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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 Continue to Decline

Average retail Canadian gasoline prices, compared to the previous week, declined less than 1 cent per litre to 76 cents per litre for the week ending December 16, 2008. Compared to the same period last year, pump prices are now 28 cents per litre lower.

Diesel fuel prices, compared to the previous week, decreased nearly 4 cents per litre to 95 cents per litre for the week of December 16, 2008. Meanwhile, furnace oil prices continue to decline, dropping to 82 cents per litre, down 4 cents from the previous week. Diesel fuel and furnace oil are now 19 and 20 cents per litre lower, respectively, compared to a year ago.

The average Canadian pump price for selected cities for the **four-week average ending December 16, 2008**, was 79 cents per litre, a decrease of 5 cents per litre from the last report on December 5, 2008.

Recent Developments

- Canadian Gasoline Consumption Down 1%:** Canadian motor gasoline sales declined 1% in the first ten months of 2008 to 34.7 million cubic metres, or 290 thousand cubic metres below the same period last year. Diesel fuel oil sales also declined by 1% to 22.9 million cubic metres, down nearly 216 thousand cubic metres below the same time in 2007. Furnace oil consumption dropped 14%, or 477 thousand cubic metres. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/081205/dq081205d-eng.htm> and previous release)
- U.S. Gasoline Consumption Projected to Decline in 2008-09:** Motor gasoline consumption in 2008 is projected to decline 320,000 barrels per day (bbl/d), or 3.4%, from 2007 according to the *Short-Term Energy Outlook*, released December 10, 2008, by the Energy Information Administration (EIA). The gasoline consumption decline bears resemblance to the early 1980s. However, the difference is that in the 1979-1980 period, highway travel declined by an average of 1% per year despite an average annual GDP growth of 1.5%. In contrast, recent highway travel declined by an average of more than 2% per year—two times that of the 1979-80 decline—despite an average GDP growth similar to that of 1979-80. This result suggests that in the current period, the rapidity of the increase in prices to record levels resulted in a larger shift in consumer behaviour. (Source: EIA, <http://tonto.eia.doe.gov/oog/info/twip/twip.asp>)

This is the last issue of Fuel Focus for this year. A 2008 Annual Review is planned for January 16 and the regular issue will resume on January 30, 2009.

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

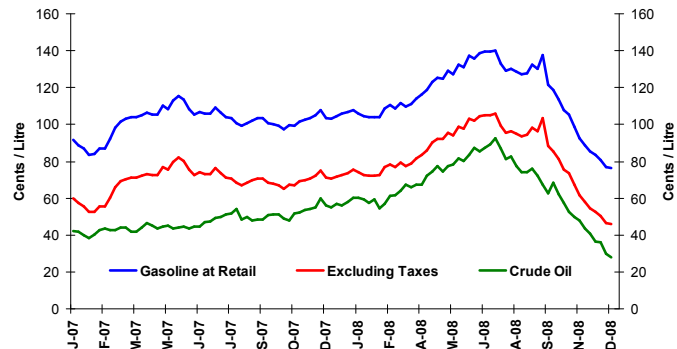
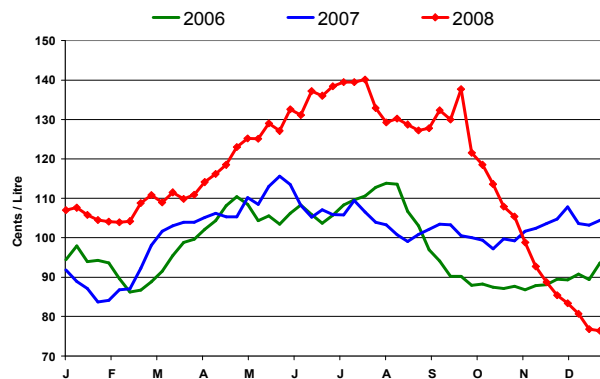


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-12-16	Previous Week	Last Year
Gasoline	76.4	-0.5	-28.0
Diesel	94.8	-3.5	-18.9
Furnace Oil	81.8	-3.9	-19.5

