



National Overview

Retail Pump Prices Increased Nearly 1 Cent per Litre from Two Weeks Ago

Since the last report on February 29, 2008, gasoline prices dipped by almost 2 cents per litre during the week of March 4th. However, this price drop was overtaken by a 3 cents per litre increase during the week of March 11th, bringing the average Canadian retail gasoline price for that week to \$1.12 per litre. Prices are nearly 9 cents per litre higher compared to the same time last year.

While the value of world crude oil continues to set records on the New York Mercantile Exchange, pushing up wholesale gasoline prices, several factors are also mitigating the upward pressure. The U.S. commercial crude oil inventories declined the week ending February 29th, but was offset by increasing gasoline inventories which now sit at a 14 year high going into this year's summer driving season. Meanwhile, demand for gasoline is showing signs of weakening as the American economy slows down, which has the potential, at least in the short term, to lessen the upward movement in prices in the U.S. and consequently in Canada.

Diesel fuel prices increased by 3 cents per litre to \$1.20 per litre the week of March 11th. However, this represents an increase of 21 cents per litre compared to the same period last year.

Recent Developments

- **Canadian Crude Oil Production Record:** Crude oil production and equivalent hydrocarbons increased 4% to 160 million cubic metres (1.01 billion barrels) in 2007 compared to last year. Offshore production in Newfoundland and Labrador increased by 21%, accounting for 58% of the annual increase between 2006 and 2007, while Alberta produced 8% more crude bitumen. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080227/do80227c.htm>)
- **Supply Disruption in Western Canada:** A problem with the catalytic cracker at Imperial Oil's facility in Edmonton temporarily reduced production of gasoline and diesel fuel in Western provinces. Meanwhile, other major fuel retailers in the region have been able to keep their service stations well supplied and even helped Imperial Oil fill some supply shortages at Esso stations.
- **Short-Term Energy Outlook:** The U.S. Energy Information Administration (EIA) project that higher costs for crude oil in 2008 are likely to be passed on to all petroleum products. Retail prices for motor gasoline are expected to average \$US3.21 per gallon (\$US 85 cents per litre) or 40 cents above the 2007 price. However, there is a significant possibility that prices during some shorter time period, or in some region or sub-region, will cross the \$US4 per gallon threshold (\$US1.06 per litre). (Source: EIA, March 11, 2008, <http://www.eia.doe.gov/emeu/steo/pub/contents.html>)

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

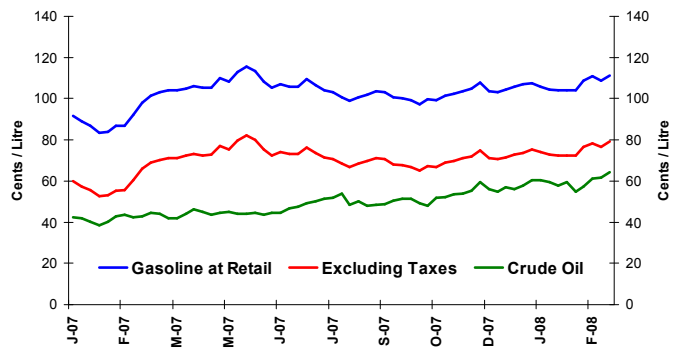
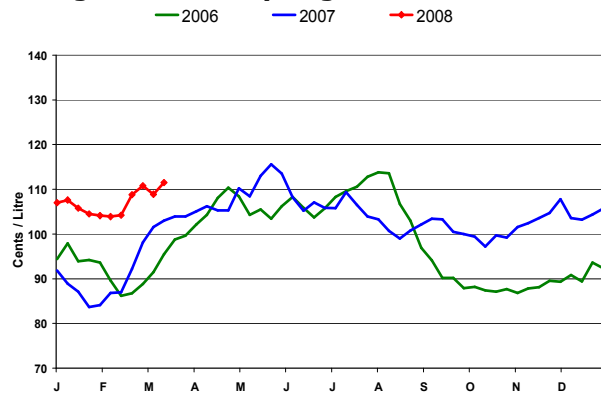


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-03-11	Previous Week	Last Year
Gasoline	111.5	+2.6	+8.5
Diesel	120.0	+3.3	+20.6
Furnace Oil	107.8	+1.2	+22.6

Source: NRCan

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Supplement: How much are other countries paying for gasoline? The supplement presents an overview of world average retail gasoline prices.





