



## National Overview

### Canadian Retail Gasoline Prices Hit a Record High of \$1.40 cents per Litre

Canada's first carbon tax came into effect in British Columbia on July 1<sup>st</sup>, 2008, adding 2.3 cents per litre to the price of gasoline and 2.7 cents per litre to the price of diesel fuel and heating oil in that province.

This contributed in part to the one cent per litre increase in the average Canadian price for gasoline, which averaged \$1.40 on July 1<sup>st</sup>. This represents the highest weekly average price ever recorded.

Crude oil continued to reach record highs over the last two weeks, driving wholesale gasoline prices up by 1-3 cents last week.

In spite of the increases in B.C., the average diesel price remained virtually unchanged at \$1.45 per litre and the furnace oil price was down 1 cent per litre.

The price differential between gasoline and diesel, which traditionally favoured diesel over gasoline has inverted in recent years with diesel prices rising faster than those for gasoline. However, the gap has been narrowing in recent weeks. From peaks of 16 cents per litre in March, the difference has dropped to about 5 cents per litre this week, with diesel prices still remaining higher.

## Recent Developments

- **Jeddah Energy Meeting:** On June 23, 2008, Natural Resources Canada Minister Gary Lunn addressed the special meeting of producing countries in Saudi Arabia and called for more transparency in the global energy markets as a way to restrain oil prices. Minister Lunn stressed Canada's important role in the dialogue as one of just a handful of countries increasing oil output.
- **New Brunswick Energy and Utilities Board Review:** On June 16, 2008, the Board initiated a review of the maximum margins, maximum delivery costs and maximum full service charges currently authorized under the Petroleum Products Pricing Act. A report of the findings will be made available to the public later this fall.
- **False Fuel Savings Claims:** As the summer driving season gets underway, the Competition Bureau is warning consumers to beware of false claims from marketers of so-called fuel saving devices. For more information, contact the [Bureau's Information Centre](#) at 1-800-348-5358.

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

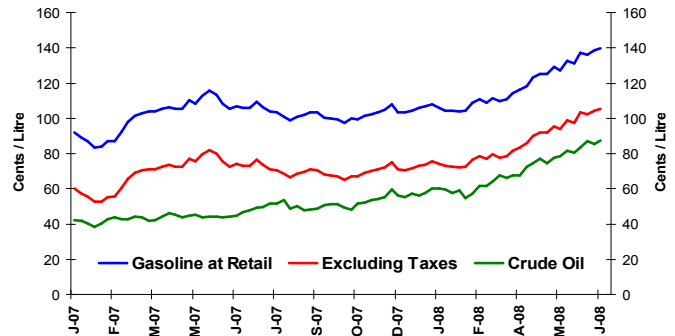
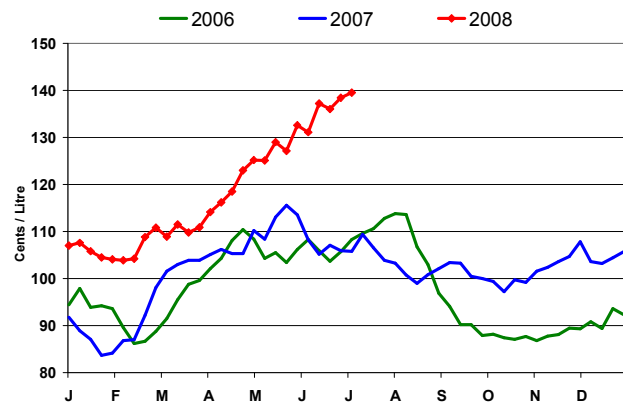


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
		Previous Week	Last Year
Gasoline	2008-07-01	+1.1	+33.7
Diesel		-0.3	+41.6
Furnace Oil		-1.0	+52.3

Source: NRCan

## In this Issue

National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5
Supplement: Events Influencing Gasoline and Crude Oil Prices	6





