

Crude Oil Pricing

Before World War II, the world oil market (mainly the United States, the world's largest producer, consumer, and a net exporter) was controlled by the major oil companies. Thus, the single basing-point price system was applied. Under this system the price is quoted only for the point of delivery. It equaled the f.o.b. price at the base, which was the U.S. coast of the Gulf of Mexico, plus transport and insurance costs to its destination. This system tended to prevent competition and lower prices. After the war and the emergence of new suppliers from the Middle East, the price structure changed to a dual basing point system. The second basing point was the Arabian Gulf. By this system Middle Eastern oil was priced based on f.o.b. prices from the Arabian Gulf, which were agreed upon by the company and producing governments as equal to f.o.b. U.S. Gulf parity prices plus the transport cost from the Arabian Gulf to destination. This was about equivalent to the U.S. Gulf price plus the transport cost from some point near Malta in the Mediterranean. With the increase in demand for Middle Eastern crude oil, especially in Western Europe, oil companies moved the "parity point" westward to London, then to New York, in order to maintain low competitive prices among the various producer countries exporting to Europe.

In the 1950s, real oil prices tended to decline, except for the years 1956 to 1957 when the Suez Canal was closed. In this atmosphere of price volatility, OPEC was formed in 1960. The two-basing-point system was abandoned, at least for crude oil. Yet OPEC did not succeed in stabilizing oil prices and preventing them from falling. OPEC's first effective attempt to raise prices in line with demand growth and inflation took place in February 1971, when the Tehran agreement was signed. As a result of this agreement, the price of 40° API Arabian Gulf crude increased by 33 ¢/bbl plus 2 ¢/bbl in settlement of freight disparities.

Until that time, oil prices were posted by the major integrated oil companies. However, these were realized or market selling prices, which were determined by giving discounts of posted prices. The posted prices, however, served as a basis for oil-producing governments to calculate their royalty interests and income taxes from the oil companies operating in their countries. OPEC was able to seize the initiative, and official OPEC prices emerged.

After October 1973 (34° API)—as a marker crude—Saudi Arabia light became OPEC's official reference crude oil. OPEC set a price for Saudi Arabia light and let member governments set their own prices for the different crudes reflecting the different locational, physical, and chemical characteristics of each crude oil.

Supply disruption from the Arabian Gulf because of the Iran Revolution in 1979–1980 caused spot oil prices to jump to over \$40/bbl and official prices of OPEC's crudes to rise accordingly. In the early 1980s, spot and future markets were widely used at the same time. In those conditions spot and official prices declined (Table 2.6). This led OPEC members to follow market-based pricing systems. In February 1987, OPEC effectively terminated market-priced sales, and oil prices tended to stabilize around a target price of \$18/bbl as OPEC's reference basket price or oil-pricing benchmark.

The current basket is composed of 12 crudes: Algerian Sahara blend, Angola's Girassol, Ecuador's Oriente, Iran's heavy, Iraq's Basra light, Kuwait's export, Libya's Essider, Nigeria's Bonny light, Qatar's Marine, Saudi Arabia's Arab light, United Arab Emirates' Murban, and Venezuela's Merey. Theoretically, this is a return to fixed price system. However, in March 2000, the reference basket price was set at a range of \$22 to \$28/bbl to reflect market forces. The market-based pricing system was enhanced by the development of derivative instruments such as forwards, futures options, and swaps. Trading oil became either through paper markets, where deals are futures and swaps, or physical oil trading through spot market and long-term contracts, where the price of a cargo in long-term contracts is linked to spot price. Such financial and electronic revolutions caused massive market speculation and more fluctuation in oil prices. The period from 1990 to 2010 witnessed a wide variation in the exchange value of the U.S. dollar, which increased the volatility of oil prices. Beyond oil supply and demand, the effect of the U.S. dollar as the oil pricing currency and the increased role of paper trading of oil have substantially changed the structure of the oil market.

Prices of exporting Crude Oil

It is known that the global oil market is more demanding market than it is a casual supply market, as it is influenced to a large extent by the macroeconomic variables in the importing countries, while it is not subject to an important influence that is seldom exported by the exporting countries. This comes from the fact that the oil-exporting economies are still fragile economies that do not have a broad production base that gives them the flexibility to find effective alternatives to financing from outside the oil sector, not to mention that they are economies with a limited negative impact in the field of global influence, which keeps them as party states and not axis countries and makes them avoid using oil as a bet except rarely.

The volume of demand by the industrial machine for importers, the costs of extraction and transportation, the extent of growth of new exploration and strategic storage, and the extent of growth and development of energy alternatives are all influencing factors in global oil price trends, while OPEC has a limited role in maintaining the minimum levels of decline in prices by agreeing on production ceilings usually What the members disavow, not to mention the production outside the borders of the organization

The table shows the continuation of the increase in the prices of crude oil exports during the two years 2010 and 2011 after its decline in the year 2009 in the global markets due to the financial crisis and the state of deflation that swept the production institutions in the oil-importing countries.

Table 6 The increase in the prices of crude oil exports during 2008-2011

Year	Estimated rate of export price in the state budget \$/Barr	Average actual export price \$/Barr
2008	57	44.84
2009	50	59
2010	56.62	62.75
2011	76	72.104

Table 7 Crude Oil Revenue 2008-2011

Year	The Expected Estimated Revenue in the state budget / million \$	Actual Revenue Million \$
2008	43274	59539
2009	36500	41330
2010	45625	52203