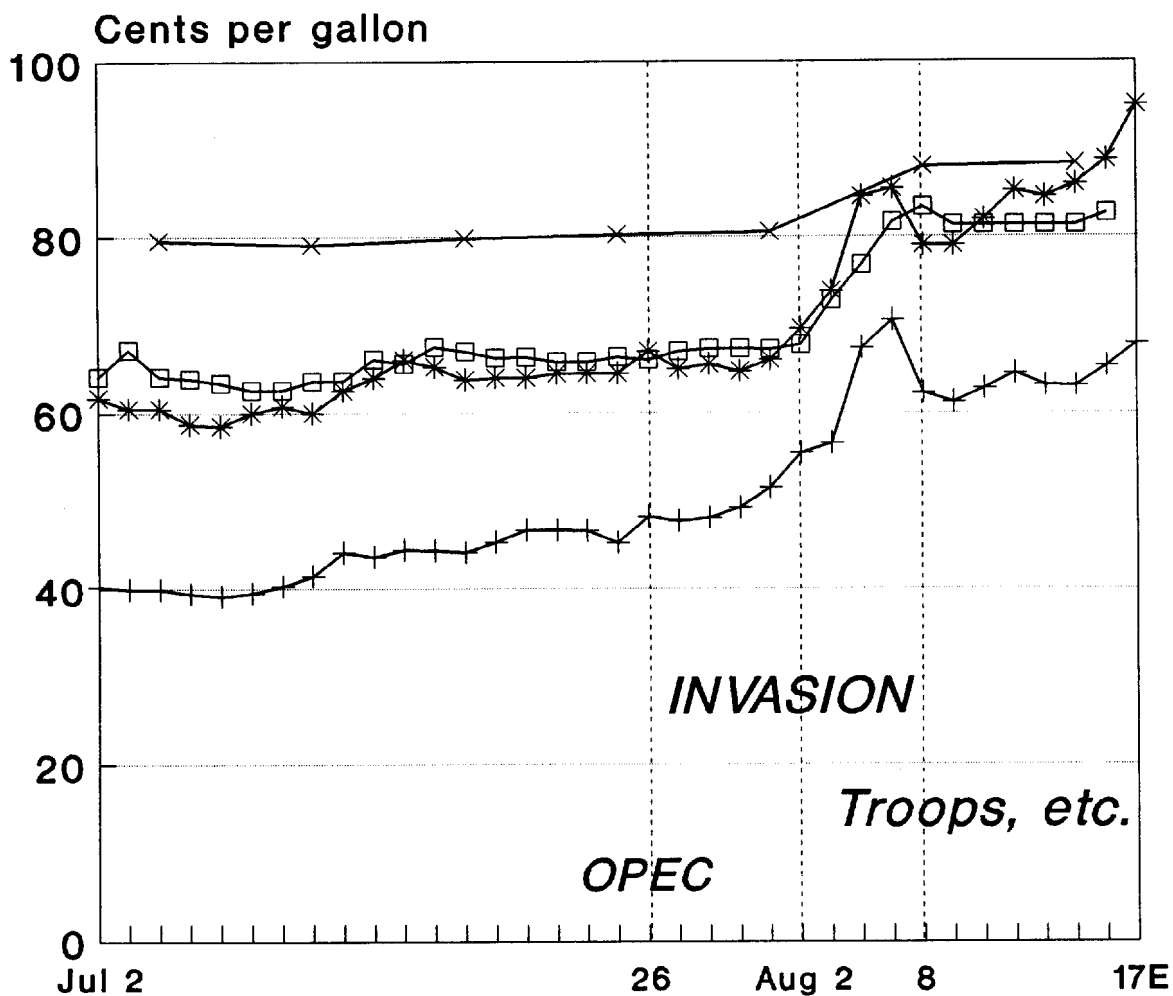
--Fear of import loss: Kuwait's refinery output,
European supply

