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Fuel Focus

*Understanding Gasoline Markets in Canada
and Economic Drivers Influencing Prices*

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National Overview

Retail Pump Prices Drop 24 Cents per Litre in the Last Four Weeks

Average Canadian retail pump prices declined 5 cents per litre to \$1.14 per litre for the week ending October 7, 2008, compared to the previous week. Overall, Canadian retail gasoline prices have plunged 24 cents per litre in the last four weeks.

Diesel fuel prices rose slightly by 1 cent per litre to \$1.28 per litre, while furnace oil remained almost unchanged at \$1.14 per litre. However, prices remain 28 cents per litre higher compared to a year ago.

The decline in retail gasoline was driven by softer wholesale gasoline prices, which in turn were influenced by lower world crude oil prices. Since Canadian wholesale gasoline prices are set to continental benchmark prices, much of the decline in the U.S. wholesale market is also reflected in the Canadian gasoline retail prices.

Comfortable crude oil inventory levels and declining demand stemming from the U.S. economic downturn contributed to lower prices – their lowest levels since March 2008.

According to the U.S. Energy Information Administration, motor gasoline inventories in the U.S. on September 26, 2008, had declined to their lowest level since August 1967. <http://tonto.eia.doe.gov/oog/info/twip/twiparch/o81001/twipprint.html>. So far this year, miles driven in the U.S. have dropped 3% compared to 2007.

Recent Developments

- Increase in Canadian Crude Oil Production:** Production of crude oil and equivalent hydrocarbons increased 2.5% to 14 million cubic metres in July 2008 compared to the same period last year. Meanwhile, exports declined 2.5% to 8.7 million cubic metres, while imports increased 3.2% to reach 4.5 million cubic metres. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/081001/do81001a.htm>)
- U.S Roads Less Traveled:** On September 30, 2008, the U.S. Federal Highway Administration reported that travel in July on all U.S. roads declined 3.6%, or 9.6 billion vehicle miles, compared to same period last year. On a year to date basis this represents a 3% decline or 52 billion miles less than in 2007. (Source: U.S. Federal Highway Administration <http://www.fhwa.dot.gov/ohim/tvtw/o8jultvt/page2.cfm>)

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

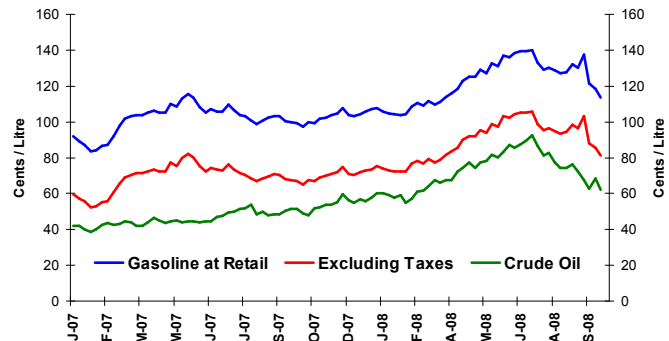
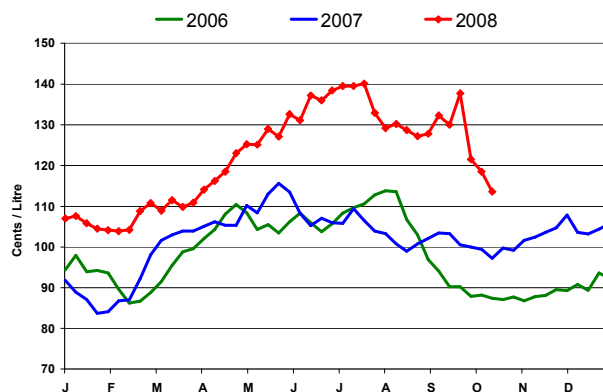


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-10-07	Previous Week	Last Year
Gasoline	113.6	-4.9	+16.4
Diesel	127.8	+0.6	+27.7
Furnace Oil	113.6	+0.1	+28.3

