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# Fuel Focus

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

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## National Overview

### Canadian Retail Gasoline Prices Declined 3 cents per Litre from Last Week

Canadian average retail gasoline prices declined for the fourth straight week, to 96 cents per litre on July 14, 2009, as a result of lower wholesale prices. This represents a decline of 9 cents per litre in the last four weeks and a two-month low.

Overall, the average retail pump prices reflected the downward pressure from North American wholesale gasoline prices. In response to the decline in world crude oil prices, wholesale gasoline prices in Canadian and American centres decreased in the range of 4 to 9 cents per litre compared to the previous week.

Compared to the previous week, diesel fuel prices decreased 3 cents per litre to 90 cents per litre. This is a decrease of 58 cents per litre from the same period last year. Furnace oil prices declined from the previous week by 3 cents per litre to an average of 77 cents per litre.

## Recent Developments

### • British Columbia Carbon Tax:

On July 1, 2009, the revenue neutral tax on carbon emissions increased by \$5 per tonne. As a result, the carbon tax on gasoline increased from 2.34 to 3.51 cents per litre and from 2.69 to 4.04 cents per litre for diesel and heating oil. It is estimated that B.C.'s carbon tax will save up to three million tonnes of CO2 emissions annually, which is equal to taking almost 800,000 cars off the road each year. The tax on carbon emission is a critical component of B.C.'s Climate Action Plan to reduce greenhouse gas emissions by 33% by 2020. [http://www.fin.gov.bc.ca/scp/tp/climate/carbon\\_tax.htm](http://www.fin.gov.bc.ca/scp/tp/climate/carbon_tax.htm)

• **Gasoline Sales Decline in the First Five Months of 2009:** Sales of motor gasoline totaled 17 billion litres, a 1% decrease in the first five months of 2009 compared to the same period in 2008. Diesel fuel sales declined 6% to 10 billion litres, while furnace oil sales declined 11% to 1.8 billion litres. (Statistics Canada, The Daily)

• **U.S. Congress to Study the Possibility of Imposing Limits on Oil Speculators:** The Commodity Futures Trading Commission, announced hearings in July and August to discuss the possibility of limiting traders' positions in oil, natural gas, and other *finite* commodities. Banks, investment funds, and other traders use oil futures to hedge against their exposure to the U.S. dollar, while oil suppliers and buyers use the products to protect themselves from volatile barrel prices.

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

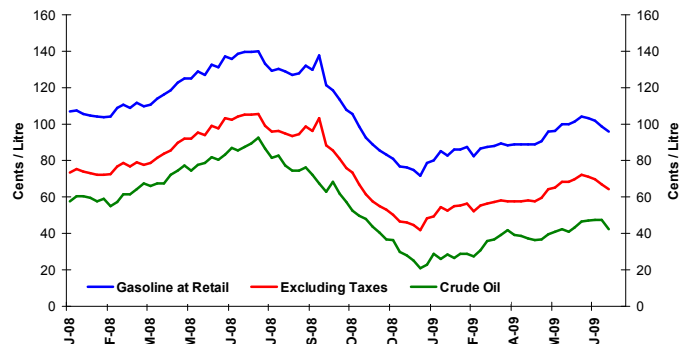
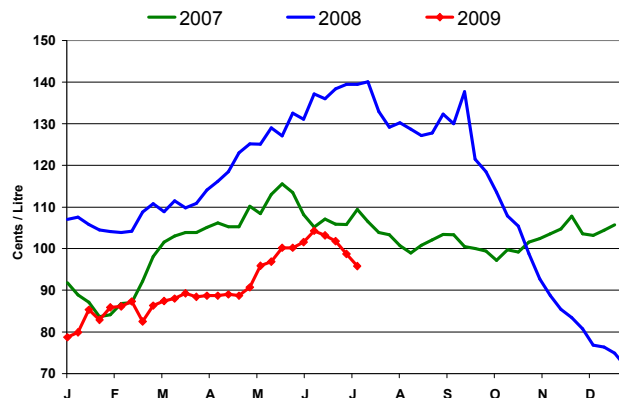


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-07-14	Previous Week	Last Year
Gasoline	95.8	-2.9	-44.3
Diesel	90.0	-2.6	-58.2
Furnace Oil	77.0	-2.7	-63.6

Source: NRCan

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## Retail Gasoline Overview

The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.00 per litre for the period ending **July 14, 2009**. This is a decrease of 3 cents per litre since the last report on July 6, 2009. Average four-week retail pump prices are 40 cents per litre lower than those recorded at the same time last year.