Retail Gasoline Overview

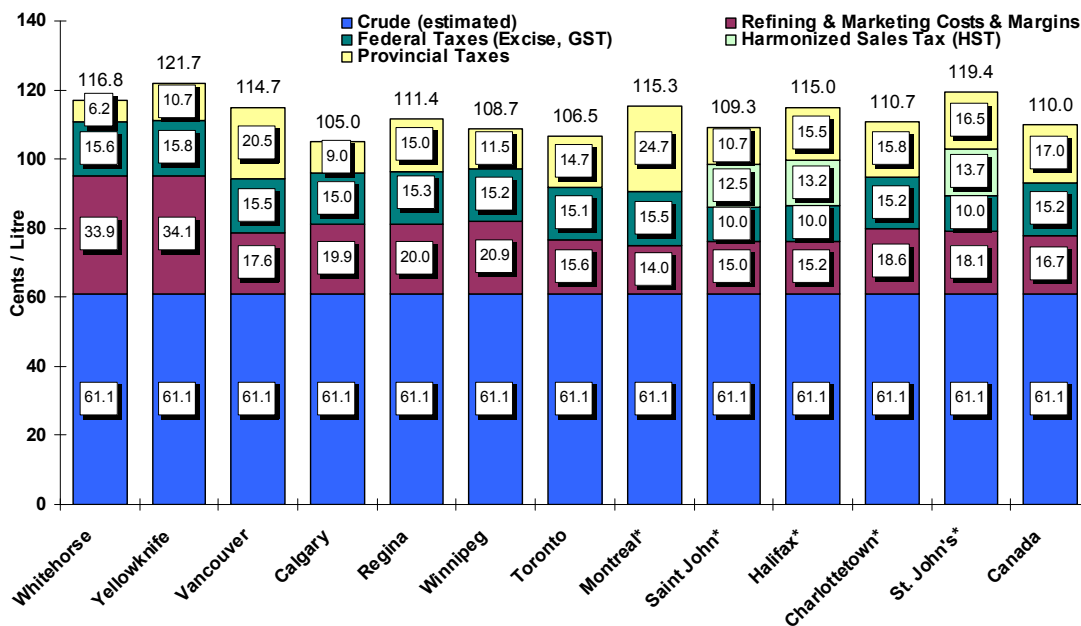
The average Canadian pump price in selected cities for the **four-week average** ending March 11th was \$1.10 per litre, an increase of 3 cents per litre from the last report on February 29, 2008. This represents an 11 cents per litre increase compared to the same period in 2007.

The increased pressure on gasoline prices is driven primarily by the relentless rise in world crude prices reaching \$US110 per barrel on the NYMEX on March 11th. Overall, this rise in crude oil prices represents an increase of 18 cents per litre from the same period last year.

The **four-week average** crude oil price increased by 3 cents per litre to 61 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres increased about 3 cents per litre when compared to the previous report, ranging from \$1.05 to \$1.15 per litre in Calgary and Vancouver, respectively. Price increases in Eastern cities were also 3 cents per litre, but ranged from \$1.06 to \$1.19 cents per litre in Toronto and St. John's, respectively.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (February 19 to March 11, 2008)**



Source: NRCan

* Regulated Markets

National Dialogue on Energy Security

A Shell Oil Company report entitled *A National Dialogue on Energy Security* indicates that Americans are unlikely to give up their SUVs, despite a new law requiring automakers to boost the fuel efficiency of the vehicles by 40 percent by 2020.

When the oil company recently conducted town meetings in 50 U.S. cities in order to discuss Americans' perceptions of the oil industry, Shell found that, in addition to a visceral anger and zero sympathy toward the oil industry, most Americans agreed that reducing foreign dependence on oil was important, but were less likely to sacrifice their SUVs or adopting car-pooling practices. The report found that few were ready to give up the comforts of an energy-fueled lifestyle and most were hopeful that the solution could be found without being inconvenienced by what could appear as a restriction to an unfettered mobility.

While 61% of the people indicated a need to change their lifestyle to reduce dependence on oil, 31% answered that conserving energy was the most important action needed to ensure adequate energy supply, and 22% favored increasing energy supplies. It is interesting to note that despite increasing crude oil costs from \$US8.50 per barrel in 1998, in nominal dollars, to more than \$US100 per barrel in 2008, the demand for gasoline continues to rise, albeit more slowly with the recent economic downturn in the U.S.