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: Canadian Petroleum Product Market Outlook Fall 2008	6





Retail Gasoline Overview

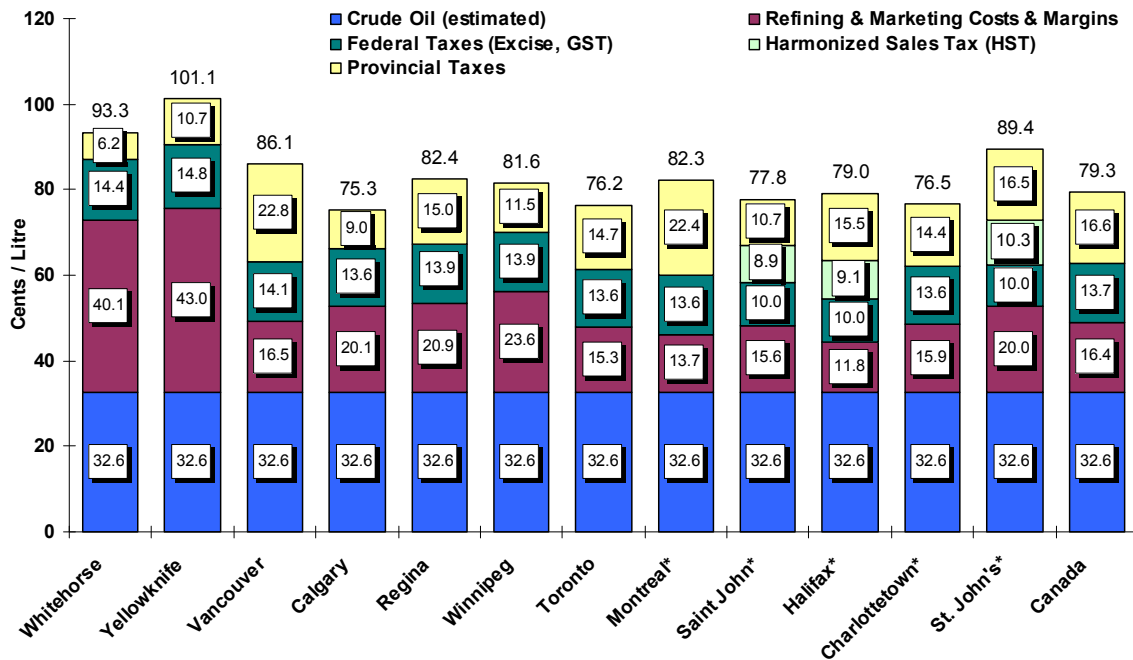
The Canadian average pump price in selected cities for the **four-week average** ending December 16, 2008, was 79 cents per litre, a decrease of 5 cents per litre from the last report on December 5, 2008. This represents a 26 cents per litre decrease compared to the same period in 2007.

The **four-week average** crude oil price component of gasoline declined by 7 cents per litre to 32 cents per litre compared to two weeks ago, and 24 cents per litre below the same period in 2007.

Retail gasoline prices in most Western centres decreased on average 7 cents per litre when compared to the previous report, ranging from 75 to 86 cents per litre. Prices in Eastern cities declined on average by 6 cents per litre, and ranged from 76 to 89 cents per litre.

At the national level, refining and marketing costs and margins rose by nearly 2 cents per litre from the last report. This represents an increase of 1 cent per litre compared to last year at the same period.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (November 25 to December 16, 2008)**



Source: NRCan

* Regulated Markets

OECD Gasoline Demand Dropping

Gasoline demand among member countries of the Organisation for Economic Cooperation and Development (OECD) fell 4.4% in September, to 14.3 million barrels per day, according to the International Energy Agency's (IEA) oil market report. The fall in gasoline demand, along with total oil product demand in general, comes as the IEA cited figures from the International Monetary Fund (IMF), which project industrialized economies will contract by at least 0.2% in 2009. Emerging economies are also projected to suffer some economic downturn as well, with the IMF revising the growth rate downward by almost a full percentage point for 2009, to 5.3%.

