Pick up a newspaper, watch CNBC or review any commodities index and you will notice that in almost every case, there are two primary prices quoted for crude oil: Brent and WTI, or West Texas Intermediate. So what’s the difference? What do these prices represent? And importantly, how do these prices affect consumers? These are good questions that we address below, but first let’s take a look at the two benchmarks and see how the prohibition on oil exports factors into this discussion.

**Brent Benchmark.** The Brent benchmark is often referred to as the international price of crude oil. Brent crude oil is a light-sweet crude oil with an API gravity of 38.06 degrees. This benchmark sets the price for approximately two-thirds of the oil produced globally and is used primarily to price oil produced in Europe, the Mediterranean, Africa, Australia and some Asian countries, according to the U.S. Energy Information Administration (EIA).

**WTI Benchmark.** WTI is a light-sweet crude oil produced in the United States with an API gravity of 39.6 degrees. Often referred to as the U.S. benchmark price of crude oil, it is also used as a benchmark for imported crude oil from Canada, Mexico and South America. WTI is priced at the Cushing, Oklahoma trading hub.

**Oil Export Ban.** Currently, oil produced in the U.S., by law, must remain in the U.S., with few exceptions. And while the characteristics of Brent and WTI are similar in nature based on their API gravity, Brent sells at a premium to WTI for reasons that are not entirely driven by the market, but rather in-part from the ban on U.S. exports. Since this artificially depresses the price of WTI crude oil, this creates an uneven playing field for domestic producers and restricts our ability to take full advantage of this new age of North American energy abundance.

**What’s the difference between the two benchmarks?**

The primary difference between the two benchmarks, besides the geographic location of where the commodity is priced, is that the Brent benchmark responds to global market conditions and WTI responds to conditions within the U.S. While both are considered light-sweet forms of crude oil, WTI is slightly lighter (and arguable more valuable), based on the API gravity scale. As noted in the chart below, since 2010 Brent has sold at a premium to WTI despite the similar characteristics.

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**API Gravity Scale**

<table>
<thead>
<tr>
<th>Type</th>
<th>API Gravity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Crude Oil</td>
<td>API Gravity &gt; 31.1</td>
</tr>
<tr>
<td>Medium</td>
<td>API between 22.3 and 31.1</td>
</tr>
<tr>
<td>Heavy</td>
<td>API &lt; 22.3</td>
</tr>
<tr>
<td>Extra Heavy</td>
<td>API &lt; 10.0</td>
</tr>
</tbody>
</table>

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1. [http://www.petroleum.co.uk/benchmarks](http://www.petroleum.co.uk/benchmarks)
2. [http://www.eia.gov/todayinenergy/detail.cfm?id=18571](http://www.eia.gov/todayinenergy/detail.cfm?id=18571)

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**Weekly Average Prices ($/bbl)**

Source: EIA
What does the price difference represent?

The price difference between Brent and WTI is known as the “spread.” This price difference is the result of a number of factors, including robust domestic production, a build-up of inventory of WTI crude oil and a lack of infrastructure, including pipelines and domestic refining capacity configured to process this grade of crude oil. But all of these factors are amplified by the prohibition on selling domestically produced crude oil to customers in countries who are trading partners. According to a recent Reuters article, “Prior to the rise of U.S. shale oil production more than half a decade ago, the spread between WTI and Brent had moved very little for 20 years, largely hovering around zero.” The spread, represented in the chart below in a negative dollar, is the discount that WTI sells at in comparison to Brent.

![The WTI-Brent Spread ($/bbl)](source:EIA)

What does this mean for consumers?

While consumers may have little understanding of the Brent and WTI benchmark prices of crude oil, they are keenly aware of the price they pay at the pump. As recently noted by EIA and Secretary of Energy Ernest Moniz, the price consumers pay for gasoline is tied to the global price (Brent) of crude oil, not the WTI or U.S. benchmark. The graphs below clearly show that the Brent price time-series tracks much tighter to gasoline prices (graph A) than its WTI counterpart (graph B).

![Graph A (Brent and Gasoline Prices)](source:EIA)

At its core, the spread between Brent and WTI crude oil prices serves as a stark reminder of the decades old policy that prohibits domestically produced crude oil from being sold on the global market. Importantly, and as noted by a number of economic studies and government analyses, if this policy was modernized to reflect current market conditions and the abundance of oil currently being produced in the U.S., the spread would narrow and consumers and the U.S. economy would benefit.

* Reuters, 2.27.15: http://www.reuters.com/article/2015/02/27/us-oil-wti-brent-spread-idUSKBN0LV10R20150227