Source: Detroit News, <http://www.detnews.com/apps/pbcs.dll/article?AID=/20080214/BIZ/802140491/1148/rss25>





Wholesale Gasoline Prices

Wholesale gasoline prices increased in all selected centres for the **week of March 6th**, compared to the previous week. Overall, price changes ranged from 2 to 5 cents per litre.

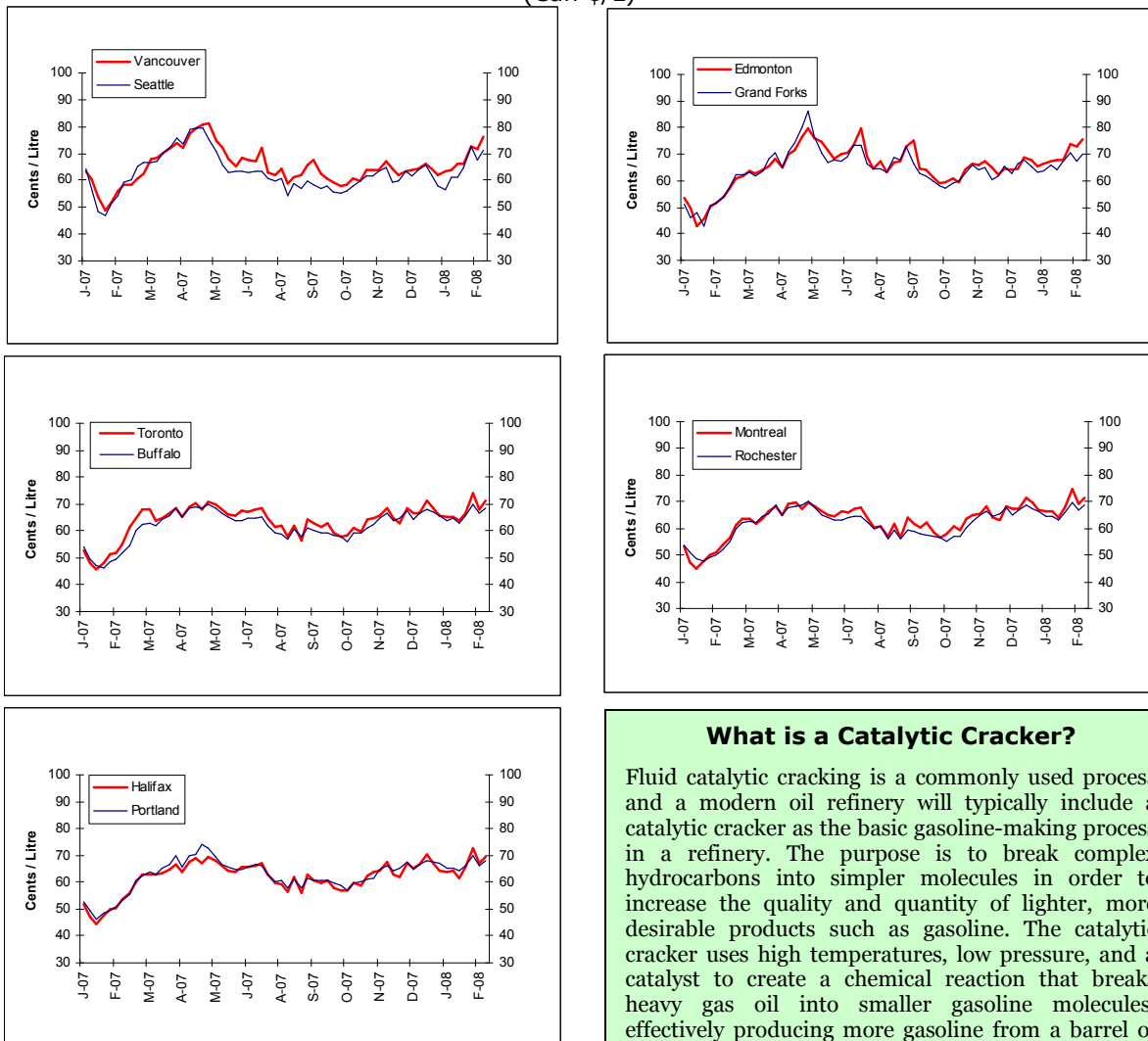
Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered increases ranging from 2 to 3 cents per litre, compared to the previous week, ending the period in the 68 to 71 cents per litre range.