Source: IEA, Oil Market Report, November 2008





Wholesale Gasoline Prices

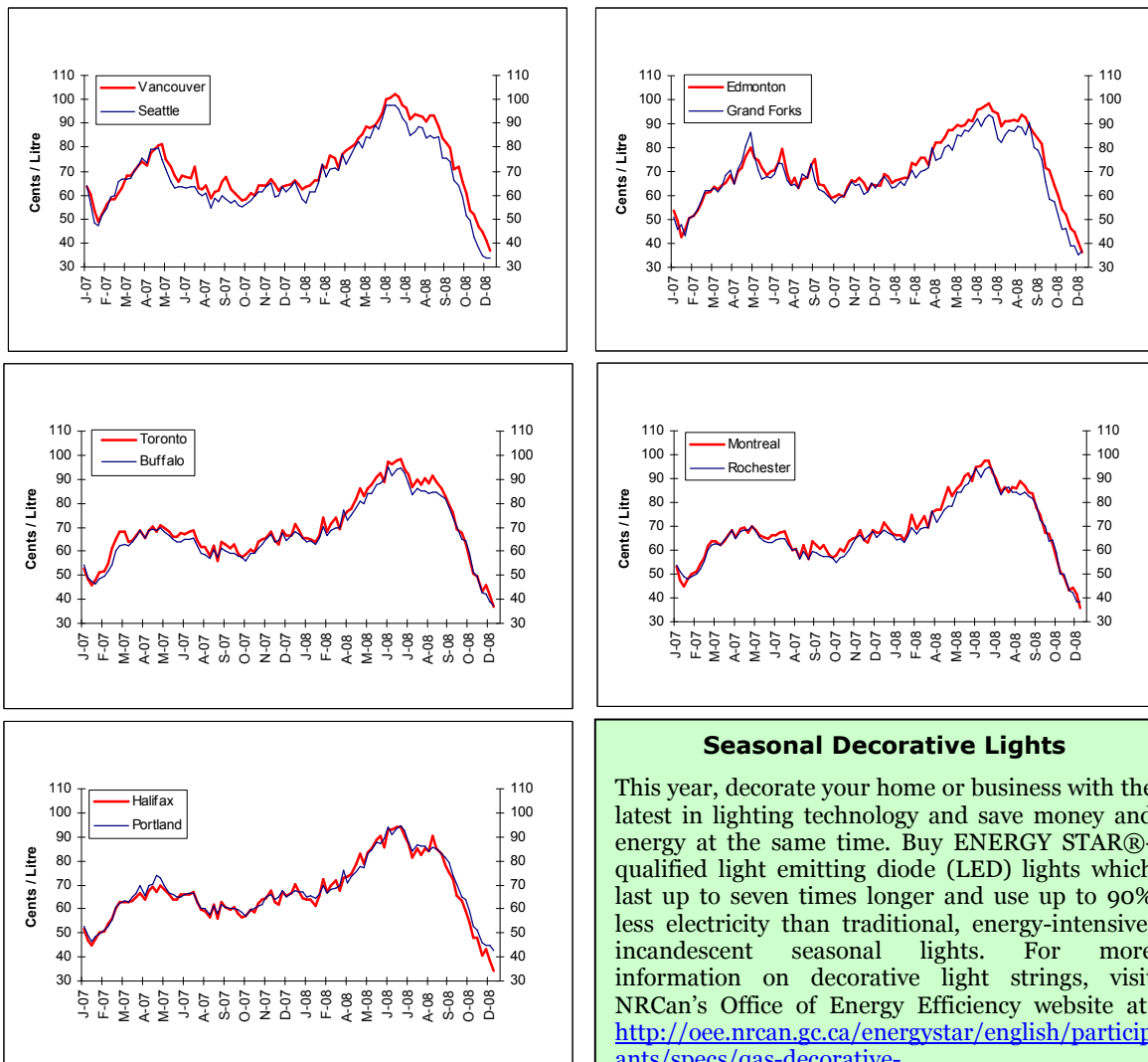
Wholesale gasoline prices declined in most centres for the **week of December 11, 2008**, compared to the previous week. Overall, price changes ranged from a decrease of more than 5 cents per litre in Montreal to an increase of nearly 2 cents per litre in Grand Forks.