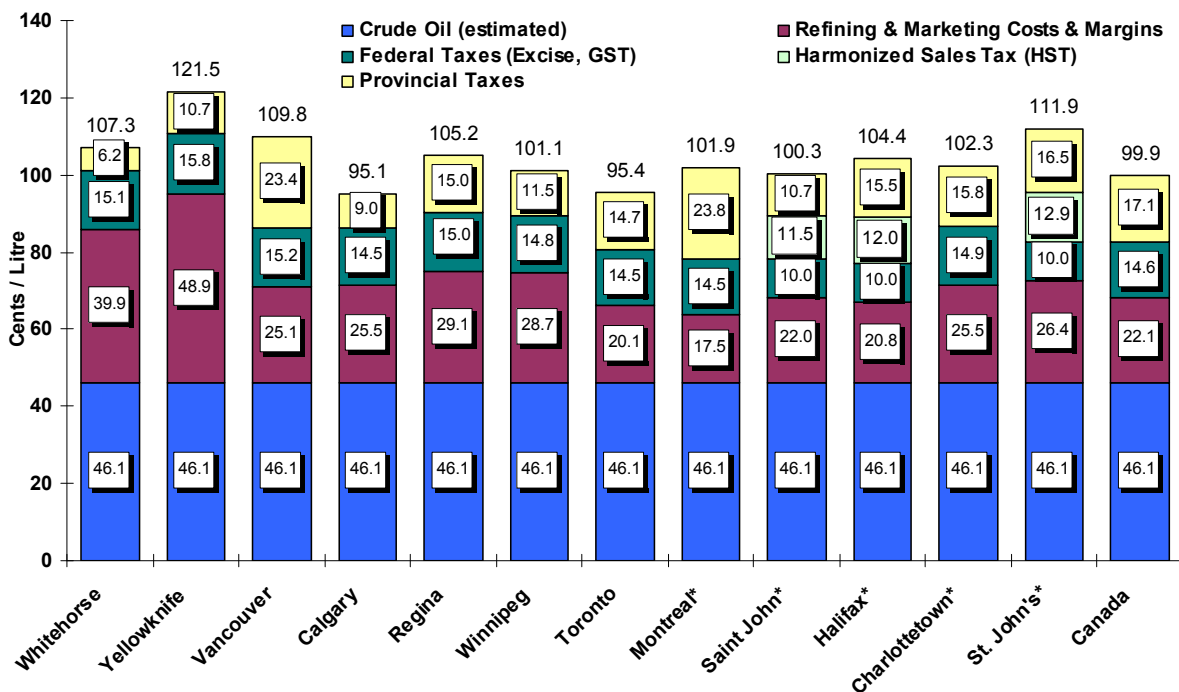
The **four-week average** crude oil price component of gasoline increased marginally by 0.1 cent per litre to 46 cents per litre compared to two weeks ago.

The crude oil price component of gasoline has decreased by 43 cents per litre over this same period in 2008 when crude oil prices accounted for 64% or close to 89 cents of the retail price.

Federal and provincial taxes on gasoline, which last summer accounted for almost 24% of the retail price, now are 32% of the consumer price because of the record high crude oil price component last July.

At the national level, refining and marketing costs and margins have decreased by 3 cents per litre to 22 cents per litre since the last report.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (June 23 to July 14, 2009)**



Source: NRCan

\* Regulated Markets

### Estimates of the Effects of Mergers and Market Concentration on Wholesale Gasoline Prices

The United States Government Accountability Office (GAO) examined seven petroleum industry mergers that occurred since 2000—ranging in value and geography and for which there was available gasoline pricing data—and found three that were associated with statistically significant increases or decreases in wholesale gasoline prices. Specifically, GAO found that the mergers of Valero Energy with Ultramar Diamond Shamrock and Valero Energy with Premcor, which both involved the acquisition of refineries, were associated with estimated average price increases of about 1 cent per gallon (0.3 ¢/litre) each. In addition, GAO found that the merger of Phillips Petroleum with Conoco, which primarily involved the acquisition of oil exploration and production assets, was associated with an estimated average decrease in wholesale gasoline prices across cities affected by the merger of nearly 2 cents per gallon (0.5 ¢/litre).

Source: GOA, <http://www.gao.gov/new.items/do9659.pdf>





## Wholesale Gasoline Prices

For the **week of July 9, 2009**, wholesale gasoline prices ranged from 52 to 58 cents per litre in selected centres. Overall, compared to the previous week, Canadian and American centres recorded price decreases ranging from 4 to 9 cents per litre.