## Retail Gasoline Overview

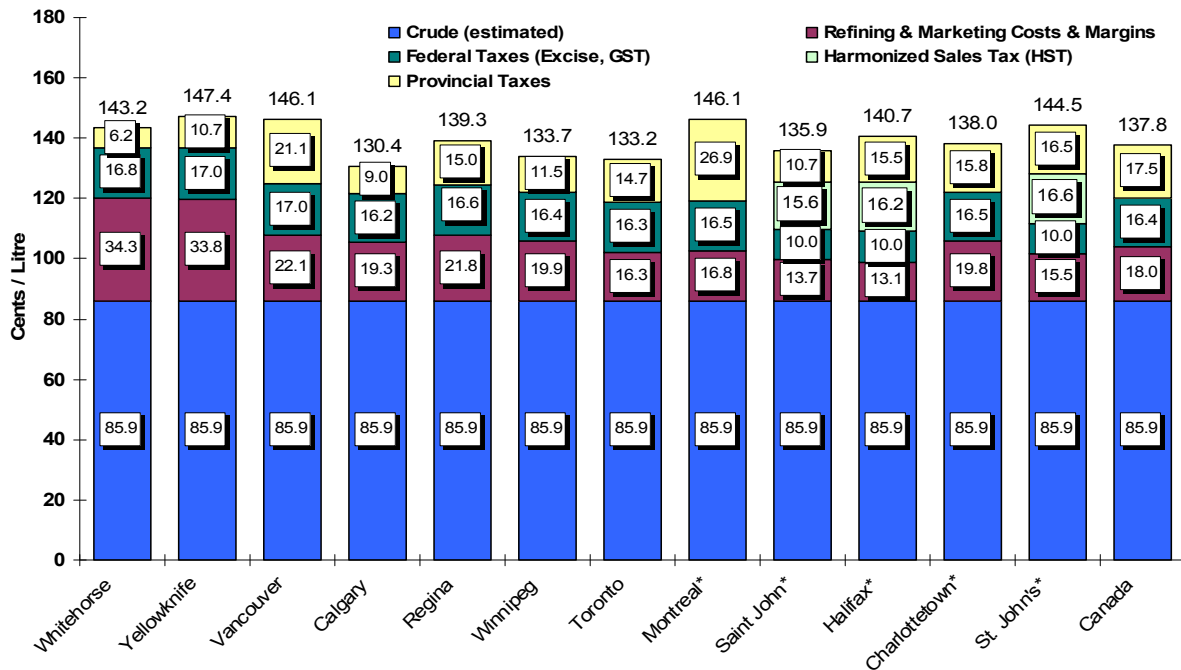
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.38 per litre for the period ending July 1, 2008, an increase of 4 cents per litre from the last report on June 20, 2008. Gasoline prices are 32 cents per litre higher than those recorded at the same period last year.

The four-week average crude oil price component of gasoline registered 86 cents per litre, up 3 cents from two weeks ago, and 40 cents per litre above the same period in 2007.

In spite of record high gasoline prices in all markets, retail pump prices continue to trail crude oil increases by 8 cents per litre. This is reflected in the lower refining and marketing costs and margins.

At the national level, industry margins have increased slightly since the last report but are 9 cents per litre lower than at the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (June 10 to July 1, 2008)**



Source: NRCan

\* Regulated Markets

### Inflation Rises 2.2% in May

Statistics Canada's Consumer Price Index (CPI) report released on June 19, 2008, indicates that prices rose 2.2% in May compared to the same month in 2007, up from 1.7% in April. The increase was mostly a result of higher prices for gasoline, which rose 15% in May compared to the same period last year. The acceleration in consumer prices in May was mainly a reflection of the 12-month increase in gasoline prices. This acceleration in gasoline prices occurred as crude oil prices almost doubled between May 2007 and May 2008. Gasoline prices increased substantially across the country, rising the most in Quebec and Ontario.

The annual consumer prices in Canada rose slightly in 2007 up 2.2%, from 2.0% a year earlier. This was the fastest rate of growth since the 2.8% average increase in 2003. Out of the eight major components in the CPI basket, consumer price increases in 2007 were driven up by increases for two of life's basic necessities: food and shelter. While food and shelter components represent about 44% of the total CPI basket of goods and services, they accounted for over 62% of the total increase in consumer prices in 2007.

