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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 4, Issue 12

July 6, 2009

Canada

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National Overview

Canadian Retail Pump Prices Decrease 1 Cent per Litre from Last Week

Compared to the previous week, overall Canadian gasoline prices for the week of June 30, 2009, declined—for the second straight week—by 1 cent to $1.02 per litre. Canadian retail gasoline prices reflected the downward pressure from North American wholesale prices. In the last two weeks, retail pump prices declined nearly 3 cents per litre.

After rising steadily for months, world crude oil prices moderated for the week ending June 26, 2009. Perhaps, the most influential factor in helping to lower prices is that oil supply exceeds demand in OECD countries, while U.S. crude oil inventories remain above their five-year range.

Diesel fuel prices decreased marginally by 0.2 cent per litre to 92 cents per litre compared to the previous week. This represents a decrease of 53 cents per litre from the same period last year. Furnace oil prices remained unchanged from the previous week at an average of 80 cents per litre.

Recent Developments

- **OECD Gasoline Demand Down 2.9% in April**: April gasoline demand among member nations of the Organisation for Economic Cooperation and Development (OECD) fell 2.9% year-on-year to 14 million barrels per day (b/d), according to the International Energy Agency's (IEA) monthly oil market report. IEA assessed the figure as the agency also raised its 2009 forecast for global oil demand by 120,000 b/d, to 83 million b/d, adding that "these revisions do not necessarily reflect economic recovery, but may reflect a slowing in a previously sharp decline." Looking at OECD North America, April gasoline demand continued to fall year-on-year, with demand throughout the region decreasing 1.4% to 10.5 million b/d.
- **Kearl Project Pipeline Agreement**: Enbridge Inc. announced an agreement with Imperial Oil Resources Ventures Ltd. and ExxonMobil Canada Properties to transport blended bitumen from the Kearl project in the Athabasca oil sands region about 70 km northeast of Fort McMurray, Alta., to the Edmonton area. Patrick D. Daniel, Enbridge president and chief executive officer, said the estimated cost of the pipelines and related facilities would depend on finalization of project scope, detailed engineering, and regulatory approvals. A pipeline from Kearl to near Edmonton would likely be more than 500 km long. (Oil and Gas Journal)

NEW: Canadian Refining and Oil Security report available at: http://nrcan.gc.ca/eneene/sources/petpet/refstrarafsur-eng.php

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

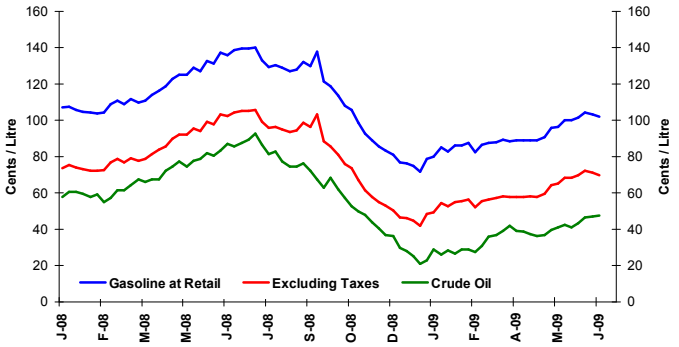
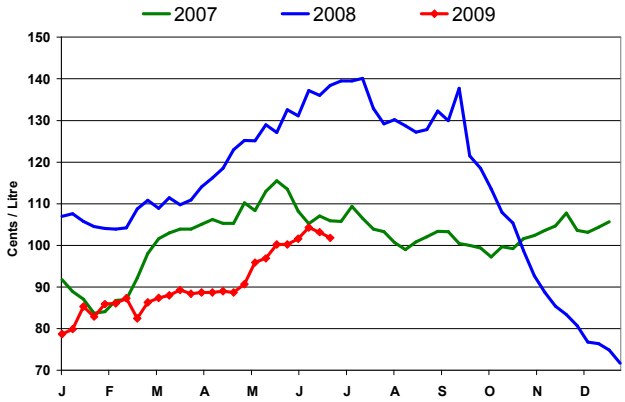


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2009-06-30	Previous Week	Last Year
Gasoline	101.8	-1.1	-37.7
Diesel	92.1	-0.2	-52.6
Furnace Oil	80.2	0.0	-56.4

