JOINT ECONOMIC COMMITTEE

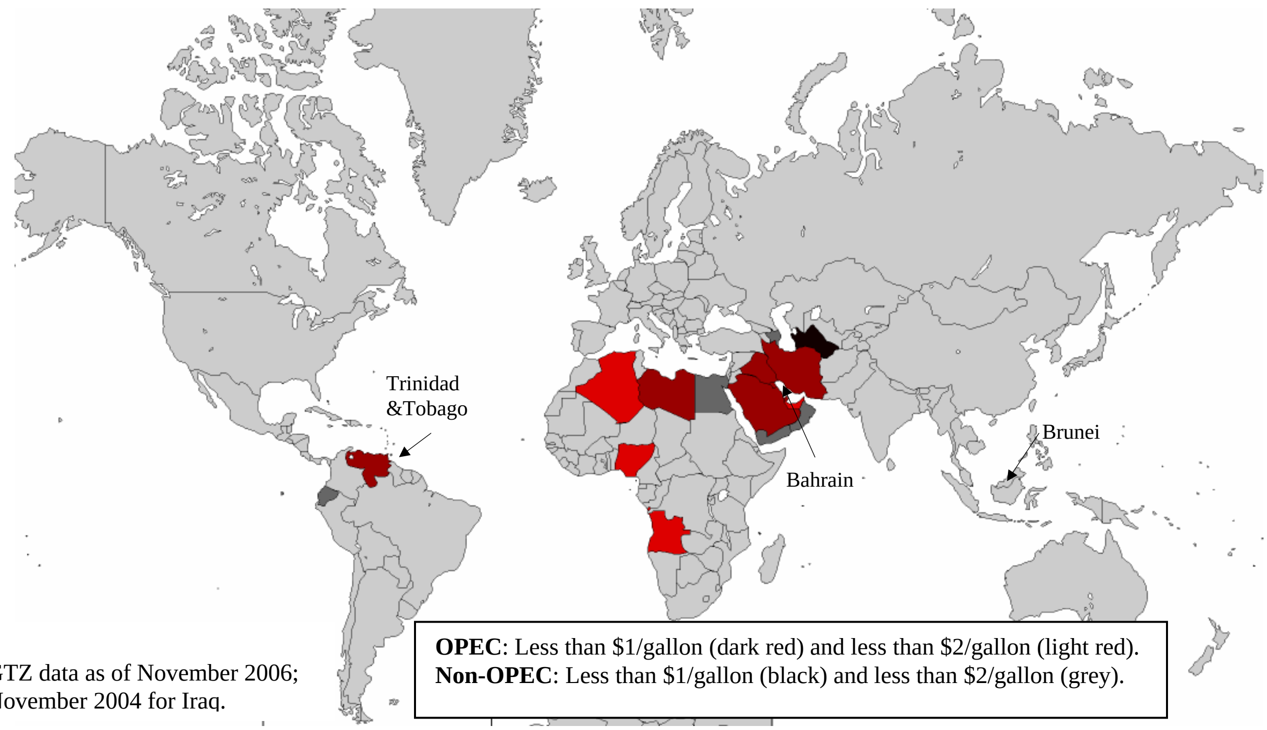
CONGRESSMAN JIM SAXTON
RANKING REPUBLICAN MEMBER

RESEARCH REPORT #110-16
November 2007

OPEC: WHERE OIL MARKETS INDEED ARE "WELL SUPPLIED"

Low gas prices have not vanished completely. On the international market, oil and gasoline prices have been surging. The well-worn explanation is that increasing oil consumption pushes against a strained supply chain, causing the price to rise. But there are domestic markets where oil consumption has accelerated and petroleum prices have not risen or not risen significantly; indeed the prices are reminiscent of those in the U.S. 35 years ago.

20 COUNTRIES WITH THE LOWEST DOMESTIC GASOLINE PRICES



GTZ data as of November 2006;
November 2004 for Iraq.