Compared to the previous week, wholesale gasoline prices in Eastern markets in both Canada and the United States ranged from a decrease of 5 cents per litre to an increase of less than 1 cent per litre and ended the period in the 34 to 43 cents per litre range.

The fluctuation in wholesale gasoline prices in Western centres ranged from a decline of nearly 5 cents per litre to an increase of 2 cents per litre and ended at 34 to 37 cents per litre.

Overall, average wholesale gasoline prices in Canadian and American centres have declined steadily for more than six months in a row. The average Canadian price dropped by 62 cents per litre from its peak on July 3, 2008, while American prices declined on average by 57 cents per litre. Overall, prices are 25 to 33 cents per litre below last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending December 11, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Seasonal Decorative Lights

This year, decorate your home or business with the latest in lighting technology and save money and energy at the same time. Buy ENERGY STAR®-qualified light emitting diode (LED) lights which last up to seven times longer and use up to 90% less electricity than traditional, energy-intensive, incandescent seasonal lights. For more information on decorative light strings, visit NRCan's Office of Energy Efficiency website at: <http://oee.nrcan.gc.ca/energystar/english/participants/specs/qas-decorative-lights.cfm?text=N&printview=N>





Refining and Marketing Margins

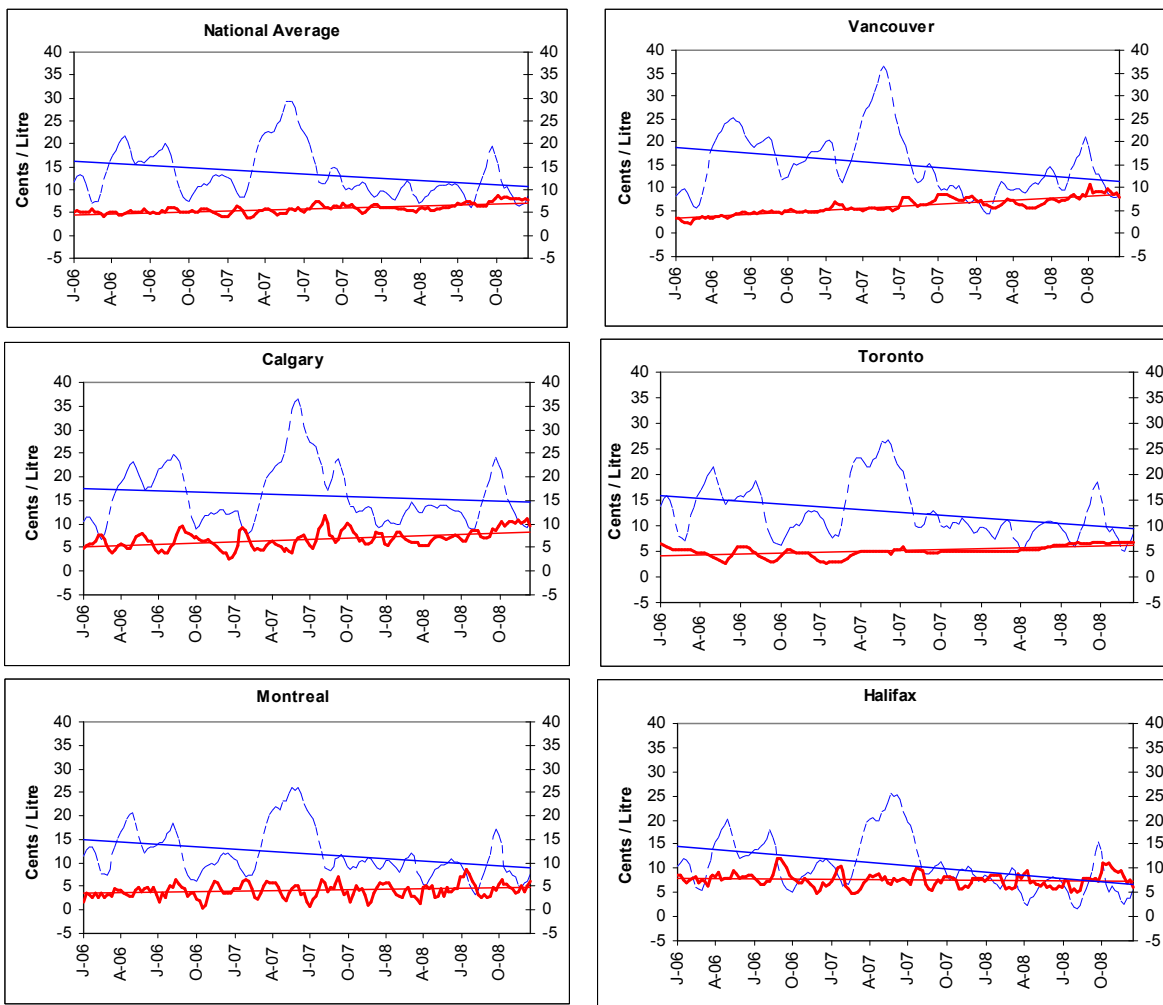
Four-week rolling averages are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending December 16, 2008.