Source: NRCan

In this Issue

Retail Gasoline Overview

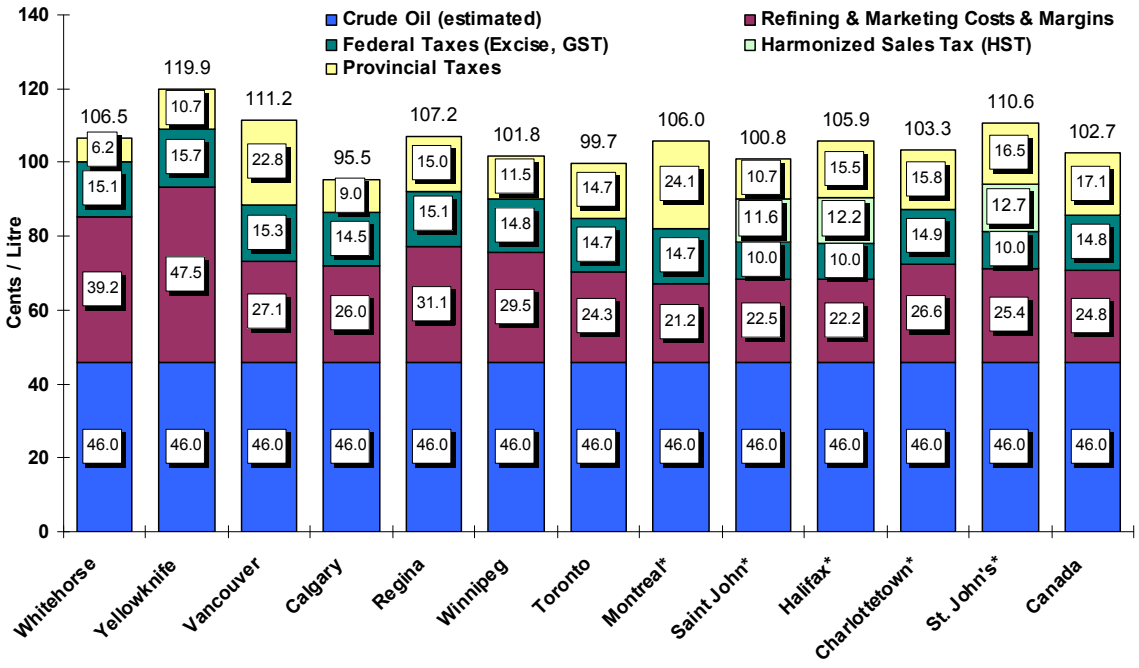
The average Canadian pump price in selected cities for the **four-week average** ending June 30, 2009, was $1.03 per litre—an increase of 1 cent per litre from the last report on June 19, 2009. However, compared to the same period in 2008, this represents a 35 cent per litre decrease.

The **four-week average** crude oil price component of gasoline registered 46 cents per litre, up 3 cents per litre from two weeks ago.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—increased about 2 cents per litre when compared to the previous report and ranged from 96 cents per litre to $1.11 per litre. Price increases in Eastern cities—Toronto to St. John's—also rose by 2 cents per litre, but ranged from $1.00 to $1.11 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 2 cents per litre to 25 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 9 to 30, 2009)



Source: NRCan

** Regulated Markets*

Regional Petroleum Product Movements in Canada

The Canadian downstream petroleum industry can be broken into three distinct regions—Western Canada, Ontario, and Quebec/Atlantic Canada. The industry is often divided this way because of the differences in the feedstock available to the refiners in each of these areas. In Atlantic Canada and Quebec, refiners rely almost exclusively on foreign crude to meet their requirements. On the other hand, Western Canada is dependant on domestic production to satisfy its crude requirements. Most of western Canada is landlocked, and, as such, has very limited access to supplies from other regions. Ontario refiners have access to both foreign and domestically produced crude oils. Many of the same factors that influence the availability of different crude oil supplies in each of these regions have also shaped the development of the petroleum product distribution network.

The availability of both crude oil and petroleum product imports in every region hinges on geographic constraints. Some regions are better suited than others to import products. Because of their connection via major waterways, Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe.

Source: NRCan, Canadian Refining and Oil Security, http://nrcan.gc.ca/eneene/sources/petpet/refstrarafsur-eng.php

Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 58 to 65 cents per litre in select centres for the **week of June 25, 2009**. Overall, compared to the previous week, Canadian and American centres recorded price decreases of 1 to 7 cents per litre.

