



National Overview

Strong Wholesale Gasoline Prices Maintain Upward Pressure on the Retail Side

The Canada average retail gasoline price rose to nearly 116 cents per litre for the week ending May 22nd, up 2.6 cents per litre from last week. This represents an increase of 12 cents per litre over the same period last year.

The primary reason for the increase in retail gasoline prices is the sharp decline in gasoline inventory levels in the U.S. over a consecutive 12-week period. Regular and unexpected refinery maintenance has slowed supply growth while demand continues to grow, resulting in upward gasoline prices. The impact of the U.S. gasoline inventory levels is important for Canada since wholesale gasoline prices drive retail prices. Furthermore, since gasoline is as a commodity in its own right, its price reacts to supply and demand pressures in local North American markets.

Diesel fuel prices increased slightly almost 1 cent per litre from last week to 98 cents per litre, but were still nearly 5 cents per litre lower than at this time last year. Furnace oil prices remained virtually unchanged at 84 cents per litre and were approximately 3 cents per litre lower than a year ago.

Recent Developments

- World energy consumption is projected to grow by 57% between 2004 and 2030, according to the reference case projection from the International Energy Outlook 2007 released on May 21st by the U.S. Energy Information Administration. The projection shows that the most rapid growth in energy demand will be in nations outside the Organization for Economic Cooperation and Development, especially in non-OECD Asia, where strong economic growth is projected to drive the increase in energy use. <http://www.eia.doe.gov/oiaf/ieo/index.html>
- A survey conducted by Innovative Research Group Inc., found that nearly two in ten (17%) Canadians said the environment was the most important issue second to health at 23%, but they stop short of wanting action on climate change when it requires them to spend more money. For example, 67% of the respondents said they opposed road tolls to discourage people from driving, while 24% said they supported it. Similarly, 69% opposed the idea of raising gas taxes to discourage driving while 22% were in favour. <http://www.innovativeresearch.ca/>

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

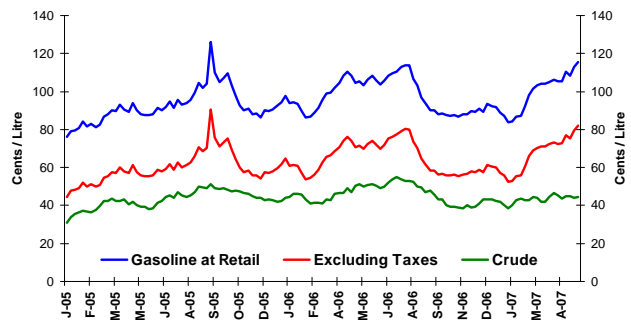
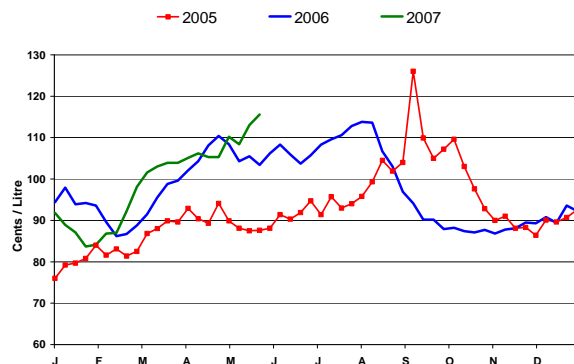


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2007-05-22	Previous Week	Last Year
Gasoline	115.6	+2.6	+12.2
Diesel	97.5	+0.6	-4.6
Furnace Oil	84.2	+0.1	-2.8

Source: NRCan

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Fuel Focus Supplement: World Oil Demand - Significant increases in non-OECD oil demand has been an important factor in oil price movements in the last few years.





