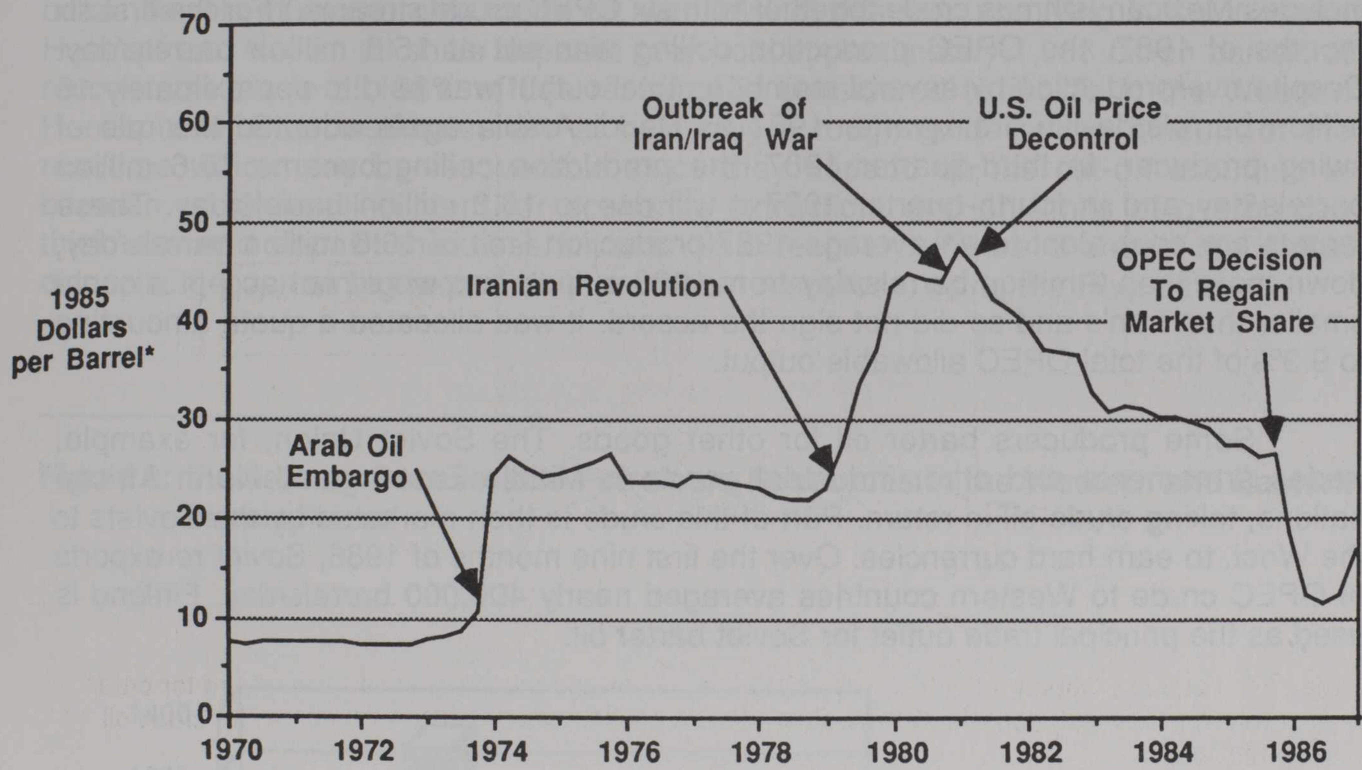
Figure 7: World Crude Oil Prices Since 1970, Measured in Constant 1985 US Dollars



Note: Price is defined as the average quarterly cost of crude oil imported by U.S. refiners, expressed in 1985 dollars.

Source: U.S. Department of Energy, 1987, p. 15.

Crude Oil Pricing

A **netback** price for crude oil is based on the spot value at the refinery gate of the slate of products derived from the crude, minus transportation, insurance, financing and processing costs. The guaranteed margin to refiners drew more oil into the market, helping OPEC to regain some of its former market share but contributing to the collapse in oil prices. OPEC abandoned netback pricing to return to a fixed price system in February of 1987.

Formula pricing links the selling price of a crude oil to selected spot market crude quotations, combining reduced market risk with a reasonable return to refiners. For example, Mexico's light Isthmus crude sold into the United States is tied to the spot prices of West Texas Intermediate crude, West Texas Sour crude, Alaskan North Slope crude and heavy fuel oil, with a further price differential per barrel.

In **retrospective** pricing, the seller fixes the price of the crude oil after it reaches its destination, using predetermined links with certain crude spot prices.

Source: EMR, 1987c, p. 37-40.