Worldwide fuel price survey. *GTZ*[1] conducts worldwide surveys for the German federal government of retail super grade gasoline and diesel fuel prices, most recently in November 2006. According to the survey, the average price was lower than in the U.S. in 25 countries for gasoline and in 53 for diesel—among them all 12 members of the Organization of the Petroleum Exporting Countries (OPEC). The average U.S. price for gasoline was $2.38 per gallon. The map shows the 20 countries that charged less than $2 per gallon; nine charged less than $1 (dark red and black), and eleven between $1 and $2 per gallon (light red and

[1] Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Gmbh, "International Fuel Prices 2007," 5th Edition, April 2007, commissioned by the German Federal Ministry for Economic Cooperation and Development.

grey). Gasoline prices in the 171 countries surveyed in 2006 ranged from 8¢ to more than $7 per gallon.[2] This report focuses only on gasoline, but the results for diesel fuel are similar.

OPEC charges very low prices at home. The adjacent table shows the 25 countries with lower gasoline prices than the U.S. Nine countries charged less than $1 per gallon. Seven of the nine are OPEC members (shown in two shades of red on the map); and an eighth, Bahrain, is a small Persian Gulf island nation with close ties to Saudi Arabia that refines mainly imported crude oil for export and consumes little petroleum. Turkmenistan (black on the map), with the world's lowest price in the survey, has difficulty reaching oil export markets. Of eleven countries that charged between $1 and $2 per gallon, four are OPEC members and a fifth is a former OPEC member applying for readmission to the cartel (Ecuador). The other countries with domestic gasoline prices below $2 per gallon export oil in modest volumes (Azerbaijan, Egypt, Yemen) or consume little oil (Brunei, Oman, Trinidad & Tobago). Several share long borders with OPEC nations where fuel prices are low. The only OPEC country that charged more than $2 per gallon is Indonesia, which consumes more petroleum than it produces and has to pay the international price for its net oil imports. There are no other net oil importers on the list.

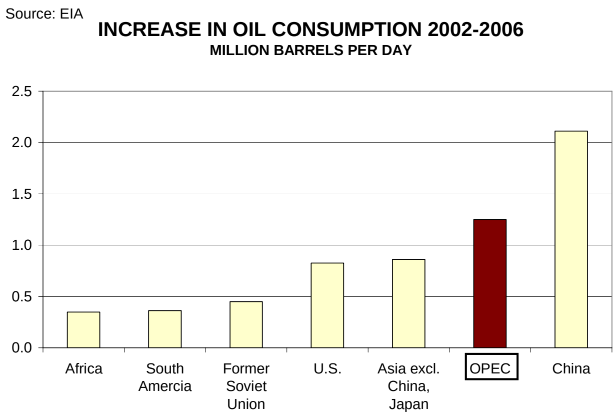
Domestic oil prices are far higher elsewhere. Oil exporters not affiliated with OPEC charge far higher prices for gasoline at home. For example, the per-gallon gasoline prices for the five largest were, in order of oil export volume: Russia, $2.91; Norway, $6.81; Mexico, $2.80; Kazakhstan, $2.65; and Canada, $3.18. Retail fuel prices commonly include road taxes. Where the transport infrastructure is less developed and/or fewer drivers pay taxes than in the U.S., one would expect higher retail gasoline prices. Variations in fuel prices also derive from national policies to limit oil import dependency and harmful emissions through added taxation of fuel use. Government fuel standards imposed to lower emissions or fuel toxicity can increase refining costs and raise retail prices as well.

[2] Lead free, 95 octane. The U.S. price cited by *GTZ* is close to the Energy Information Administration's average ($2.39) for premium grade gas in early November 2006.

WORLD'S LOWEST GASOLINE PRICES
GTZ, "International Fuel Prices"
(Iraq 2004, all others 2006)

Ascending Rank	Country			Average Per Gallon
1	Turkmenistan			$ 0.08
2	**Venezuela**	**OPEC**		**$ 0.11**
3	**Iraq (2004)**	**OPEC**	**P. Gulf**	**$ 0.11**
4	**Iran**	**OPEC**	**P. Gulf**	**$ 0.34**
5	**Libya**	**OPEC**		**$ 0.49**
6	**Saudi Arabia**	**OPEC**	**P. Gulf**	**$ 0.61**
7	**Qatar**	**OPEC**	**P. Gulf**	**$ 0.72**
8	Bahrain		P. Gulf	$ 0.79
9	**Kuwait**	**OPEC**	**P. Gulf**	**$ 0.83**
10	Egpt			$ 1.14
11	Yemen			$ 1.14
12	Oman		P. Gulf	$ 1.17
13	**Algeria**	**OPEC**		**$ 1.21**
14	Brunei			$ 1.29
15	**U.A.E.**	**OPEC**	**P. Gulf**	**$ 1.40**
16	Trinidad & Tobago			$ 1.63
17	Azerbaijan			$ 1.74
18	Ecuador	OPEC Applicant		$ 1.78
19	**Angola**	**OPEC**		**$ 1.89**
20	**Nigeria**	**OPEC**		**$ 1.93**
21	Malaysia			$ 2.01
22	Bolivia			$ 2.04
23	**Indonesia**	**OPEC**		**$ 2.16**
24	Syria			$ 2.27
25	Argentina			$ 2.35