Retail Gasoline Overview

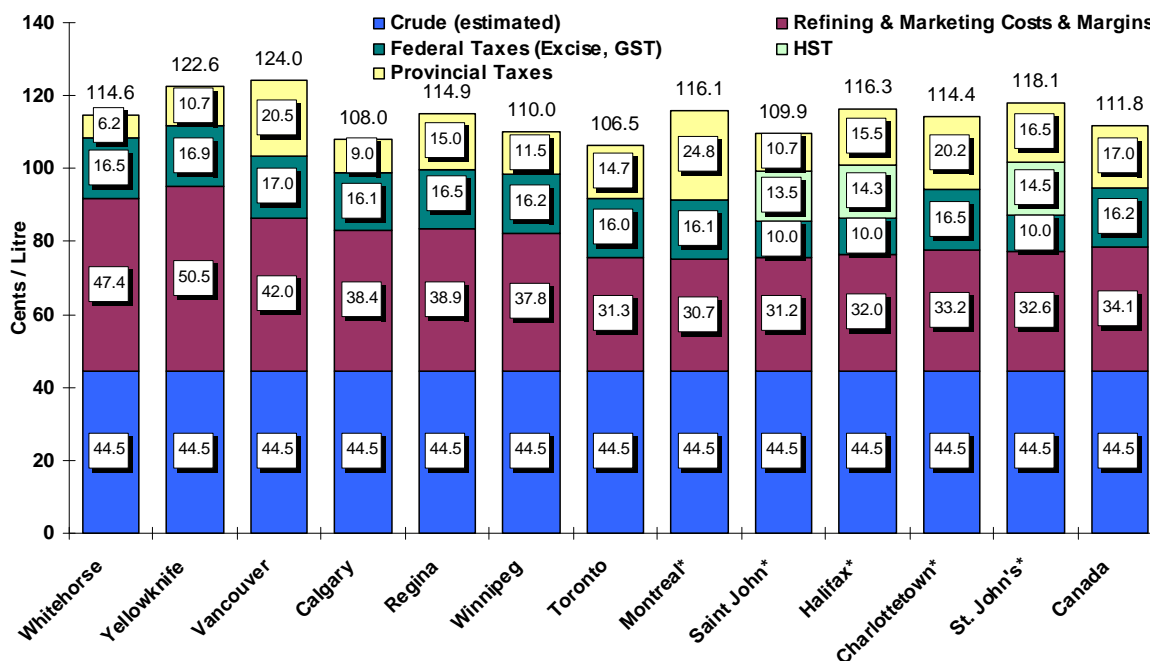
The four-week average Canadian gasoline price for the period ending May 22nd was 112 cents per litre, an increase of nearly 5 cents per litre from the last report on May 11th. This represents a 6 cents per litre increase from the same period in 2006.

The four-week average crude oil prices declined marginally by 0.2 cent per litre to nearly 45 cents per litre compared to two weeks ago. Crude oil prices are also 5 cents per litre lower than at the same period last year.

Refining and marketing costs and margins rose on average 4 cents per litre across Canada, for the period under review, accounting for 34 cents per litre of the total pump prices, an increase of more than 4 cents per litre from the last report.

Retail gasoline prices, when compared to those in the last report, increased in the range of 3 to 7 cents per litre in Western cities (Vancouver to Winnipeg). Price fluctuations in Eastern cities (Toronto to St. John's) ranged from 1.4 to 6 cents per litre.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (May 1 to 22, 2007)**



Source: NRCan

* Regulated Markets

"Imperial Oil Profits Jump 31%"

These few words often lead petroleum product consumers to conclude profits must be the result of pump prices being too high.

Imperial Oil Ltd., Canada's largest oil company announced overall net income for the first quarter of 2007 of \$774 million, an increase of \$183 million over the same period last year. The main contributing factors for increased earnings were higher realizations for Cold Lake heavy oil and higher Syncrude volumes. Partially offsetting these factors were lower conventional resources volumes, lower natural gas realizations and higher royalties on Cold Lake heavy oil production. However, the refining and marketing arm of the company saw any growth in the first quarter margins offset by the losses resulting from the fire at the Nanticoke refinery in Ontario. First quarter profits from petroleum products were \$198 million or \$1 million less than at the same period last year.

Although there are inherent risks in almost any business, a persistent decline in one area of business would eventually become financially unsustainable. In the Imperial example above, although the overall profit seems substantial in the eyes of consumers, the setback in the downstream sector is also significant. Investment in more refining capacity will only take place if those investments can be expected to provide a return. If sustained margins are not projected, investment dollars will be drawn to the upstream where returns are greater.