Source: NRCan

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Retail Gasoline Overview

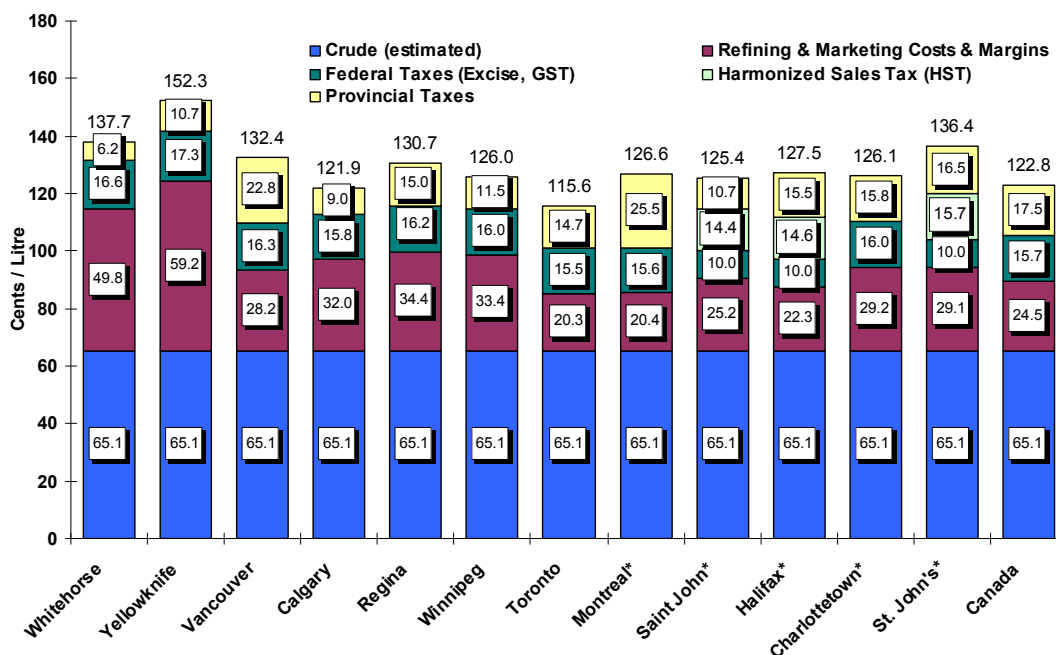
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.23 per litre for the period ending October 7, 2008, a decrease of 7 cents per litre from the last report on September 26, 2008. Gasoline prices are 24 cents per litre higher than those recorded at the same period last year.

The **four-week average** crude oil price component of gasoline registered 65 cents per litre, down 5 cents from two weeks ago, and 15 cents per litre above the same period in 2007.

Retail gasoline prices in most Western centres declined, on average, 6 cents per litre when compared to the previous report, ranging from \$1.22 to \$1.32 per litre. Prices in Eastern cities decreased on average also by 6 cents per litre, and ranged from \$1.16 to \$1.36 cents per litre.

At the national level, refining and marketing costs and margins declined more than 2 cents per litre since the last report.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 16 to October 7, 2008)**



Source: NRCan

* Regulated Markets

Inflation Up 3.5% in August 2008

According to Statistics Canada's Consumer Price Index (CPI) released on September 23, 2008, prices rose 3.5% from August 2007 to August 2008, largely driven by higher prices for gasoline. The 12-month increase in the CPI in August was the largest since the 12-month rate of growth of 4.2% in March 2003. While gasoline prices continued to exert the strongest upward pressure on consumer prices in August, a 7.3% drop in prices to purchase and lease passenger vehicles over the 12 months to August helped to mitigate the rise in transportation costs.

On the Prairies, the rate of growth in consumer prices was faster in August than it was in July, particularly in Manitoba and Alberta. However, consumers in the three most eastern provinces - Newfoundland and Labrador, Prince Edward Island and Nova Scotia - however, continued to face the highest rise in consumer prices over the 12 months to August. With the exception of Alberta, the most significant individual upward contributor on consumer prices in August came from higher prices for gasoline. The 12-month variation in the gasoline price index ranged from 30.7% in British Columbia to 21.6% in Saskatchewan.

Source: The Daily, <http://www.statcan.ca/Daily/English/080923/do80923a.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices, compared to the previous week, continued to decline in all centres for the **week of October 2, 2008**. Overall, prices declined from 2 to 6 cents per litre.