Overall, refining margins for gasoline continue to hover around 9 cents per litre. Regardless of the record high gasoline prices across Canada this year, refining margins this week are on average 6 cents per litre lower at the national level, compared to the same period last year.

Refining margins for gasoline continue to be slightly depressed reflecting the decrease in North American demand and a well-supplied market.

Nationally, the marketing margins hovered around 8 cents per litre, slightly higher by 1 cent per litre compared to the same period last year. Marketing margins for the five centres registered between 6 and 9 cents per litre.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending December 16, 2008
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Crude Oil Prices Stabilize

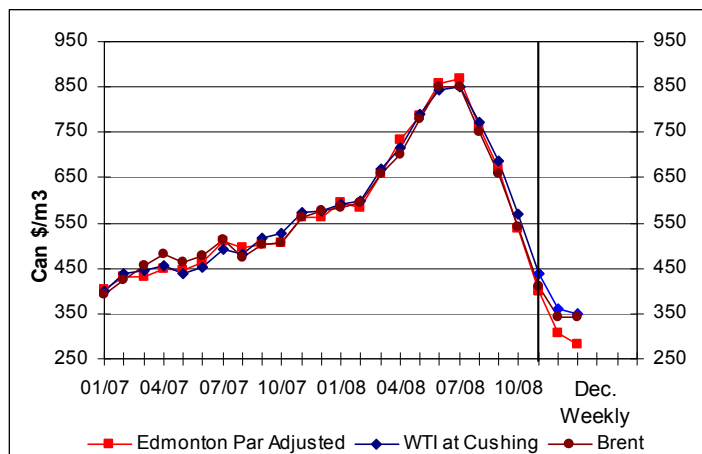
For the week ending December 11, 2008, crude oil prices averaged between \$282/m³ and \$351/m³ (\$US36 to \$US45 per barrel), with Edmonton Par trading at a significant discount to both Brent and WTI. Edmonton Par is trading at less than half the value it traded at this time last year.

Indicating that crude prices may have reached the bottom of their significant decline, for the first time in a number of weeks, the price of Brent and WTI have not decreased substantially week over week.

Increasing U.S. inventories of crude oil continue to signal to the market that there is more than sufficient supply to meet the North American demand.

As noted in the last edition of Fuel Focus, the Organization of Petroleum Exporting Countries called an emergency meeting that took place on December 17, 2008. At this meeting the cartel called on member countries to decrease production by 2.2 million barrels a day in order to control the drop in prices and bring some stability to markets. Although the objective is to decrease supply, announced cuts rarely result in a proportionate decrease in production and may have very little impact on supply or price.

