

THE FACTS BEHIND OIL PRICES



GLOBAL DEMAND

Uncertainty around the COVID-19 pandemic impacted overall demand for oil, and forecasting agencies didn't expect global demand to return to pre-pandemic levels for at least 2-3 years.



OPEC

The OPEC cartel controls nearly 75% of the world's oil reserves and when it restricts or increases production targets for its members, oil and gas prices may also increase or decrease, sometimes significantly. When the U.S. became the world's largest producer of oil, the ability of OPEC to control oil prices declined.



TAXES

Governments can cause fuel price increases in the form of taxes, subsidies and surcharges – ranging from 15 percent per gallon in parts of the U.S. to 60 percent in some European countries.



CURRENCY FLUCTUATIONS

Because oil is priced in U.S. dollars, it becomes more expensive as the dollar loses value; in 2021, with the dollar nearing three-year lows, gasoline prices climbed to 2019 pre-pandemic levels.



GEOPOLITICAL CONFLICTS

The COVID-19 pandemic impacted global demand and supply fundamentals, resulting in a decrease in global demand that led to over-supply and rising oil inventories worldwide. Additionally, supply disruptions in the Strait of Hormuz, coupled with heightened global tensions surrounding Iran's nuclear ambitions, also impacted crude oil prices.



CHANGING SUPPLY LANDSCAPE

Advancements in technology enabled supply and production of crude oil in North America to reach all-time highs, while decreasing supplies of crude in the North Sea resulted in a dramatic divergence between the price of gasoline on the coasts, and the price in the Midwest.



LOGISTICS AND INFRASTRUCTURE

In 2020, global oil refining capacity dropped significantly, particularly in Europe and the U.S., in response to the demand destruction resulting from the pandemic. Further, the growing focus on renewable energy will accelerate the transition towards alternative energy sources with lower carbon emissions.