

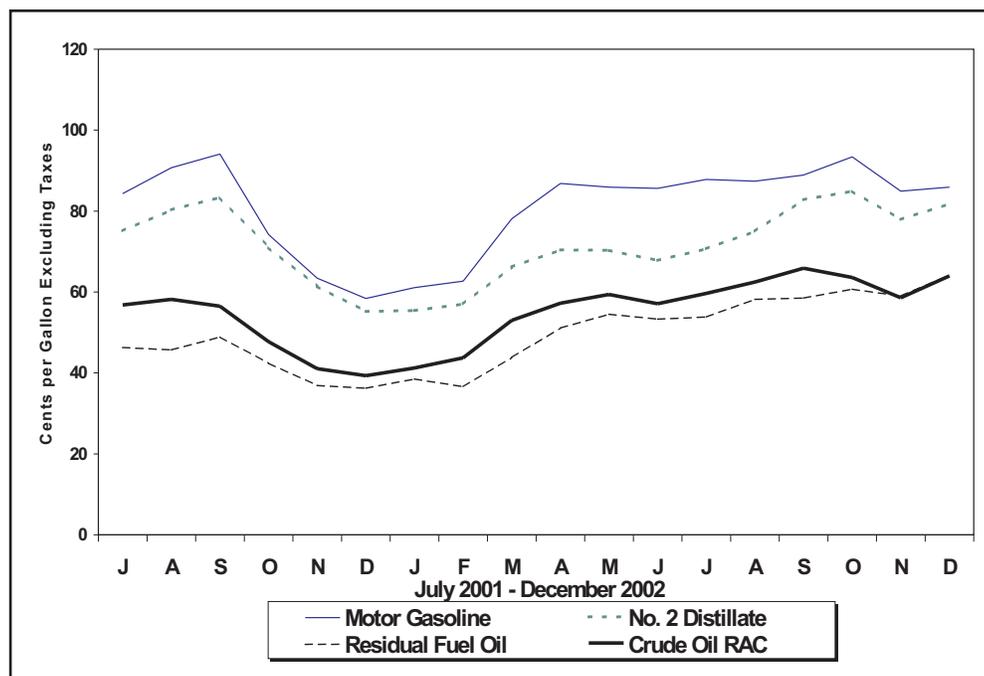
Highlights

Largely due to international political events, world crude oil prices rose in December. A labor strike in Venezuela and growing concern that the United States would invade Iraq drove prices steadily upward during the month. Other notable developments affecting oil market dynamics included a quarterly meeting of the Organization of Petroleum Exporting Countries (OPEC) and the renewal of the United Nations sponsored “oil-for-food” program for Iraq. U.N. resolution 1447, passed by the Security Council on December 4, authorized phase 13 of the program to run for another 180-day period ending on June 3, 2003. However, the most significant issue affecting oil market prices was the general labor strike in Venezuela. The strike, which began on December 2, almost immediately affected the country’s oil production and exports. By the middle of the month, shipments from the world’s fifth largest oil exporter had slowed to a fraction of their normal level and crude oil production was estimated to have fallen to 10 percent of its normal level. Notably, on December 12 OPEC announced its plan to increase official oil production levels by 1.3 million barrels per day to 23 million barrels per day beginning January 3, 2003. Several officials stated it was the group’s objective to curb chronic overproduction, and the new quotas would reduce actual production by approximately 1.7 million barrels per day. The plan was intended to maintain the OPEC price band mechanism, which was designed to hold crude oil prices within a \$22-\$28 per barrel range by controlling crude oil production by member nations. However, by the end of December the group indicated it would increase production in January to offset the dearth of supply

from Venezuela. Additionally, mounting concern about the imminence of a U.S.-led military invasion of Iraq helped lift prices for benchmark crude oil streams during the latter part of the month to their highest levels in two years.