Figure 6: Crude Oil Price Comparisons



Why Does Canada Import Oil When It Produces More Than Enough to Meet Domestic Demand?

Canada produces more oil than it consumes. In effect, we are a large and growing net exporter of crude oil. Surplus production is exported to the United States after the demands of the domestic market are met. In spite of the availability of domestic oil, Canadian oil imports are explained by the large distances existing between the oil production sites, mainly located in the West, and consumption centres for products, that are located mainly in Quebec and Ontario.

The structure of the Canadian market is dual because it is less costly for refineries in Central and Eastern Canada to import crude oil than to pay for crude oil to be transported to them from Western Canada.

The surplus Western Canadian crude oil production is exported to U.S. refineries which are relatively closer to the source of production. The East Coast Canadian refineries, which rely on imported crude oil, export their surplus production to the United States. This ensures that Canada derives the maximum benefit from the development of its resources in terms of investment, employment and economic growth. Regardless of the source of crude oil, the price paid by Canadian refineries is determined by the world oil market.

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-12-12		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	281.93	35.94	-24.90	-2.90	-285.52	-53.42
WTI	350.61	44.71	-8.98	-0.79	-230.50	-43.45
Brent	344.14	43.88	+0.99	+0.46	-234.73	-46.94

Source: NRCan





Canadian Petroleum Product Market Outlook Fall 2008

As we head into the 2008-2009 winter heating season, Canadian consumers should expect petroleum product prices to fluctuate and reflect the price of crude oil as they have thus far this year. Crude prices spiked considerably this summer, only to lose close to two thirds of their value between July and November. While the rapid appreciation of the dollar shielded Canadian consumers from some of the price shock late last year and early this spring, the recent depreciation against the greenback has meant that Canadian consumers have not seen the same percentage decrease in prices as our neighbours to the South. Decreased world demand for both crude oil and petroleum products has led to lower utilization rates and forecasts of lower investment in new capacity.

Highlights of the Canadian Petroleum Product Market Outlook – Fall 2008

- Canadian gasoline prices spiked to record levels this summer with the price of regular gasoline averaging \$1.28. per litre in July. More recently prices have dropped significantly with gasoline averaging 88 cents per litre in November. In the same month, fuel oil and diesel prices dropped considerably as well, to 94 cents per litre and \$1.12 per litre, respectively.
- Heating oil prices are at comparable levels to last year heading into the winter heating season. However, where crude oil prices were on the rise last year at this time, the opposite is true this winter. If crude oil prices remain in the \$US45-60 per barrel range, furnace oil prices can be expected to remain fairly stable and somewhat lower than last year.
- The price differential between distillate products and gasoline has increased substantially and reflects a rise in commercial and transportation demand for diesel and global pressures on the diesel market.
- As Canadian refiners typically purchase crude oil in U.S. dollars, the recent depreciation of the Canadian dollar against the American dollar has meant that Canadian consumers have not seen the full impact of softening crude oil prices at the pump in domestic currency.
- In contrast to an increase between 2006 and 2007, demand for gasoline has remained virtually unchanged, increasing only slightly by less than 1% when comparing the first eight months in 2007 to the first eight months in 2008. This may indicate that higher prices are having an effect on Canadian consumer behaviour. The full impact of a softening economy remains to be seen.
- Depressed gasoline margins have decreased the incentive to build new refining capacity in Canada and around the world. Shell recently announced that it will not be proceeding with its new refinery in Southern Ontario. Irving Oil recently announced it is delaying the construction of its new refinery in Saint John, New Brunswick.
- Refiners are currently focused on distillate production and inventories are expected to build as facilities return to full production capacity. Distillate inventories in the West will likely remain relatively tight throughout the winter heating season due to tight global supply and unplanned interruptions early this fall. The supply problems are expected to ease by the end of December.
- Provincial introduction of renewable energy to the transportation fuel mix in the form of ethanol continues to add another level of complexity to the petroleum product distribution network, and could have implications for fuel availability in some regions.

The full report will be available soon at: http://www.fuelfocus.nrcan.gc.ca/reports_e.cfm