Changes in wholesale gasoline prices in Eastern markets, in both Canada and the United States, ranged from a decrease of 3 to 6 cents per litre, compared to the previous week, ending the period in the 72 to 76 cents per litre range.

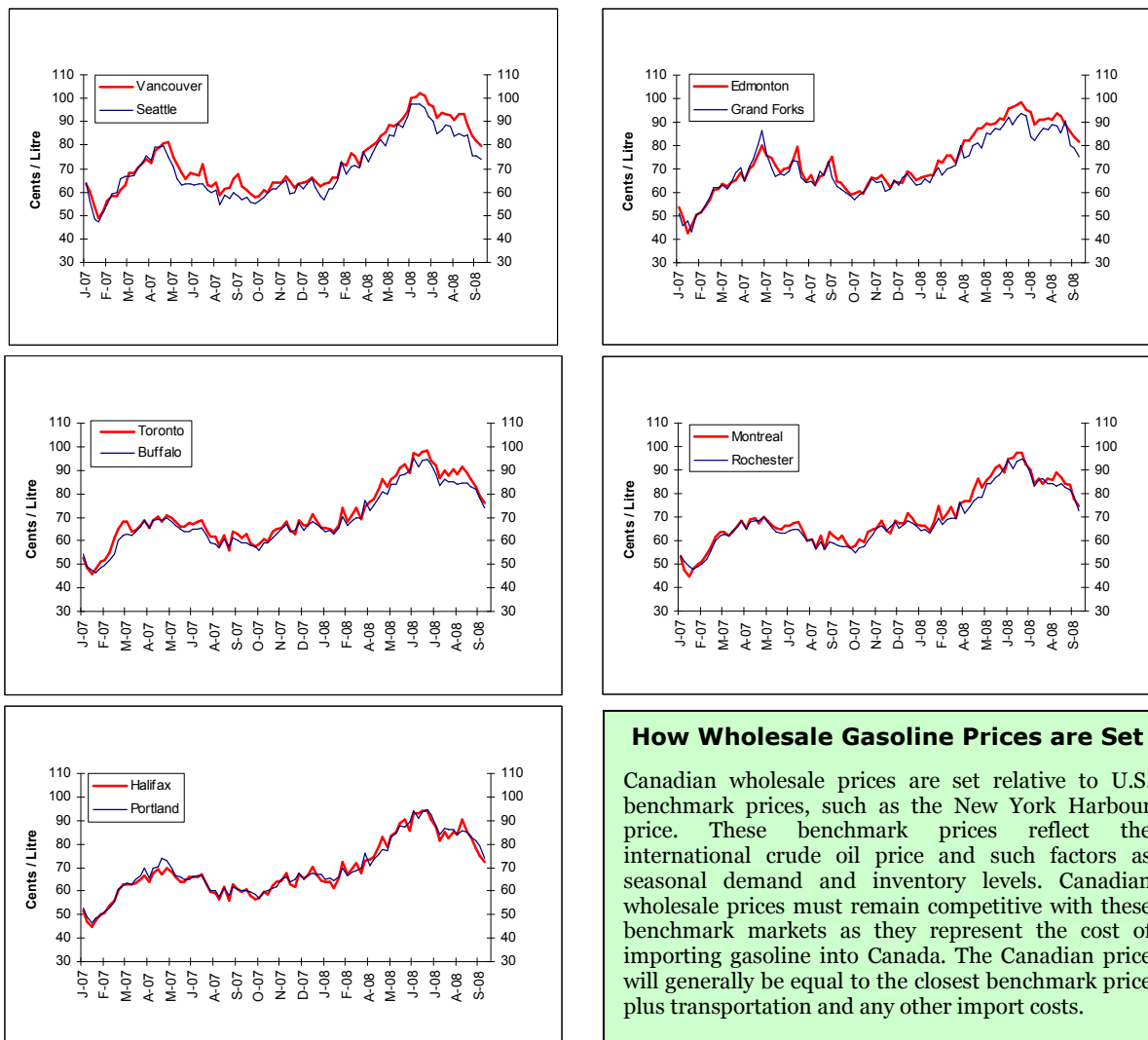
In most Western centres, wholesale gasoline price declines ranged from 2 to 4 cents per litre and ended at

74 to 82 cents per litre. The gap observed between Canadian and American Western centres is mainly due to the supply constraints in Western Canada that resulted from refinery production problems.