Source: Statistics Canada, [The Daily](#) ; [CPI, The Year 2007 in Review](#)





## Wholesale Gasoline Prices

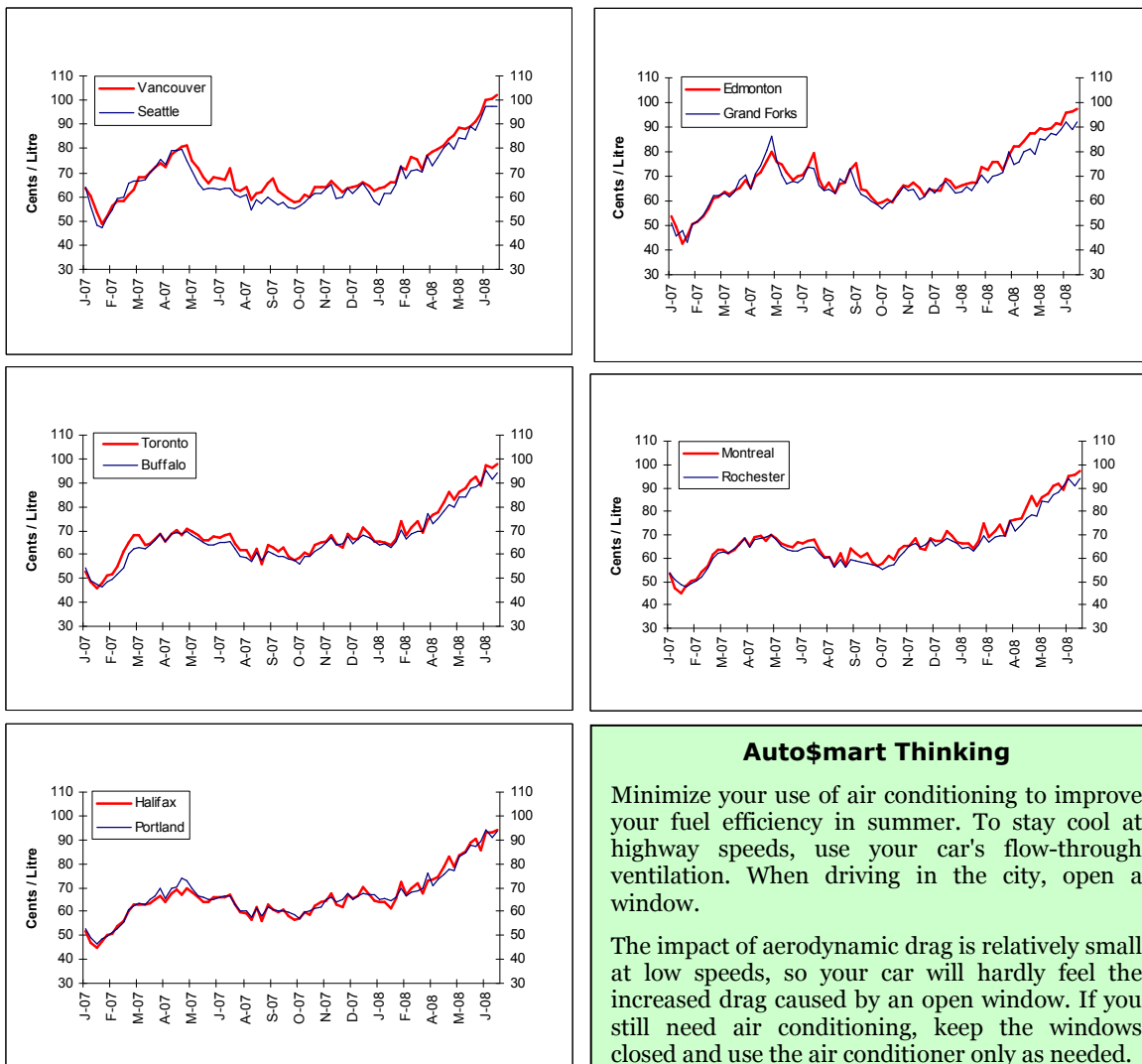
Wholesale gasoline prices increased in most selected centres for the **week of June 26, 2008**, compared to the previous week. Overall, price changes ranged from 1 to 3 cents per litre.

Compared to two weeks ago, wholesale prices in Canadian markets increased 1-2 cents per litre while the comparable US markets saw prices decline slightly. This helped narrow the gap of about 5 cents per litre that had developed between Canadian and American markets over recent weeks.

In the last four weeks, wholesale prices have increased by about 5 cents per litre in all markets except Seattle and Vancouver, where prices are up by 10 cents.

Overall, wholesale prices in all selected centres remain about 30 cents per litre higher than they were at this time last year.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminals Prices for Selected Canadian and American Cities ending June 26, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Auto\$mart Thinking

Minimize your use of air conditioning to improve your fuel efficiency in summer. To stay cool at highway speeds, use your car's flow-through ventilation. When driving in the city, open a window.

The impact of aerodynamic drag is relatively small at low speeds, so your car will hardly feel the increased drag caused by an open window. If you still need air conditioning, keep the windows closed and use the air conditioner only as needed.