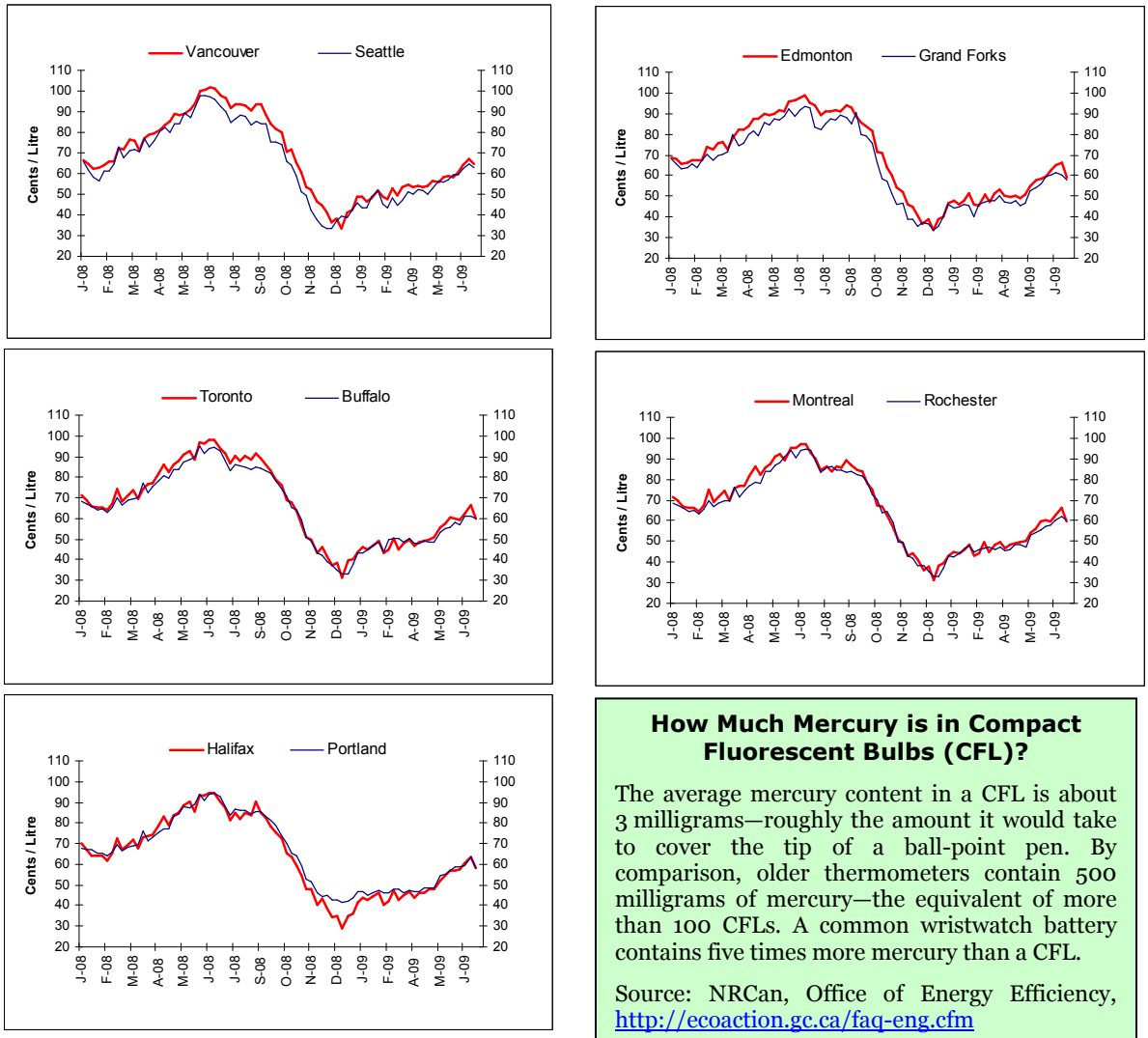
For the Eastern markets in Canada and the United States, changes in wholesale gasoline prices, when compared to the previous week, ranged from a decrease of 2 to more than 6 cents per litre and ended the period in the 58 to 60 cent per litre range.

Wholesale gasoline price decreases in Western centres ranged from 2 to 7 cents per litre and ended the period between 58 and 65 cents per litre.

In the last **four weeks**, wholesale prices in most Canadian and American selected centres ranged from a decline of 2 cents per litre to an increase of almost 7 cents per litre.

Overall, wholesale gasoline prices in all markets are 34 to 38 cents per litre below last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 25, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

How Much Mercury is in Compact Fluorescent Bulbs (CFL)?

The average mercury content in a CFL is about 3 milligrams—roughly the amount it would take to cover the tip of a ball-point pen. By comparison, older thermometers contain 500 milligrams of mercury—the equivalent of more than 100 CFLs. A common wristwatch battery contains five times more mercury than a CFL.