Influenced by international events described above, prices for crude oil and petroleum products in the United States increased significantly during December. Along with Canada, Saudi Arabia, and Mexico, Venezuela is consistently among the top four sources of crude oil imports to the U.S. Further, Venezuela’s state-owned oil company, Petroleos de Venezuela S.A. (PdVSA), owns and operates a number of refineries in the United States through its wholly-owned subsidiary, CITGO. Venezuela’s crude oil exports to the U.S. are generally destined for processing in those refineries. As the month wore on, those facilities had to cut refinery throughputs due to

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, “Refiners’ Monthly Cost Report”; petroleum product prices: Form EIA-782A, “Refiners’/Gas Plant Operators’ Monthly Petroleum Product Sales Report.”

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	December 2002		November 2002		December 2001		December 2002		November 2002		December 2001	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	98.0	63.1	101.2	63.2	68.5	60.8	85.9	306.0	84.9	309.3	58.3	304.1
Conventional	95.4	35.0	98.0	35.5	67.2	33.8	82.7	201.6	80.6	203.2	56.7	196.7
Regular	92.3	26.7	94.9	27.2	64.0	25.4	81.1	165.3	79.1	167.0	55.2	160.0
Midgrade	101.4	4.6	104.3	4.6	72.9	4.4	87.2	11.9	84.8	12.0	60.4	11.2
Premium	109.7	3.8	112.7	3.8	81.1	4.0	91.4	24.5	89.3	24.2	64.5	25.5
Oxygenated	98.9	3.7	103.0	3.6	75.4	4.4	87.2	11.6	88.4	11.8	64.2	12.2
Regular	95.4	2.8	99.2	2.8	72.7	3.4	85.5	8.9	86.8	9.2	62.8	9.5
Midgrade	106.2	0.5	112.0	0.5	79.6	0.6	88.7	1.4	89.1	1.4	64.2	1.4
Premium	115.7	0.3	120.3	0.3	91.0	0.4	97.8	1.2	99.9	1.2	73.7	1.3
Reformulated	101.8	24.3	105.5	24.1	69.1	22.6	92.7	92.8	93.8	94.3	61.0	95.1
Regular	97.4	17.4	101.2	17.2	64.6	15.9	89.6	68.8	90.5	70.4	58.1	70.3
Midgrade	108.9	3.2	112.1	3.2	75.6	3.1	98.7	6.8	100.8	7.0	64.7	8.1
Premium	116.2	3.7	120.0	3.7	83.4	3.5	102.6	17.2	104.8	16.9	71.1	16.7
Aviation Gasoline	134.8	0.1	138.5	0.1	115.8	0.1	112.9	0.5	118.4	0.4	94.9	0.4
Kerosene-Type Jet Fuel	81.2	47.4	76.9	47.6	55.6	46.0	80.0	13.6	74.9	13.5	55.3	13.8
Propane (Consumer Grade)	49.9	2.7	46.9	3.1	40.2	4.1	53.2	45.6	49.4	37.3	38.1	47.5
Kerosene	112.0	0.2	103.8	0.2	98.1	0.2	88.5	4.8	82.3	3.4	58.6	2.8
No. 1 Distillate	94.5	0.4	95.3	0.3	68.3	0.4	93.7	2.7	94.7	2.1	64.2	3.2
No. 2 Distillate	86.0	20.8	83.3	21.4	61.1	22.4	81.8	127.8	77.9	124.1	55.1	121.9
No. 2 Fuel Oil	87.4	3.6	80.0	3.3	62.7	3.1	80.9	32.1	74.8	24.2	56.6	29.7
No. 2 Diesel Fuel	85.7	17.2	83.9	18.2	60.9	19.3	82.1	95.7	78.7	99.8	54.7	92.2
Low Sulfur	88.2	11.5	86.7	12.3	62.4	12.7	82.5	83.6	79.1	87.1	54.7	80.9
High Sulfur	80.8	5.8	78.0	5.9	58.0	6.7	79.0	12.2	75.4	12.8	54.4	11.3
No. 4 Fuel^a	81.1	0.4	72.6	0.3	53.5	0.4	71.9	0.3	67.0	0.3	56.3	0.1
Residual Fuel Oil	61.9	12.7	60.0	11.7	42.0	11.7	64.2	10.1	59.0	8.5	36.3	10.6
Sulfur Content not > 1 %	73.9	3.9	73.6	3.3	51.2	2.5	67.4	5.7	58.9	4.9	40.0	6.4
Sulfur Content > 1 %	56.6	8.8	54.6	8.4	39.6	9.3	60.1	4.4	59.3	3.6	30.7	4.2