Wholesale Gasoline Prices

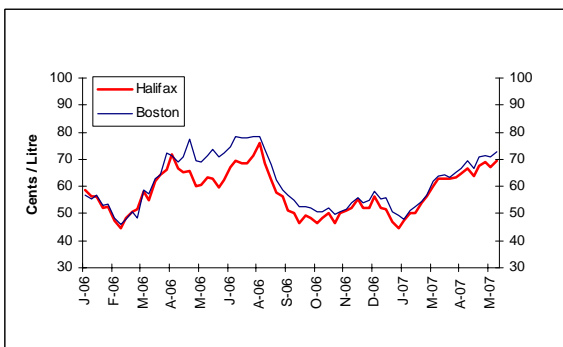
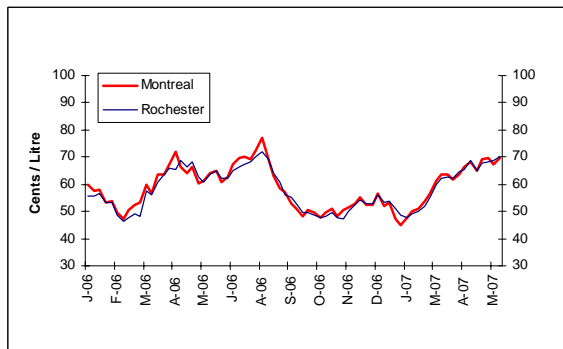
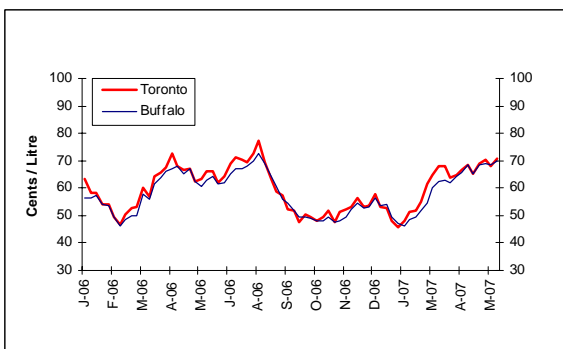
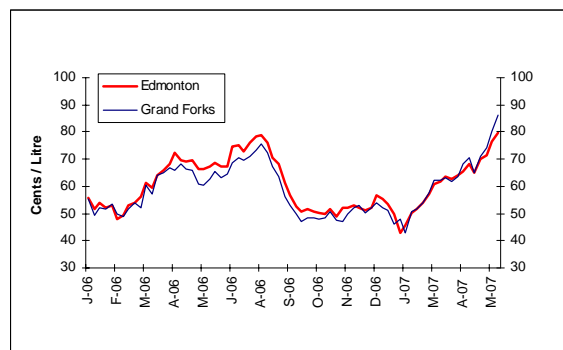
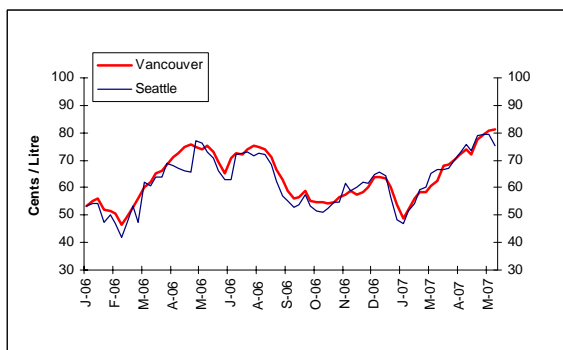
Wholesale gasoline prices increased in most selected centres for the week of May 17th, compared to the previous week. Overall, price changes ranged from a drop of more than 4 cents per litre (Seattle) to an increase of nearly 5 cents per litre (Grand Forks).

The recent upward pressure on wholesale gasoline prices has resulted mainly from apprehensions related to lower U.S. inventory levels at a time when the demand for gasoline is expected to grow. These concerns are also compounded by the fact that a number of refineries have suffered outages further constricting supply.

A recent U.S. Energy Information Agency forecast predicts that consumers are likely to see high gasoline prices throughout the summer months for the reasons previously stated. This is also likely to be the case for Canadian consumers given the closely integrated North American wholesale gasoline market.