OPEC's rising oil demand. Almost 20 percent of the increase in world oil consumption since 2002 is attributable to OPEC. The graph below shows the increments in daily oil consumption of major growth areas since 2002 when the international oil price started its steep climb. After China, the OPEC countries account for the largest increase, 1.25 million barrels per day. *GTZ* found that the leading OPEC member and the world's largest oil exporter, Saudi Arabia, as well as Venezuela actually *lowered* their domestic gasoline prices during this time. Qatar lowered its domestic prices from 2004 to 2006 (2002



data unavailable) and so did Kuwait, although its 2006 price was 8¢ per gallon higher than in 2002. Iran's price rose by 8¢ from 2002 to 2004, then held steady. The other cartel members had somewhat larger price increases, but only in Angola, Nigeria, and Indonesia were they significant, ranging from $1.14 to $1.17 per gallon. Still, their prices are among the lowest.

Blatant discrimination. OPEC practices price discrimination in the extreme between domestic and export customers, not withstanding its representations of the world oil market as "well supplied." The average f.o.b. price of the different OPEC crude oil grades weighted by export volume was $55.80 per barrel in mid-November 2006 (now $80.58),[3] which converts to $1.33 per gallon ($55.80/42). Seven OPEC members charged their drivers between 1/12 and 3/5 of that amount for gasoline at the pump.

Non-OPEC oil exporters do not price discriminate in favor of the home market. Their domestic refined product prices are above the international crude oil price. They invest to produce what oil quantities the international price will support and do not withhold oil-pumping capacity from the market. Crude oil devoted to domestic consumption, therefore, represents a lost export opportunity and must fetch a price equivalent to the international price. As the international oil price has risen, so have domestic gasoline prices in these countries.

Conclusions. The exorbitant oil price on the world market is a contrivance by the OPEC cartel members who collectively restrict their oil exports while they produce freely for their home markets. These countries have production costs of a few dollars per barrel and can expand their oil supply readily to meet increasing demand. They can charge low prices at home because their cost of incremental supply remains low. Fear of running out of oil or a production peak does not enter into their domestic fuel pricing, and oil export opportunity cost considerations are subordinate to the cartel's manipulation of supply. The one exception is Indonesia whose rate of oil consumption exceeds its domestic production capacity and requires it to pay the international price at the margin. Not surprisingly, it has raised its domestic gasoline price to the highest level within OPEC.[4]

OPEC sits on enormous oil reserves and holds spare oil-pumping capacity, yet *reduced* the rate of oil supply in the last twelve months. The cartel twice cut the quotas it sets to limit each member's oil output for domestic use and export combined. In recent months, OPEC increased oil output again, but the volume has not even returned to last summer's level when the benchmark crude price was $70 per barrel. Between tight limits on production and increasing domestic consumption, less OPEC oil remains for export and the international price has nowhere to go but up, given that non-OPEC producers cannot easily increase their supply. The rhetoric of OPEC ministers as the price exceeds $90 per barrel on the world market while they sell retail fuel at home for a pittance was the same when the price reached $50, $60, $70, and $80. The ministers' characterization of the market as "well supplied" is an insult to the intelligence of international buyers—unless it refers to OPEC's own oil consumption.

[3] *Oil & Gas Journal*, "Statistics," November 27, 2006, Vol. 104.44, p. 69 and November 5, 2007, Vol. 105.41, p.105.

[4] Iran's refining capacity is insufficient to meet domestic gasoline demand. Although it is the world's 4th largest net oil exporter, it is the second largest importer of gasoline. It recently raised gasoline prices, although they remain very low, and imposed rationing.