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

the severe decline in their supply of crude oil. Two large refineries in the Caribbean that export much of their output to the United States--especially gasoline to the East Coast--also were forced to curtail operations. Additionally, about one-third of the refined petroleum products produced in Venezuela are exported to the United States. Growing talk of a military invasion of Iraq and mounting tensions between the United States and North Korea exacerbated the effects of the strike on U.S. market prices. Despite those issues, inventory levels of the major petroleum products remained sufficient during December due in part to solid rates of imports from other sources. Crude oil inventories were less than 1 percent lower than November's level, while finished gasoline and distillate supplies were 3.1 percent and 8.5 percent higher than last month. However, prices were a different story. As mentioned earlier, month-to-month increases were considerable

and reflected a change in market climate. A comparison of year-ago prices highlights a longer-term change in market atmosphere. At New York Harbor, the price for regular gasoline averaged 80.8 cents per gallon in December 2002, while last year's average price was 29.1 cents lower at 51.7 cents per gallon. The average price for No. 2 heating oil in December 2002 was 82.1 cents per gallon, compared with 52.3 cents in December 2001, a difference of nearly 30 cents. The monthly average spot price for West Texas Intermediate crude oil at Cushing, Oklahoma was \$29.46 per barrel in December 2002 and \$19.39 per barrel last year at this time, an increase of more than \$10 per barrel.

Additional December market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

The daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma rose firmly during December. Opening the month at \$26.87 per barrel, the price moved to the month's low of \$26.80 per barrel on December 4 amid calmer political circumstances and higher crude oil inventory levels. Shortly after that however, the price gained steadily as it became more evident that the strike in Venezuela would have a significant effect on oil production and exports. An additional stimulus came from growing political tensions between the United States and both Iraq and North Korea. The month's high of \$32.68 per barrel, reached on December 27, was also the highest level seen in more than two years. Easing slightly at the close of the month, the price closed at \$31.21 per barrel, \$4.34 higher than where it began the month.

- December monthly average crude oil prices increased in all sales categories. The average domestic crude oil first purchase price rose \$1.91 (8.2 percent), to \$25.29 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil saw the largest increase, rising \$2.98 (13.4 percent), to \$25.28 per barrel. The average landed cost of foreign crude oil rose \$2.24 (9.3 percent), to \$26.28 per barrel.
- The average refiner acquisition cost for domestic crude oil rose \$1.23 (4.7 percent), to \$27.25 per barrel. The average cost of imported crude oil to U.S. refiners climbed \$2.89 (12.2 percent), to \$26.57 per barrel. The composite refiner acquisition cost for crude oil increased \$2.27 (9.2 percent), to \$26.87 per barrel.

Petroleum Products

Motor Gasoline

The spot price for regular gasoline at New York Harbor rose substantially during the final month of 2002. Opening at 69.2 cents per gallon, its lowest level for the month, the price climbed firmly during the next several weeks as the strike in Venezuela continued and began to have an impact on refinery throughputs at some Gulf Coast and Caribbean facilities. The month's high was struck on December 26 when the price reached 91.0 cents per gallon. In the absence of any provocative situ-

ations, the price eased during the final days of the month. Closing at 85.1 cents per gallon, the price was 15.9 cents higher than December's opening level.

