

## Gasoline Prices: What do I tell my neighbor?

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*One of today's hottest domestic topics across the United States is the cost of gasoline. As employees of the largest gas marketers in America, we all may be asked about this issue by our friends and neighbors. BP is committed to transparency in our business operations, and our employees can be key in communicating accurate information.*

*Below are a number of key points you may choose to include in discussions. There are also several links to articles and charts on our intranet site: <http://planetbp.bpweb.bp.com>. Please feel free to print and share this information.*

### What Impacts the Price of Gasoline

- American refiners **compete for crude oil** supplies in a global marketplace. Crude oil costs have risen significantly, driven by a combination of factors: lingering geopolitical tensions, concerns about Nigeria's political stability, OPEC's continuing production controls and worldwide demand growth.
- Americans are driving more. Gasoline demand in the U.S. reached a record high in the first quarter of this year which reduced inventories.
- There are also **costs associated with refining, distributing and delivering gasoline** that factor into the price you pay at the pump. Manufacturing, distribution, and marketing costs have declined.
- **Only taxes have increased.** Taxes add a significant amount to the price of motor fuel and vary widely by state. Federal excise taxes are 18.4 cents per gallon and state excise taxes average about 28.1 cents per gallon, bringing the nationwide average tax on gasoline to 46.5 cents per gallon. Thirty-eight states levy additional fees, sales taxes, and other taxes. Local county and city taxes may also apply.

### Why Prices Have Risen

- A rise in global crude oil prices beginning earlier this year, due in part to escalating geopolitical tensions in Iran, Venezuela and Nigeria;
- Increased world demand for crude oil, with world demand rising by 1.2 percent to 86.1 million barrels per day according to the U.S. Energy Information Administration (EIA);
- Record-high first quarter U.S. gasoline demand of 380 million gallons per day, up 1.9 percent over the first quarter of 2006 according to EIA ;
- Some refinery operations have been curtailed due to regularly scheduled refinery maintenance to enhance safety and upgrade equipment, as well as several unexpected problems caused by severe weather, external power outages, and other incidents;
- A dramatic drop in gasoline imports that has pushed U.S. gasoline inventories to historically low levels due to spring refinery maintenance in Europe and an

18-day French port workers' strike in March that led some European refiners to reduce production; and

- The annual U.S. switchover to summer-blend gasoline, required by EPA, resulting in a large inventory drawdown, increased costs and lowered yields per barrel of oil.

### **Industry Actions to Increase Supply**

- Highest-ever U.S. gasoline production: 8.85 million barrels per day year to date;
- Increasing gasoline output per barrel: Refineries increased gasoline output per barrel by 1.3 gallons year-to-date over the prior year;
- Refining capacity to reach record levels:
  - capacity has expanded since last year by more than 200,000 barrels per day;
  - capacity expansions have added the equivalent of 10 new refineries over the past decade;
  - industry is expected to bring the equivalent of an additional 8 new refineries into operation in the U.S. by 2011 based on public announcements,
  - it is less costly, easier and much faster to add capacity through expansions than by building a new refinery; and
- Record investments are being made in U.S. refineries:
  - According to the Oil and Gas Journal (April 2, 2007), capital improvements at U.S. refineries to meet clean-fuels and other requirements resulted in a 25 percent surge in investments in 2006, reaching \$9 billion dollars;
  - Refineries have expanded capacity while investing nearly \$50 billion from 1996-2005, largely to produce cleaner gasoline and diesel fuels.

### **More Information:**

- American Petroleum Institute: <http://www.api.org>
- API on Gas Prices: <http://www.api.org/aboutoilgas/gasoline/index.cfm>