Petroleum Industry Research Foundation, Inc.

122 East 42nd Street
New York, N.Y. 10168

COMMENTS BY

CHERYL J. TRENCH
Executive Vice President

before the

NATIONAL ASSOCIATION OF ATTORNEYS GENERAL

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 WORSENF 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

Cents per gallon


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

Cents/gallon

Retail (ex Tax)

Dealer Tank Wagon

Spot Mogas

Crude (WTI)
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

Cents per gallon

- GC Spot
- NYH Spot
- NJ Terminal
- Avg. DTW
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

- 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

Cents per gallon

INVASION
Troops, etc.

OPEC

Jul 2 26 Aug 2 8 17E

WTI
Spot Mogas (NYH)
Rack Mogas (NJ)
Retail (ex tax)
Prices since Iraq’s Invasion

Cents per gallon

Aug 2 8 17E

WTI
Spot Mogas (NYH)
Rack Mogas (NJ)