Overall, in the last two weeks prices ranged from a decline of 4 cents per litre to an increase of almost 12 cents per litre in Canadian and American centres.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Cities on Thursday May 17, 2007 (Can ¢/L)



Sources: NRCan, Bloomberg

Getting in the Pool

Joining a carpool might be as easy as asking a neighbour who shares a similar route to split the costs of driving. Other forms of carpooling take that idea one step further:

- ✓ Designated driver - one driver and one or more passengers
- ✓ Alternating - costs are incurred only when it is your turn to drive
- ✓ Employer - employees ride company vehicles and pay a fare to offset fuel, maintenance and insurance
- ✓ Fleet Car/Vanpool - fares are based on round trip distance and cover operating expenses coordinated by a central organization.

For more information, please visit NRCan's site at: http://fuelfocus.nrcan.gc.ca/slash_e/fm





Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending May 22nd. Refining margins continue to fluctuate mainly due to concerns over tight supplies while the demand for gasoline continues to rise with the approach of the summer driving season.

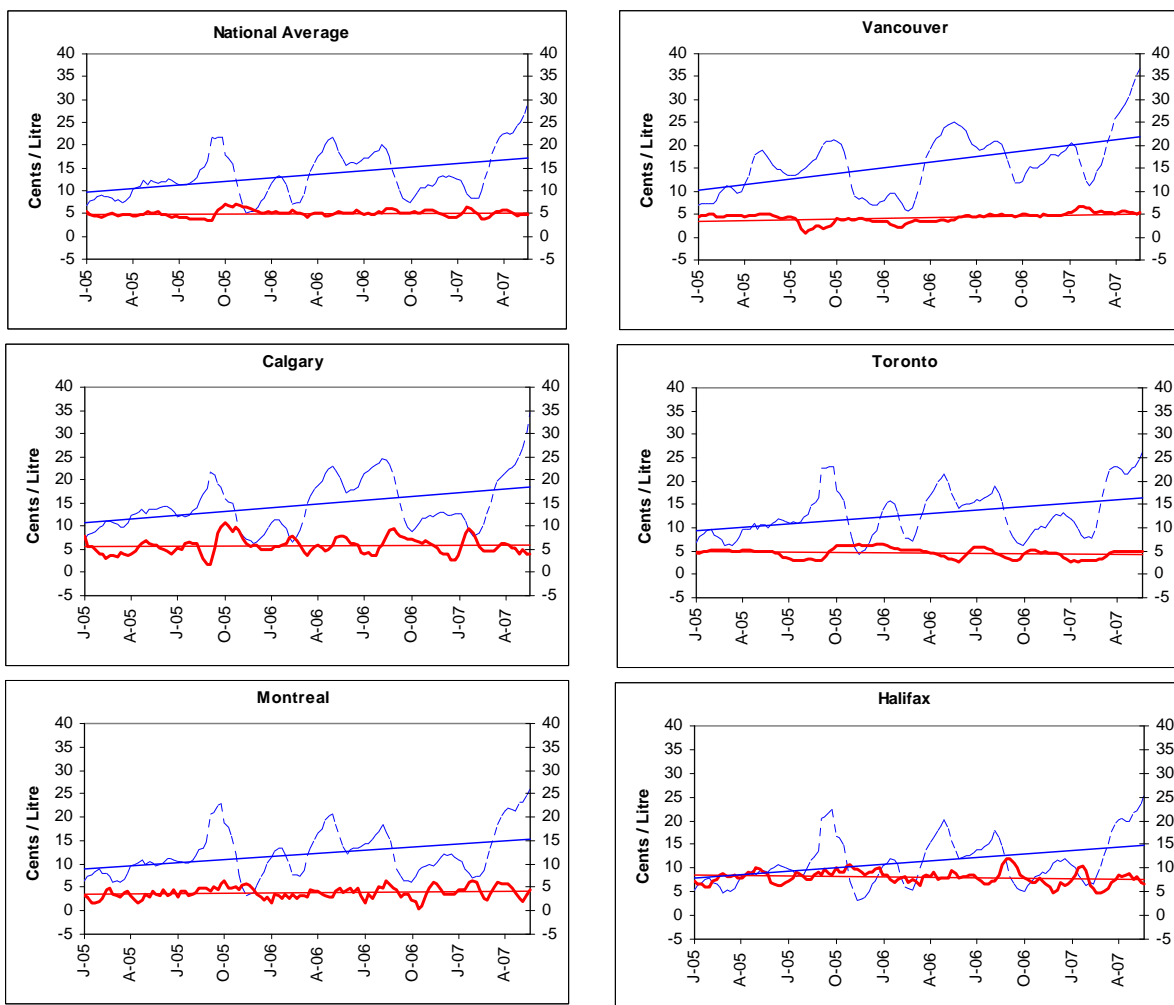
These margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with the refining of the product as well as a profit for the refiner.