In the last four weeks wholesale prices in both Canadian and American selected centres have declined in the range of 10 and 14 cents per litre.

Overall, wholesale gasoline prices in all markets are 15 to 23 cents per litre above last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending October 2, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending October 7, 2008.

Overall, refining margins for gasoline have declined to 16 cents per litre from a high of nearly 20 cents per litre in the last report two weeks ago. The downturn in refining margins for gasoline reflects the decrease in North American demand and a well supplied market.

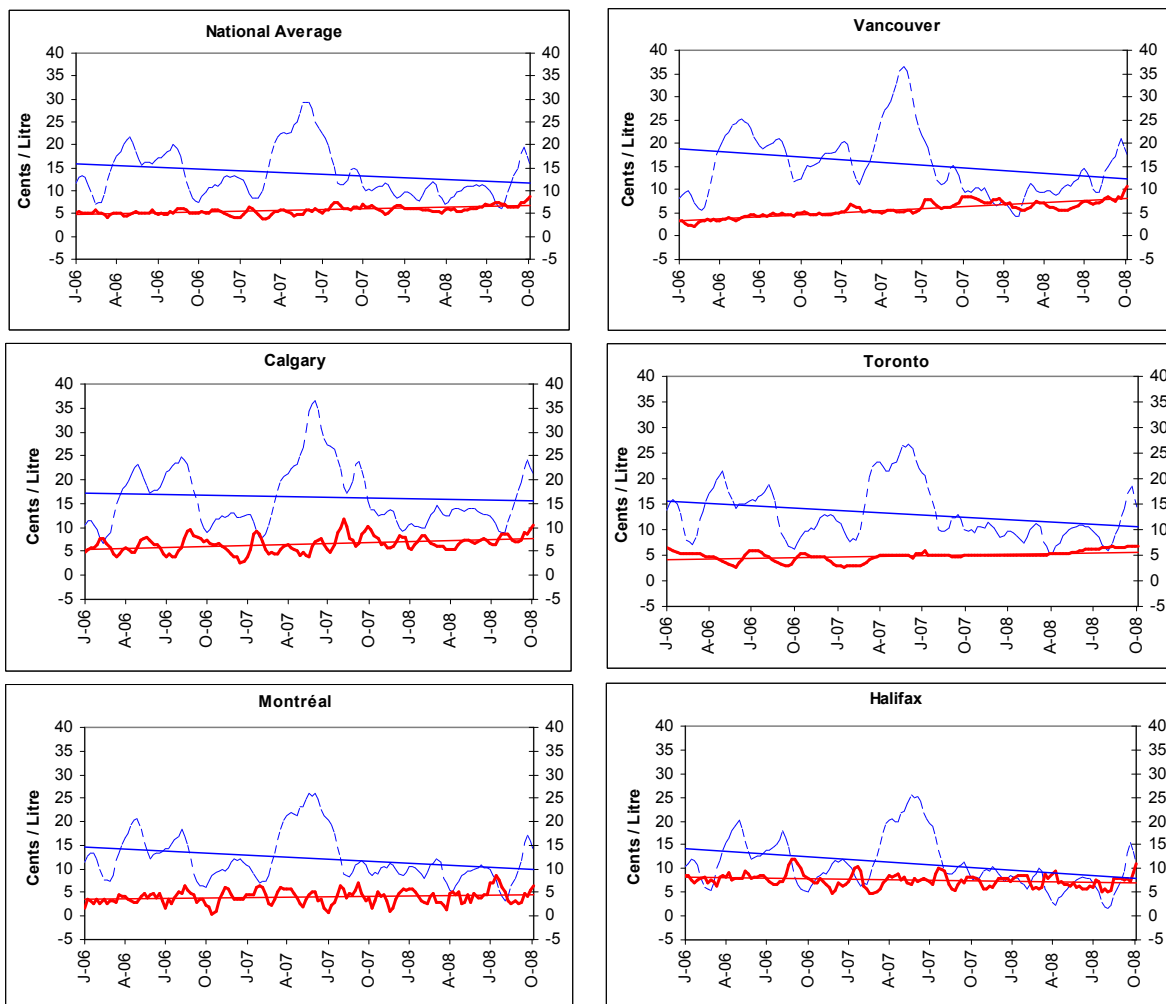
In the meantime gasoline suppliers are converting from summer to winter quality gasoline in their

storage tanks which tends to put upward pressure on margins.