In comparison, Western wholesale gasoline price changes ranged from 3 cents per litre to 5 cents per litre ending in the range of 70 to 76 cents per litre.

Vancouver and Edmonton prices remain in the higher range due to the tightness in supply following operational problems at Imperial's refinery in Edmonton. This has led the company to reduce its supply of gasoline and diesel at its Esso stations across the Prairies and into British-Columbia. The tightness in supply is compounded by the earlier interruptions at Shell's Scotford upgrader in Alberta. Seattle prices also jumped by nearly 4 cents per litre compared to the previous week.

Overall, prices in most selected centres are above last year's level with increases ranging from 3 to 14 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities ending March 6, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

What is a Catalytic Cracker?

Fluid catalytic cracking is a commonly used process and a modern oil refinery will typically include a catalytic cracker as the basic gasoline-making process in a refinery. The purpose is to break complex hydrocarbons into simpler molecules in order to increase the quality and quantity of lighter, more desirable products such as gasoline. The catalytic cracker uses high temperatures, low pressure, and a catalyst to create a chemical reaction that breaks heavy gas oil into smaller gasoline molecules, effectively producing more gasoline from a barrel of oil.





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 March 11th.

Nationally, the marketing margins continue to hover around 5 cents per litre. However, the marketing margin can be volatile, as shown in the individual centres, as outlets compete for market share. As gasoline is essentially the same from outlet to outlet, the only way for retailers to differentiate themselves is through price and other product offerings, such as convenience stores and car washes.

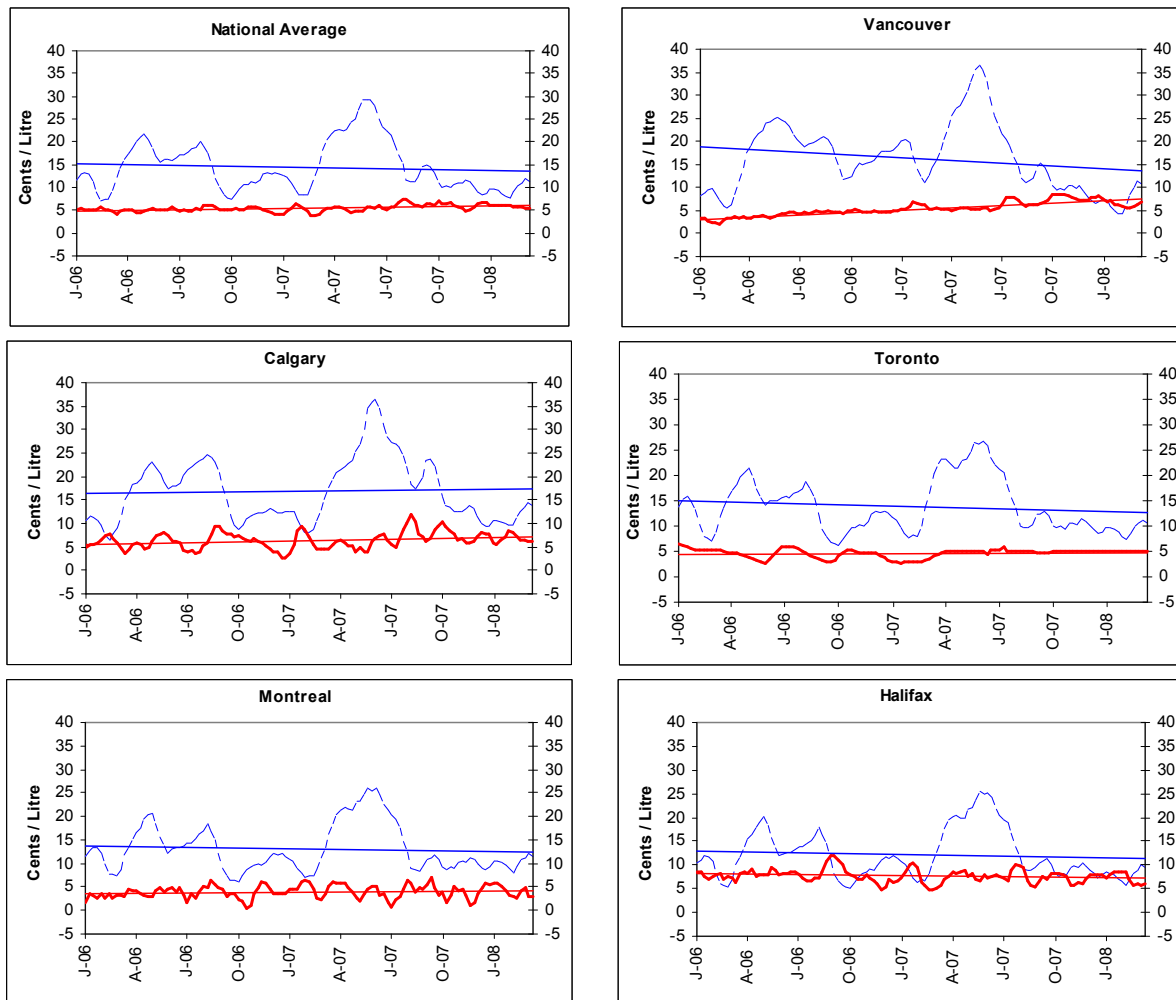
The marketing margin can vary significantly from city to city and region to region, and although it represents a small portion of the total pump price, it is expected to cover all the costs associated with operating a retail outlet and include a profit. While larger urban centres can sell high volumes of gasoline at very low margins, smaller outlets will need a higher margin to cover their retailing costs.

