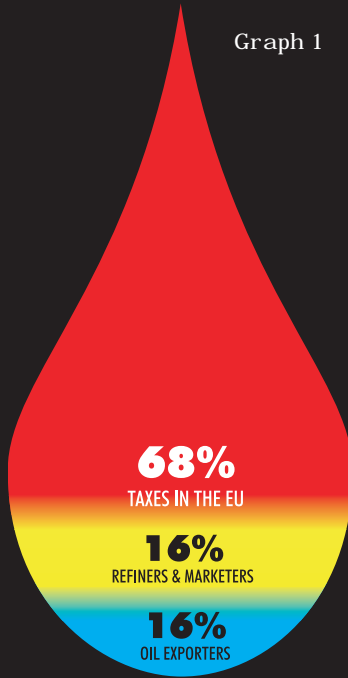


WHO
GETS WHAT
FROM IMPORTED
OIL?

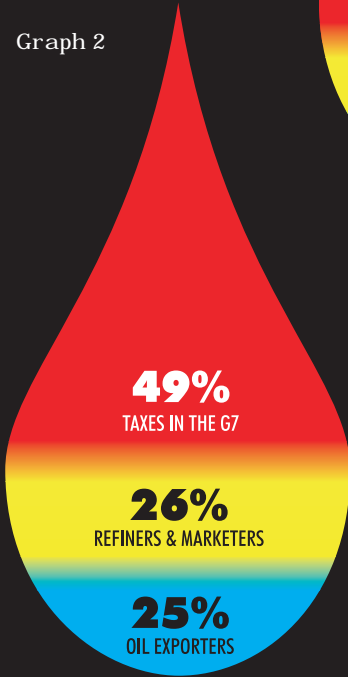


Produced by PR & Information Department, OPEC, Vienna, Austria. September 2000

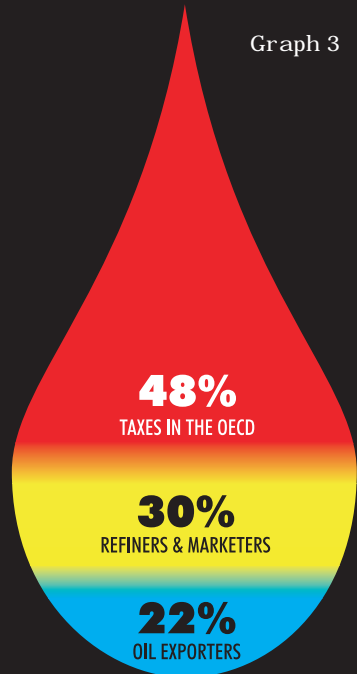
Graph 1



Graph 2

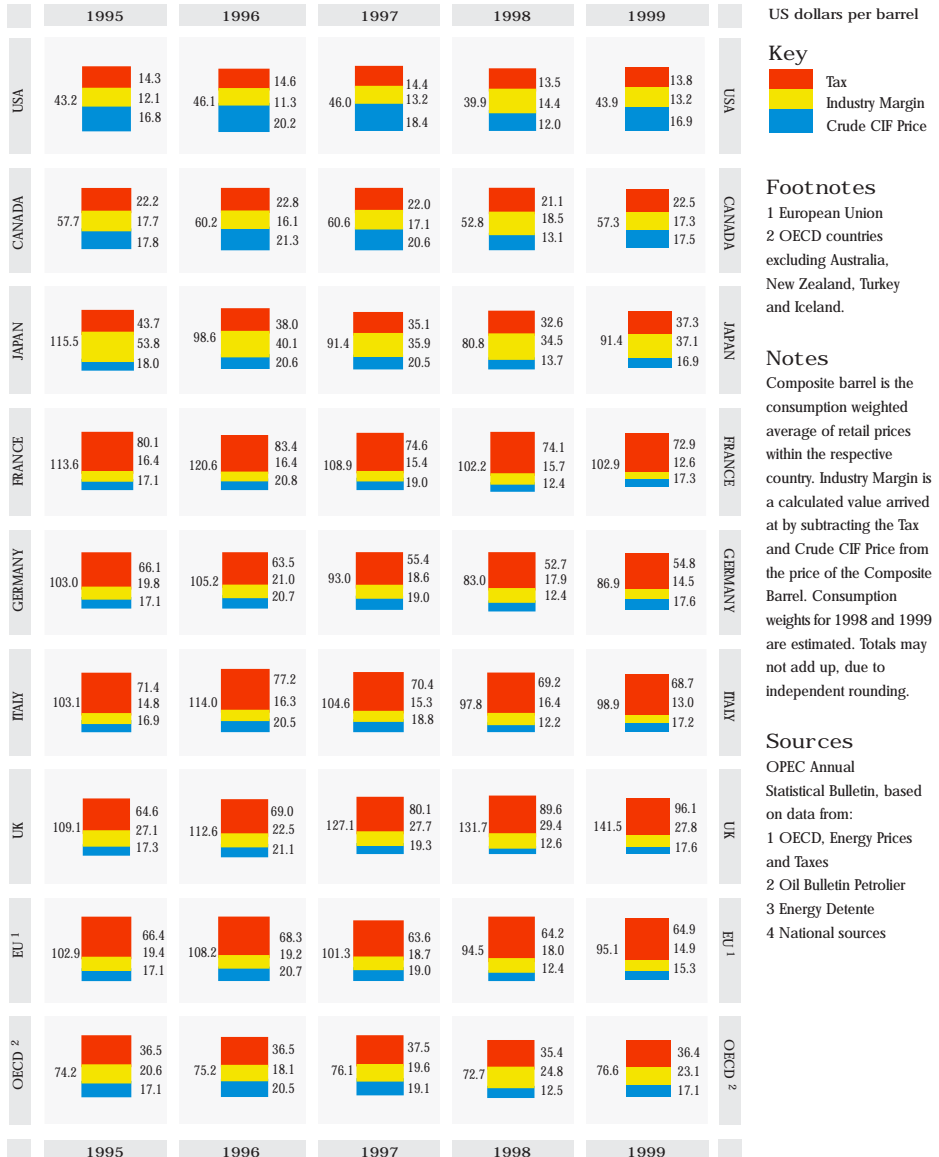


Graph 3

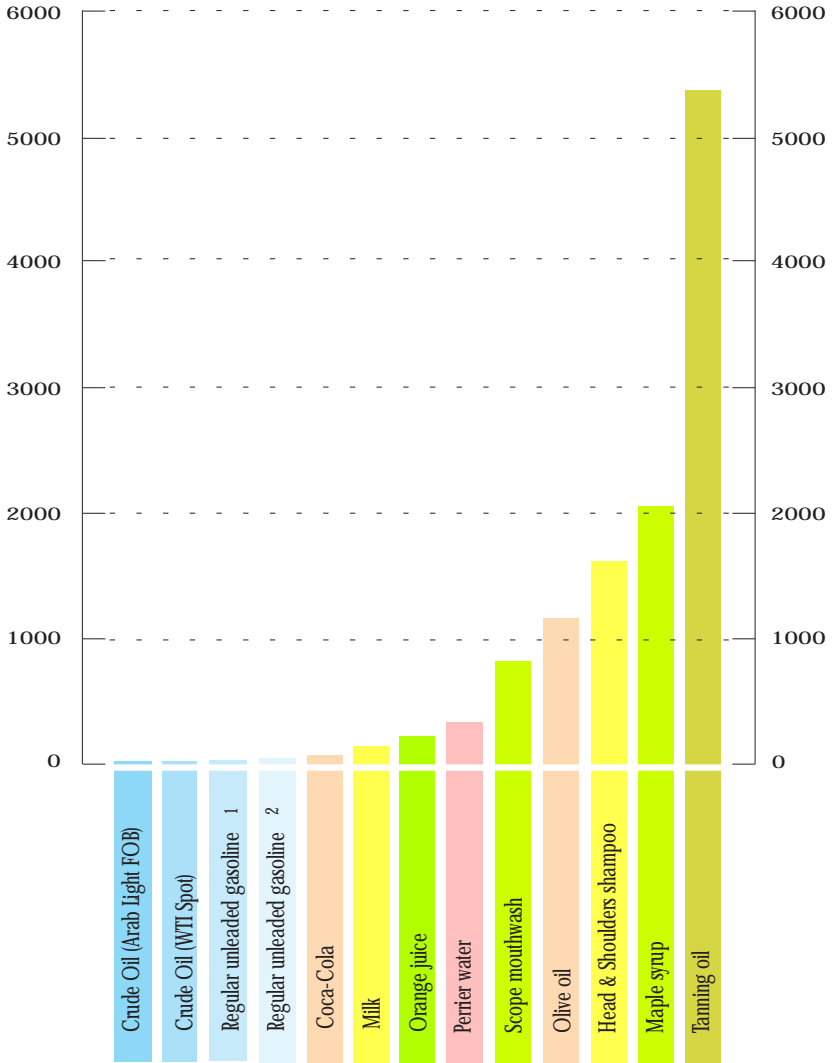


Calculations were based on price per barrel.
Source: OPEC, Research Division

Graph 4: Composite Barrel and its components in Major Consuming Countries



Graph 5: Cost of a Barrel of Oil and Other Products (US Dollars)



Footnotes

¹ Regular unleaded gasoline - gallon wholesale, pre-tax
² Regular unleaded gasoline - gallon retail, after-tax

Source

Based on data in UPSTREAM of 18th February 2000

Why you pay so much for gasoline and other oil products

Whenever the prices of oil products such as gasoline (petrol), diesel or heating oil rise, OPEC is usually made the scapegoat by some sections of the media, politicians and the general public. "OPEC must raise output," the cry goes up. This is based on the incorrect assumption that the Organization is responsible for high product prices. The point has been made many times before, but it is worth repeating: OPEC is NOT directly responsible for high gasoline or heating oil prices. The following analysis shows why.