Source: NRCan, Office of Energy Efficiency, http://ecoaction.gc.ca/faq-eng.cfm

Gasoline Refining and Marketing Margins

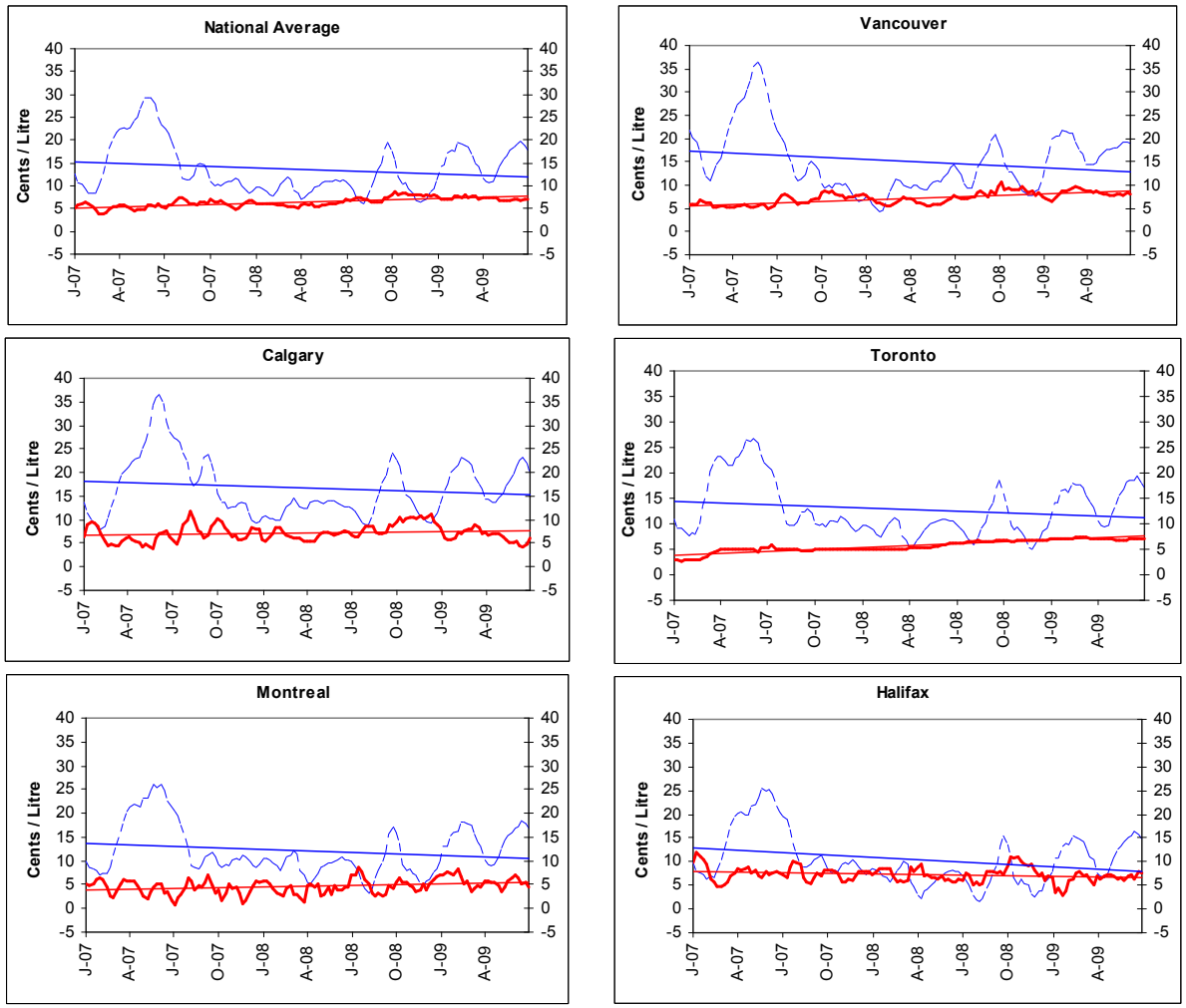
Four-week rolling averages are used to illustrate the refining and marketing margins for gasoline. See Figure 5 for the period ending June 30, 2009.

Refining margins have been increasing steadily in the last few months. This is a reflection of the supply constraints in gasoline production, and a draw down of gasoline inventories throughout North America when demand rose with the beginning of the summer driving season. These factors tend to push wholesale gasoline prices up as markets try to re-balance and, in turn, increase refining margins.

However, in response to the downward pressure on wholesale gasoline prices and declining crude oil prices, refining margins have recently started to show signs of a decline.