Marketing margins, which cover the costs of operating a service station outlet, rose to nearly 9 cents per litre. Marketing margins for the five centres registered between 7 and 11 cents per litre.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending October 7, 2008
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Continue to Fall on Lower World Demand

For the week ending **October 3, 2008**, crude oil prices averaged between \$618/m³ and \$647/m³ (\$US92 to \$US97 per barrel). All crude prices dropped compared to the previous week.

Dominating the news lately was the downward spiral of the world's major market indicators. Energy commodities were not immune, as investor scepticism surrounding the impact of the U.S. government \$US700 billion economic rescue package pushed crude oil prices downward.

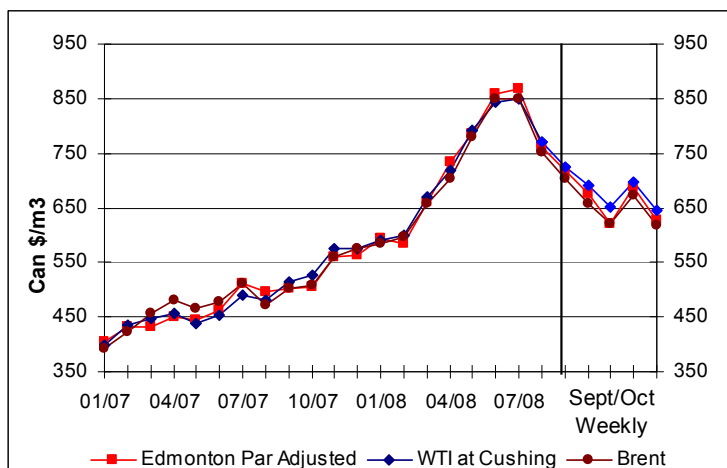
On the market fundamentals side, the current economic slowdown contributed to lower demand and the decline in oil prices.

Overall, oil markets are expected to remain relatively tight because of sluggish production growth.

Oil and gas production facilities in the Gulf of Mexico are still recovering from hurricanes Gustav and Ike. Ongoing work to restore the facilities is expected to continue at least through October.

The U.S Energy Information Administration's recent *Short-Term Energy and Winter Fuels Outlook* <http://www.eia.doe.gov/emeu/steo/pub/contents.html> forecasts a 15% increase in average household expenditures for all space-heating fuels over what was spent last winter. The projected increases primarily reflect higher prices this year over last year.

Figure 6: Crude Oil Price Comparisons



Canadian Crude Oil Reserves and Production

Canada's established reserves (proven oil reserves) are second only to Saudi Arabia's. At the start of 2007, Canada's remaining established oil reserves amounted to 179 billion barrels. Canada's established reserves include 5.4 billion barrels of conventional oil reserves. The large majority of Canada's established oil reserves - more than 95 per cent - are in the form of oil sands.

With respect to oil production, Canada is currently the 7th largest oil producer in the world. Canada's crude oil production has risen fairly steadily over the past decade. Annual crude oil production amounted to 2.1 million barrels in 1997 and reached 2.8 million barrels in 2007. While conventional sources continue to provide more than half of crude oil production, the oil sands have been responsible for most of the growth in oil production in Canada in recent years. Since 1990, Canada's annual oil sands production has more than tripled, reaching 1.2 million barrels in 2007.

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-10-03		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	628.18	93.92	-60.80	-11.86	+135.88	+15.39
WTI	646.79	96.68	-50.45	-10.37	+143.07	+16.10
Brent	617.58	92.31	-55.79	-11.07	+129.84	+14.28

Source: NRCan