## 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 July 1, 2008.

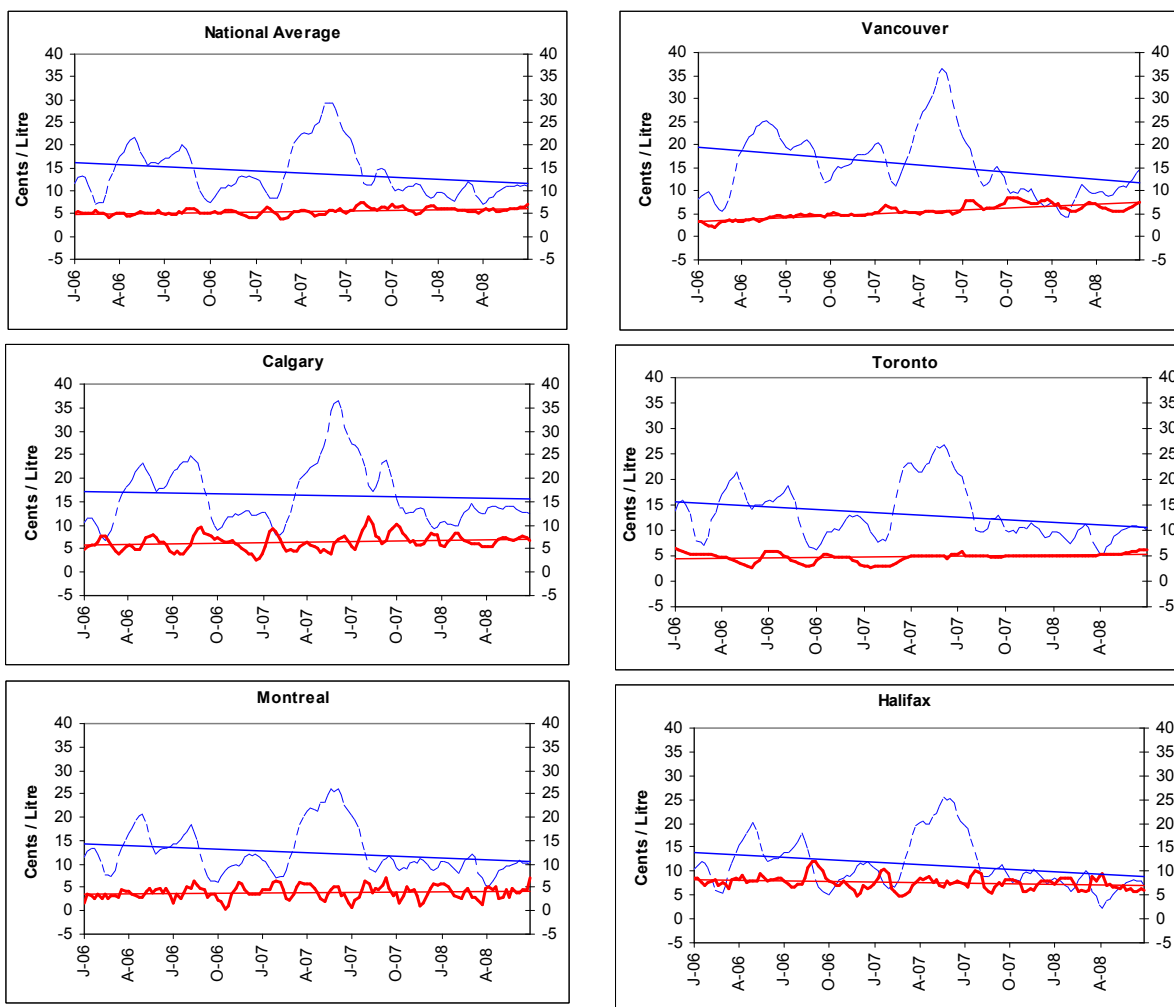
Overall, refining margins for gasoline have been relative stable this summer. This year's well-supplied gasoline market contrasts with the tight supply situation experiences last year at the same period due to various refinery maintenance closures and unexpected outages.

In spite of record high gasoline prices across Canada this summer, refining margins are 13-18 cents per litre lower, compared to the same period last year.

The marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, the trendline indicates that marketing margins remain around 6 cents per litre.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending July 1, 2008

----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Surpasses \$140 per Barrel

For the week ending June 27<sup>th</sup>, 2008, crude oil prices averaged between \$873/m<sup>3</sup> and \$876/m<sup>3</sup> (\$US137 to \$US139 per barrel). All prices increased week over week.

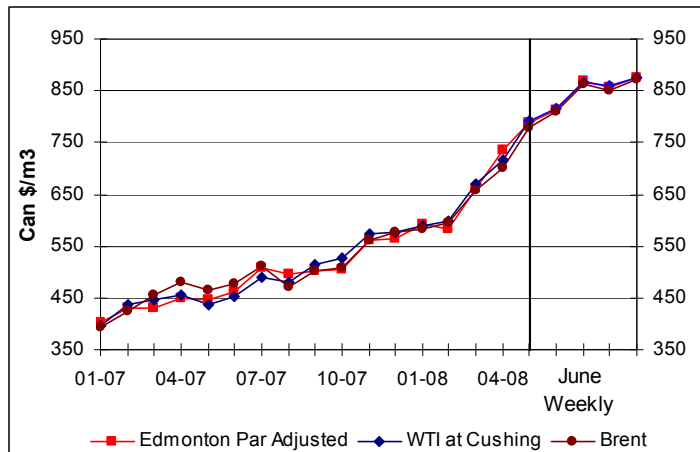
The price of crude oil has continued its upward climb, this time surpassing the \$140 per barrel mark on the New York Mercantile Exchange (NYMEX), closing at \$140.21 per barrel on June 27<sup>th</sup>. In intraday trading, crude hit another high of \$143.67 per barrel on June 30<sup>th</sup>.

A number of contradicting signals have affected the price of crude oil over the past couple of weeks, causing significant volatility in the market. Though it was thought to be too remote to worry about militant activity, Nigerian rebels attacked an offshore oil rig shutting in a further 220,000 bbls/day of the country's production. China announced that they cut back their controversial fuel

subsidies, increasing consumer prices an estimated 17% which may lead to a decrease in demand growth. At its June 22<sup>nd</sup> meeting of producing and consuming countries, Saudi Arabia announced that it will increase its production capacity to 15 million bbls/day by 2018.

Perhaps the most important development was the approval by the U.S. House of Representatives of legislation that will direct the Commodity Futures Trading Commission to "curb immediately" the role of excessive speculation in energy futures markets. This is among a number of bills relating to speculative trading awaiting Senate approval. Many analysts have blamed the significant rise in crude oil prices over the past year on the increased interest in speculative trading in commodities futures markets such as the NYMEX, and the weak regulation of these markets.

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-06-27		Change from:			
			Previous Week		Last Year	
	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl
Edmonton Par	875.23	137.29	+17.30	+3.30	+406.68	+67.51
WTI	875.76	137.37	+15.34	+3.00	+411.15	+68.18
Brent	872.85	136.91	+23.62	+4.29	+390.88	+65.14

Source: NRCan

### Refinery Margins Reduce First-Quarter Earnings

Record-high worldwide oil prices and strong natural gas prices drove oil and gas company earnings in the first quarter of 2008, but weak downstream margins offset some of the profits. According to the Oil and Gas Journal's sample of oil and gas producers and refiners based in the U.S. and Canada, companies posted double digit earnings gains from last year's first quarter. U.S. based companies recorded an overall 12% earnings increase, although 27 of them reported a loss for the quarter.

Robust oil and gas price realizations propped up returns for most producers in the sample of U.S. companies, but U.S.-based refiners reported weaker results for the first three months due to high crude oil costs which reduced refining margins.

Meanwhile, in a sample of firms based in Canada, eight of the fourteen improved on first-quarter earnings from 2007, as the group's combined revenues grew 31%. As in the U.S. weaker results in some of the firms were mainly due to higher operating costs and weaker margins in their refining operations.

Source: Oil and Gas Journal, June 2, 2008.





## Events Influencing Gasoline and Crude Oil Prices

With world crude oil prices reaching record highs, consumers often jump to the conclusion that the gasoline and crude price fluctuations go hand-in-hand. Although closely correlated, the two commodities will react to different market factors as shown below in the timeline of events driving retail gasoline and crude oil prices since 2004.

### May 2004 - Tight gasoline supplies in the U.S.

The strong recovery of the U.S. economy created higher than expected demand for oil products and prevented refineries from building gasoline stocks in advance of the peak driving season. Gasoline inventories in the U.S. were down 2% from the previous year and were significantly lower than the five-year average. With less gasoline available, the industry had limited flexibility to respond to changes in supply or demand.