Overall, marketing margins remain much less volatile than refining margins and fluctuate over a much narrower range. This margin has fluctuated around 5 cents per litre over the last two and half years. Although this margin represents the smallest component of the retail price, it is expected to cover all the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 30, 2009
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

World Crude Oil Prices Moderate after Months of Steady Rise

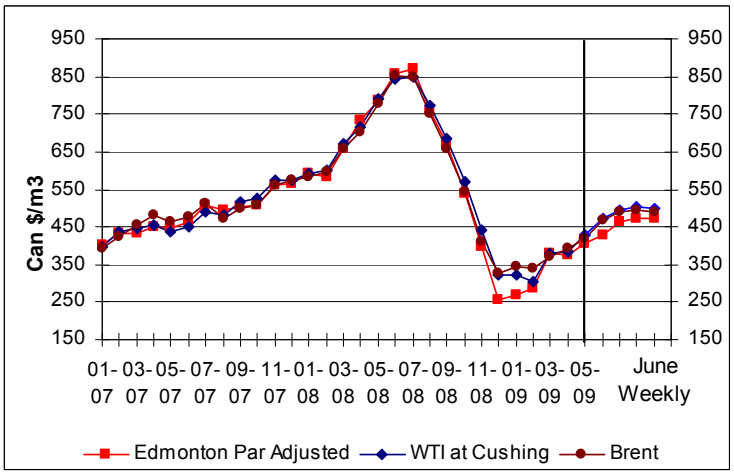
For the week ending June 26, 2009, prices for the three marker crudes averaged between $471/m³ and $497/m³, ($US65 to $US69 per barrel). This is an increase of $3 to 6/m³ ($US1.6 to $US2 per barrel) compared to the previous week.

After rising steadily for months, world crude oil prices moderated for the week ending June 26, 2009. Over these months, various factors such as an expected firmness in economic recovery, fears of a global inflation, and compliance with production cuts from OPEC countries helped maintain higher prices.

In addition, recent geopolitical tensions in Iran and Nigeria and the drop in the value of the U.S. dollar all contributed to the rise in crude oil prices and resulted in many investors using crude oil as a commodity to hedge against inflation.

However, regardless of all of these factors, perhaps the most influential in helping to lower prices is that oil supply exceeds demand in OECD countries. U.S. crude oil inventories, while still above their five-year range, are drawn down as refiners produce gasoline in anticipation of the summer driving season. However, there is some skepticism about the magnitude of the gasoline demand this year compared to last year.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-06-26		Change From:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	471.26	64.95	-2.65	-1.61	-403.97	-73.24
WTI	497.19	68.52	-5.55	-2.09	-378.57	-68.85
Brent	490.89	67.65	-2.10	-1.59	-381.96	-69.26

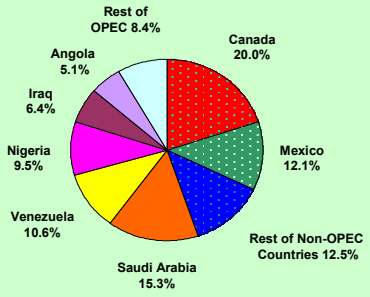
Source: NRCan

Canada Crude Oil Export to the U.S. Continue to Grow

The United States crude oil supply comes from various world regions. About half of U.S. supply has been coming from the Western Hemisphere —Canada, Mexico, and South America combined. Canada has generally been a growing source of U.S. imports since the early 1980's, and in 2008 represented about 40% of Western Hemisphere supply. Imports from Mexico and Venezuela, which averaged about 57% share of Western Hemisphere crude supply from 2000-2005, declined to about 46% in 2008.

In 2008, according to the U.S. Energy Information Administration, Canada supplied 1.956 million barrels per day of crude oil to the U.S. which meets 20% of total U.S. crude oil imports. Canada is the largest supplier of crude oil to the United States. We export nearly as much crude oil to the U.S. as Saudi Arabia and Iraq together.

2008 U.S. Crude Oil Imports
(in percent)



Source: Energy Information Administration and NRCan

Events Influencing Gasoline and Crude Oil Prices

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.

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.

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.

July 2008 – Record High 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.

August to December 2008 – Lower Demand for Crude Oil
Following a short spike in September 2008, worldwide crude oil demand plunged as the U.S. toxic financial assets surfaced and led to a worldwide economic slowdown and tightened credit rules. Demand for petroleum products such as gasoline moved downward while prices reached their lowest level in more than five years.

January to June 2009 – Expectation of Economic Recovery
World crude oil prices started moving upward partly as a result of capital flowing back into oil commodities as a hedge against inflation and upon expected forecast of an economic recovery. Retail pump prices in both Canada and the U.S. are also affected by the expected increase in demand for transportation fuels that traditionally occurs around the start of the summer driving season.