Marketing margins represent the difference between the wholesale and retail prices of gasoline. This margin pays for the costs associated with storing the gasoline until it is delivered and for transporting it to the local service station. Gasoline can often be loaded and unloaded several times between the refinery and the retail outlet which adds to the cost.

The marketing margins can be fairly volatile as shown in the Calgary, Montreal and Halifax markets, as outlets compete for market share. The volatility can indicate “price wars” in certain markets or the effects of the regulatory pricing mechanism following an adjustment of the benchmark price.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending May 22, 2007

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

North American Inventories Remain Strong

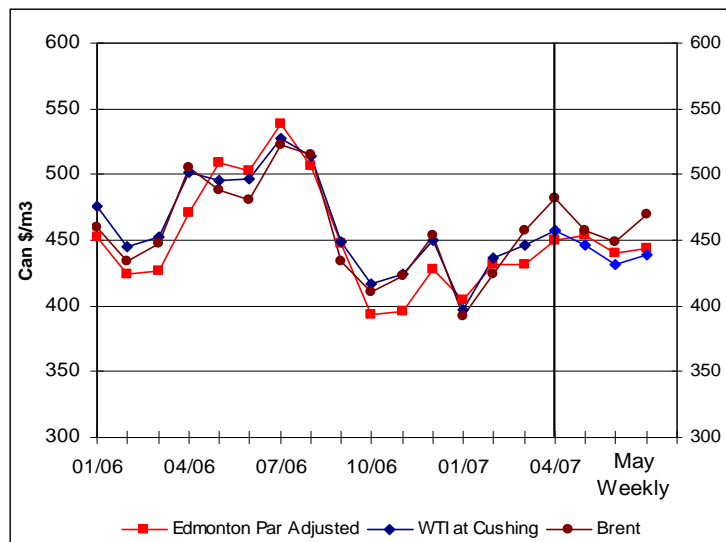
Crude oil prices ended the week of May 18th in the \$441 to \$470/m³ range (\$US 63 to \$US 68/bbl). All crude types rose over the previous week. Brent had the biggest gains, recording an increase of \$21/m³, while Edmonton Par saw the smallest increase at nearly \$4/m³. Strong North American inventories of light, sweet crude oil have continued to increase the differential between Brent and WTI which reached over \$US 5/bbl last week.

As refiners start to increase product production heading into the summer, North American crude oil inventories could decrease causing a greater need for imports. OPEC continues to restrain output under the belief that there

remains a significant gap between inventories and refinery demand and has indicated it has no intention of increasing supply until this situation changes. As the supply of crude oil and refinery demand converge, world prices could also rise.

World geopolitical concerns continue to add a premium to international prices. In particular, Nigeria continues to struggle to keep production online. According to the Nigerian minister of energy, production outages in the region could be in the area of 880,000 – 980,000 bbl/day.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-05-18		Change from:			
	\$Can/ m ³	\$US/ bbl*	Previous Week	Last Year	Previous Week	Last Year
Edmonton Par	441.45	63.40	+3.50	+0.98	-58.77	-7.35
WTI	439.40	63.60	+7.58	+1.64	-45.99	-5.53
Brent	470.09	68.03	+21.27	+3.57	-6.89	+0.11

*Note that prices per barrel are reported in U.S. dollars

Source: NRCan

Volatile Prices Energize Canadian Economy

Canada's booming energy sector pumped \$51 billion in export revenue into the economy and directly employed 345 000 people last year said the National Energy Board, an independent federal agency that regulates parts of Canada's energy industry, in its *Canadian Energy Overview 2006* Report.