Ultimately, it is the local market conditions in each area which determine the retail pump price and the margins available to the retailers.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending March 11, 2008

----- Refining Margin

----- Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Prices Reach New Record High

For the week ending February 22, 2008, crude oil prices averaged between \$631 and \$643/m³ (\$US101 to \$US103 per barrel). All crude prices saw increases week over week. Compared to the same period in 2007, prices have increased between \$180 and \$195/m³ (\$US40 to \$US43 per barrel).

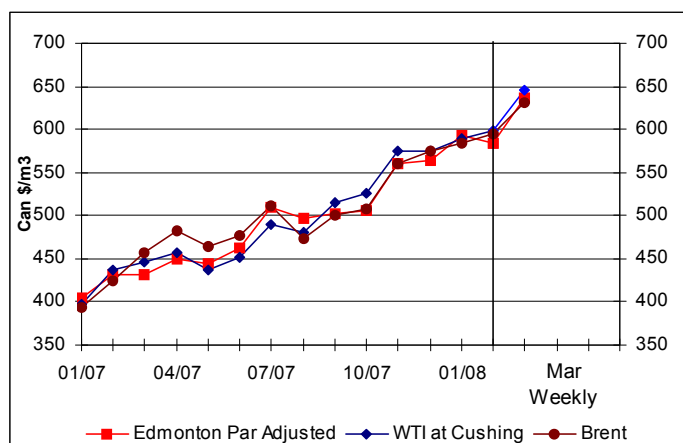
On March 7, 2008, crude oil futures on the New York Mercantile Exchange hit another record high and closed at \$US105 per barrel. With more indication that that U.S. economy is heading into a recession, some traders are shifting their investments to the commodities market under the expectation that it will remain more stable than the stock market during tight economic times.

This increased trading activity has put upward pressure on prices which was further fuelled by speculation of OPEC production cuts because of the reduced U.S. demand. Other commodities have also reached record highs in reaction to traders' shift to the commodities market.

However, OPEC's production quotas remained unchanged as result of the latest meeting in Vienna. In addition, it was decided that barring any monumental events, there would not be another meeting to discuss output for another six months.

A critical price indicator, U.S. inventories of crude oil, dropped the week ending February 29th, but was offset by increasing gasoline inventories which now sit at a 14 year high going into this year's summer driving season.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-03-07		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	637.19	102.36	+22.26	+2.86	+194.59	+42.59
WTI	643.43	103.36	+24.35	+3.20	+193.71	+42.64
Brent	630.52	101.29	+21.12	+2.69	+180.07	+40.46

Source: NRCan

2005 Statistics on Natural Resources

The energy and natural resources sectors continue to make an important contribution to the Canadian economy.

