HMRC - OT05321 - Valuation Of Crude Oils & Products- Category 1 Oil Brent

Brent contracts show the greatest variety, since Brent itself was the marker grade for many years (from about 1987 to 2002 (see 1 below)). Most appear as “flat” or fixed price contracts, some as a flat price with a differential but this conceals the way that the flat price is agreed between the two trading counterparties. Generally the price agreed today will be based:

either upon today’s Dated BFOE (see 2,3 below) price with an element to allow for today’s market structure (backwardation or contango) out to the delivery date, or

upon the price of a BFO forward month with some element to allow for today’s market structure between the delivery date and the forward month. Since today’s dated BFO price depends upon the prices of the forward months, this is essentially the same calculation, just a bit more elaborate.

The statutory mechanism recognises that the market structure element in the price needs to be reflected in the calculation of the statutory market value on any day. So the statutory method is based upon a daily statutory BFO value, with an adjustment for market structure 14 to 21 days before the NDD to allow for the market structure element in a contract between the date it is agreed and the date of delivery.

14 to 21 days is a representative period reflecting the normal time between a Brent dated contract being agreed and the date of delivery.

Footnotes:

Pages 81 and 119; “Oil Markets & Prices-The Brent Market and The Formation of World Oil Prices” by Paul Horsnell & Robert Mabro .pub Oxford University Press 1993.

BFO is the marker that replaced Brent in 2002. It is priced-off the most competitive of Brent, Forties and Oseberg assessments in any day.

BFOE replaced BFO in June 2007. It added Ekofisk blend crude oil to the blends included in the marker.

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