### August 2005 - Hurricane Katrina

Hurricane Katrina caused significant damage to offshore rigs, refineries, pipelines and ports in the Gulf of Mexico. The immediate loss of more than 25% of U.S. refining capacity created severe shortages of gasoline and other oil products across North America. The price impacts were felt worldwide as markets struggled to re-balance and European markets tried to free up product for export to the U.S. Within a few weeks, supply and demand were more balanced and prices subsided somewhat. However, nearly a year later the U.S. still had not returned to full refining capacity. Gasoline markets in North America remained very tight and prices continued to be volatile.

### September 2006 – Geopolitical Uncertainties (Israel / Hezbollah Conflict; Iranian Nuclear Program)

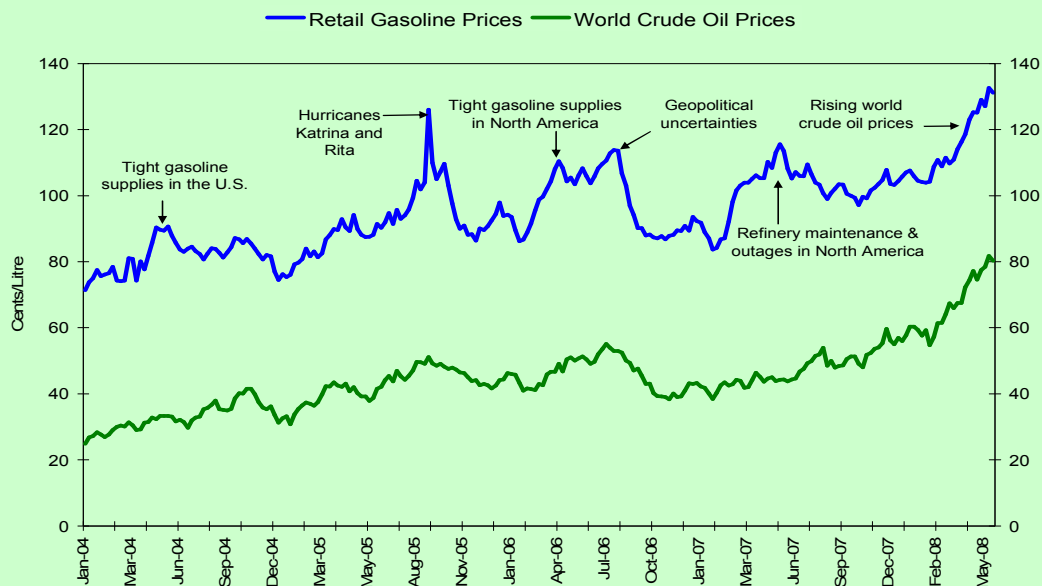
Heading into the summer driving season, Canadian gasoline and diesel fuel prices were already well ahead of the previous year's levels. The persistent rise in crude oil prices in the first half of the year was influenced by a series of international events which caused significant market instability. By the second half of the year concerns over possible conflicts in oil producing regions were reduced and prices declined upon higher inventory crude oil and gasoline levels.

### May 2007 – Impact of Refinery Maintenance and Unplanned Outages

The rise in retail gasoline prices in the first half of 2007 was primarily the result of tight supply. Unusually extensive North American refinery outages in the early part of the year, combined with the rising summer demand, caused prices to increase much earlier in the season. In the latter part of the year, pump prices were influenced by the significant rise in crude oil prices. The most influential event affecting crude oil prices was the significant depreciation of the U.S. currency.

### January to May 2008 – Rising World Crude Oil Prices

World crude oil prices pushed upward on strong world economic growth leading to increased demand for oil. In addition, moderate non-OPEC supply growth and the increased participation of non-commercial traders into the commodity oil market further increased prices.



Note: For more information on the aspects of the dual market, please consult the Fuel Focus on Gasoline and Crude Oil Market Dynamic at: [http://www.fuelfocus.nrcan.gc.ca/issues/2007-02-16/retail\\_e.cfm](http://www.fuelfocus.nrcan.gc.ca/issues/2007-02-16/retail_e.cfm). A longer timeframe is available at: [http://www.fuelfocus.nrcan.gc.ca/fact\\_sheets/timeline\\_e.cfm](http://www.fuelfocus.nrcan.gc.ca/fact_sheets/timeline_e.cfm).