- The direction of monthly average gasoline prices at the national level were mixed in December. The average price for retail sales of motor gasoline by refiners fell 3.2 cents to 98.0 cents per gallon. The average wholesale price increased 1.0 cent to 85.9 cents per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets declined 2.7 cents to 98.3 cents per gallon. The average wholesale price rose 1.3 cents to 86.2 cents per gallon. The average dealer tank wagon (DTW) price registered little change, rising 0.2 cent to 91.6 cents per gallon, while the average rack price increased 2.3 cents to 84.9 cents per gallon. The average price for bulk sales rose 0.3 cent to 76.1 cents per gallon. Reformulated gasoline (RFG) prices were 6.0 cents higher than conventional gasoline prices at retail, and 8.1 cents more at wholesale. Oxygenated gasoline prices were 3.3 cents above conventional gasoline prices at retail, and 4.4 cents higher at wholesale.
- Refiner motor gasoline sales decreased again in December. Total sales fell 3.4 million gallons per day (0.9 percent), to an average of 369.1 million gallons per day. Retail sales registered little change from November's level, declining 100,000 gallons per day (0.2 percent), while wholesales fell 3.3 million gallons per day (1.1 percent). Rack sales comprised 65.4 percent of wholesales, while DTW and bulk sales made up 20.6 percent and 14.1 percent, respectively. Reformulated gasoline constituted 31.7 percent of total motor gasoline sales, while oxygenated gasoline accounted for 4.1 percent of sales.

No. 2 Distillate

At New York Harbor, the daily spot price for No. 2 heating oil increased significantly during December. Opening at 75.5 cents per gallon, the price began to rise in reaction to the various political events affecting activity in petroleum markets. The increase continued for several weeks as fundamental factors supported the effects of international politics on market prices. The price reached its high of 90.3 cents per gallon on December 26. Dropping back during the last days of the month, the price closed December at 87.2 cents per gallon, 11.7 cents higher than where it began the month.

- No. 2 distillate prices rose in all sales categories during December. The national average residential sales price for No. 2 distillate increased 5.7 cents to \$1.236 per gallon. The average wholesale price rose 4.1 cents to 81.4 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets inched up 0.9 cent, while the average No. 2 diesel fuel wholesale price climbed 3.7 cents. The difference between low- and high-sulfur diesel fuel prices was 2.9 cents at retail and 3.2 cents at wholesale.
- Overall, refiner sales of No. 2 distillate increased in December. Total sales rose 3.1 million gallons (2.1 percent), to 148.6 million gallons per day. Sales of No. 2 fuel oil climbed 8.2 million gallons per day (29.8 percent), while sales of No. 2 diesel fuel decreased 5.1 million gallons per day (4.3 percent). Low-sulfur diesel fuel made up 84.2 percent of all refiner diesel fuel sales, and 64.0 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- December residual fuel oil prices generally increased from November levels. Refiner prices for low-sulfur residual fuel oil inched up 0.3 cent to 73.9 cents per gallon at retail, but jumped 8.5 cents at wholesale. The average retail price for high-sulfur residual fuel oil climbed 2.0 cents to 56.6 cents per gallon, while the wholesale price increased 0.8 cent to 60.1 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average low-sulfur residual fuel oil price fell 1.2 cents to 67.9

cents per gallon at retail, while the wholesale price increased 5.3 cents to 65.7 cents per gallon. The retail price for high-sulfur residual fuel oil rose 2.8 cents to 57.4 cents per gallon, while the wholesale price increased 0.7 cent to 56.6 cents per gallon.

- Refiner sales of residual fuel oil increased in December. Total sales climbed 2.6 million gallons per day (12.9 percent) to 22.8 million gallons per day. Low-sulfur residual fuel sales rose 1.4 million gallons (17.1 percent), while high-sulfur residual fuel oil sales increased 1.2 million gallons (10.0 percent).

Other Products

- December prices for products included in this section largely rose from November levels. Refiner propane prices rose 3.0 cents per gallon at retail, and 3.8 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price climbed 5.6 cents per gallon, while the average retail price jumped 8.9 cents. The average wholesale propane price increased 3.5 cents. Prices for kerosene-type jet fuel, kerosene, and No. 4 distillate increased at retail and wholesale, while prices for aviation gasoline and No. 1 distillate decreased at both levels.
- Refiner sales of these products generally rose in December. Sales of propane and kerosene-type jet fuel declined at retail, but increased at wholesale. Sales of aviation gasoline, kerosene, No. 1 distillate, and No. 4 distillate climbed at both the retail and wholesale levels.