According to the report, net revenue generated by Canadian energy exports jumped by 6% from 2005 to 2006. This increase was fuelled mainly by an increase in crude oil and natural gas liquids exports. Energy exports made up 22% of the total value of Canadian exports in 2006.

The report also shows an encouraging trend that Canadians are beginning to use energy more efficiently than in years past, particularly for transportation. Canadians consumed more energy in 2006 but the 1.1% increase in demand is lower than the five-year average increase of 1.8% annually. This fall in consumption is largely due to a small drop in demand for transportation, which accounts for more than 20% of energy consumption in this country and may indicate that Canadians are responding to higher gasoline prices by shifting their cars into park.

For the first time in several years, Canadian crude oil exports outpaced natural gas exports. The estimated net value of crude oil exports topped \$25 billion in 2006, a 58% jump over 2005. Political instability in oil producing regions, limited spare production and refining capacity, and an increased global thirst for crude drove the price to a record US\$78.40 per barrel in July. The average price for a barrel of crude in 2006 was US\$66.

Source: National Energy Board, May 10, 2007.
http://www.neb-one.gc.ca/newsroom/releases/nr2007/nr0716_e.htm





World Oil Demand

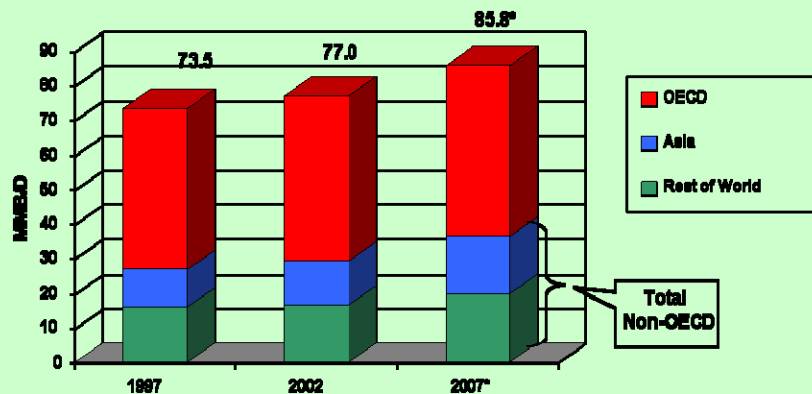
The following provides an overview of world oil demand for 1997, 2002 and a forecast for 2007. Among the significant findings are:

- Total world oil demand was up 12.3 MMB/D (million barrels per day), or about 1.6%/yr, over the 10-year period;
- Demand from Asian non-OECD countries, mainly China, was up 5.7 MMB/D, or 53%. In 2004, China surpassed Japan to become the world's 2nd largest oil importing country;
- Demand in the rest of the non-OECD world was up 3.8 MMB/D or 24%. Total non-OECD demand was thus up 9.5 MMB/D, more than three times the 2.8 MMB/D OECD increase;
- OECD oil demand growth was weak over the 10-year period, growing by only 6 percent.

Significant increases in non-OECD oil demand, particularly in China in 2004, have been one of the main influences in oil price movements in the last few years. On a percentage basis, in the 2003 to 2007 period, China's oil demand has grown at nine times the U.S. rate (see Table below). However, the projected Chinese oil demand for 2007 (7.6 MMB/D), is only one-third of U.S. demand (21.01 MMB/D). In 2006, the average person in China consumed about 2 barrels of oil per year, while the average American consumed approximately 25 barrels of oil per year, or 12.5 times as much. With a population in China more than 4 times larger than the U.S., a rise in standard of living could have a significant impact on world oil demand.

For the 2005 to 2030 period, the International Energy Agency has projected annual oil demand growth of 3.4% for China and 0.8% for the United States. At this growth rate, by 2030, Chinese oil demand (15.3 MMB/D) will equal 2/3 of U.S. oil demand (25.0 MMB/D).

World Oil Demand
1997 – 2007 (MMB/D)



Oil Demand Growth : China and the United States						
	(MMB/D)					% Change
	2003	2004	2005	2006	2007 *	2003 / 2007
China	5.49	6.42	6.69	7.16	7.64	39.2
U.S.	20.14	20.73	20.8	20.67	21.05	4.5

*2007 estimates. Source: International Energy Agency. MMB/D = million barrels per day