Most consumers believe there is a directly proportional link between crude prices and the prices of products such as gasoline and heating oil. If product prices go up, then it must be because crude prices are going up. In other words, OPEC is perceived as being directly responsible for high gasoline or heating oil prices. Nothing could be further from the truth. Although there is a link between crude prices and product prices, it is neither direct nor proportional, and the main reason can be summed up in one word – TAXES. Of course, end users of petroleum products are not being told the truth.

These taxes imposed by the governments of the consuming nations vary from country to country and region to region. Graphs 1-3 give a breakdown of who gets what from a barrel of refined oil. Graph 1 shows that one of the regions with the highest levels of tax is the European Union, where some 68 per cent of the final price is tax, with 16 per cent going to refiners and marketers and the other 16 per cent to oil exporters. Graph 2 shows the situation in the G7, where 49 per cent of the price is tax, 26 per cent goes to the refiners and marketers and 25 per cent to the oil exporters. Graph 3 gives details for the OECD countries as a whole, where taxes account for 48 per cent of the final price, refiners and marketers take 30 per cent and the oil exporters get 22 per cent. In each of these cases, OPEC and other oil exporters always receive the lowest amount, which includes transportation and insurance costs.

A more detailed analysis of who gets what from a barrel of refined oil is shown in Graph 4, which gives the breakdown of what is known as the 'composite barrel' in the major consuming countries from 1995 to 1999. As in the previous graphs, the price of a barrel of refined oil is split into three – the crude price, the industry margin and taxes – to show who gets what. And in the vast majority of cases, it's clear that the biggest chunk of the cost of a refined barrel goes not to the oil-exporting countries, but straight to the

governments of the consuming countries in the form of taxes. Let's take a closer look. Firstly, the most obvious factor that these figures show is the huge differences between what motorists pay for products such as gasoline in the industrialised countries. When gasoline prices go up, OPEC often gets e-mails from some consuming countries, especially the USA complaining about high gasoline prices – which is ironic because the USA has the cheapest gasoline in the industrialised world! Just compare, say, the cost of the composite barrel in 1999 in the US (\$43.9/barrel) with the cost in Japan (more than double the US price at \$91.4/b) or even with the average cost in the European Union countries (higher still at \$95.1/b!). So even in the USA, where taxes are much lower than in the EU or Japan, the level of taxation per barrel is still highly significant (\$13.8/b).

Secondly, if you're a motorist in Europe or Japan, you have almost certainly noticed that when crude oil prices fall, like they did to less than \$10/b in 1998-99, the price of gasoline doesn't fall by a corresponding amount, as you might expect. In fact, sometimes it keeps on rising! This graph shows why: when crude oil prices fall, some of the industrialised countries take the opportunity to increase taxes on gasoline, thus maintaining prices at the same level or even higher. Let's take the UK as an example. Graph 4 shows that UK prices for crude, which were \$17.3/b in 1995, rose to \$21.1/b in 1996, then slumped to just \$12.6/b in 1998, before rising again in 1999 to \$17.6/b. So you might expect that, if there were a direct link between crude and product prices, gasoline prices would have followed these fluctuations in crude prices. Not at all! Just look at the composite barrel prices in the UK: in fact they rose constantly over the period, from \$109.1/b in 1995 to \$127.1 in 1997 and further to \$141.5/b in 1999. The explanation is simple: every year, the UK Government increased its taxation take on the refined barrel from \$64.6/b in 1995 to \$80.1/b in 1997 and then even higher to \$96.1/b in 1999.

Finally, if you think gasoline or heating oil is expensive, take a look at Graph 5. This uses figures calculated by US oil industry analysts John S Herold to show the cost of a barrel of crude oil and gasoline compared to other consumer products such as milk or mineral water. It turns out that gasoline is extremely cheap in comparison with many popular consumer items. So, while consumers may complain when the price of gasoline rises, those same consumers are happy to pay prices for other products which, in per barrel terms, are way in excess of what they pay for gasoline. The point remains, however, that governments of some industrialized nations make from taxes at least three times what oil exporters get from their oil. Even with more crude oil in the market, a significant reduction of these high taxes is what will lower the cost of gasoline and similar products. We all know in whose court the ball is. Think about it.