	Energy	Total Natural Resources	Canada
Gross Domestic Product (\$ billions)	\$75 (6%)	\$166 (13%)	\$1 277 (100%)
Direct employment (thousands of people)	250 (1.5%)	1 005 (6%)	16 169 (100%)
New capital investments (\$ billions)	\$56 (21%)	\$67 (25%)	\$266 (100%)
Trade (\$ billions)			
Domestic Exports (excluding re-exports)	\$85 (21%)	\$189 (46%)	\$408 (100%)
Imports	\$34 (9%)	\$101 (27%)	\$381 (100%)
Balance of trade (including re-exports)	+\$51	+\$90	+\$55

Source: NRCan Statistics and Facts

Energy Sector Web sites that may be of interest are:

Energy Efficiency Trends in Canada — database : http://oeel.nrcan.gc.ca/corporate/statistics/neud/dpa/analysis_ca.cfm

Energy Use Data Handbook – database http://oeel.nrcan.gc.ca/corporate/statistics/neud/dpa/handbook_tables.cfm

Comprehensive Energy Use Database : http://oeel.nrcan.gc.ca/corporate/statistics/neud/dpa/comprehensive_tables/index.cfm





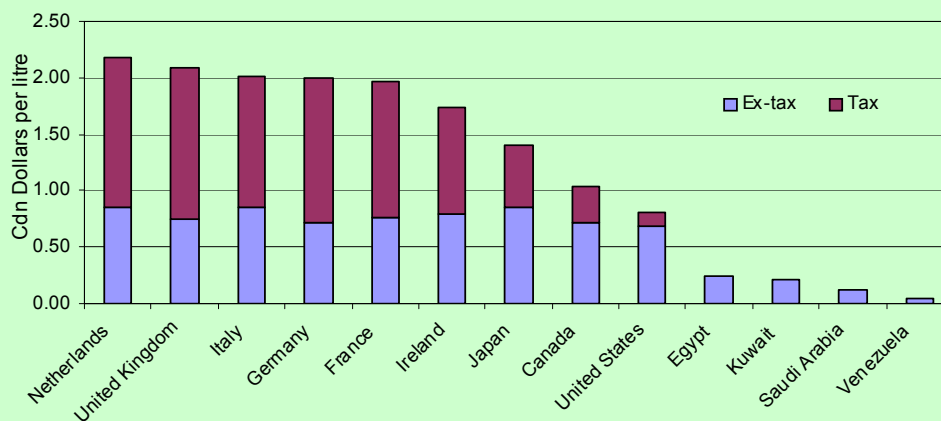
World Average Retail Gasoline Prices

Gasoline surveys frequently report that consumers are concerned about gasoline prices, particularly during periods of fluctuation typical of the spring or as a result of unpredictable weather events or unplanned refinery outages. A recent survey conducted by *Energy Détente* in 65 countries showed that gasoline prices ranged from a high of \$2.17 per litre (Canadian) in the Netherlands to a low of 4 cents per litre in Venezuela (where prices are heavily subsidized).

Of the top 15 countries with the highest gasoline prices, 13 are European. In addition, the survey showed that of the 65 countries, 13 had retail gasoline prices below 69 cents per litre, which *Energy Détente* considers a subsidized price for gasoline. Most of countries with the lowest gasoline prices are significant producers of crude oil. As shown in the graph below, Canada registers much lower gasoline prices compared to European countries.

Canada ranked 37th with an average price of \$1.04 per litre and the U.S. was 45th at \$0.81 cents per litre. Most of the countries above \$1.75 per litre were European, but overall, excluding taxes, there is relatively little price variation in retail gasoline prices around the world. In fact, of the gasoline price, taxes accounted for more than 50% of the retail price per litre in 23 countries, mostly in Western Europe, but also in Uganda, Slovenia, Poland, Czech Republic, Hong Kong, South Korea and Brazil. Countries with very low gasoline prices, such as Saudi Arabia, Kuwait, Iran, Venezuela, Egypt and China, have significant government subsidies, often selling gasoline below the price of crude oil on the world markets. For example, some producing countries spend as much as 14% to 17% of their total state revenues to subsidize gasoline.

Retail Gasoline Prices in Selected Countries



Source: Energy Détente, November 20, 2007 and January 21, 2008