--U.S. at maximum output

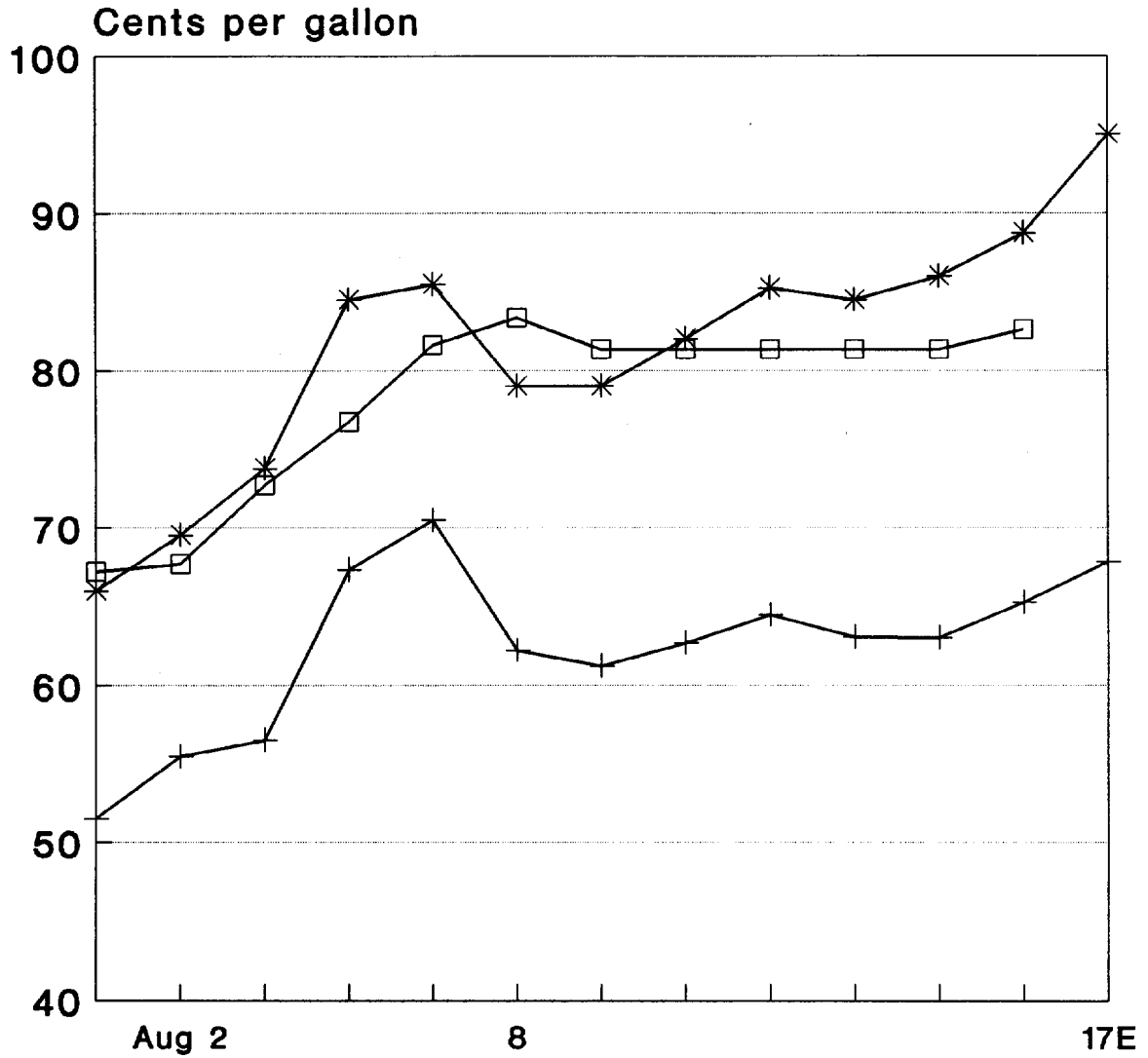
--Spot price increase Aug. 9 to Aug. 17: 16 cents, v
7 cents for crude

--Frozen/slowed price increases led to run-outs at
stations and terminals; "haves" v "have-nots"

Prices before and after Iraq's Invasion



Prices since Iraq's Invasion



—+— WTI

—*— Spot Mogas (NYH)

—□— Rack Mogas (NJ)