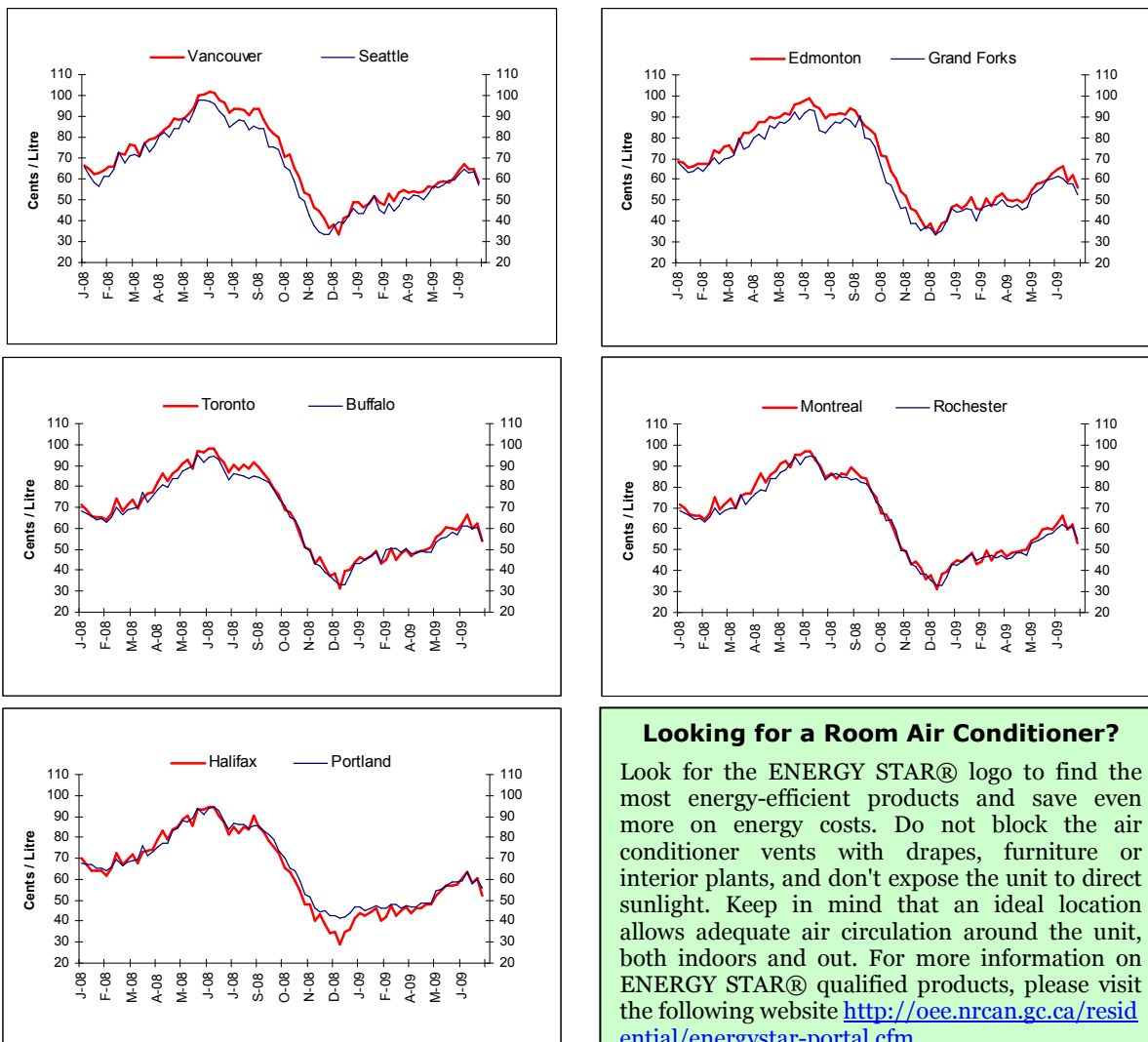
Prices generally tend to be very similar between Canadian and U.S. markets, trading within a relatively narrow range. These graphs show that wholesale gasoline prices have responded to the lower than expected gasoline demand and high inventories on the continental North American market.

Compared to two weeks ago, wholesale prices in all the selected centres are lower on average by 6 cents in Canada and by 5 cents per litre in the U.S.

In the last **four weeks**, wholesale prices in both Canadian and American selected centres have declined in the range of 4 to 9 cents per litre.

Overall, compared to the same period last year, prices in most selected centres are well below last year's level with decreases ranging from 35 to 40 cents per litre.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminal Prices for Selected Canadian and American Cities Ending July 9, 2009  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

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## Gasoline Refining and Marketing Margins

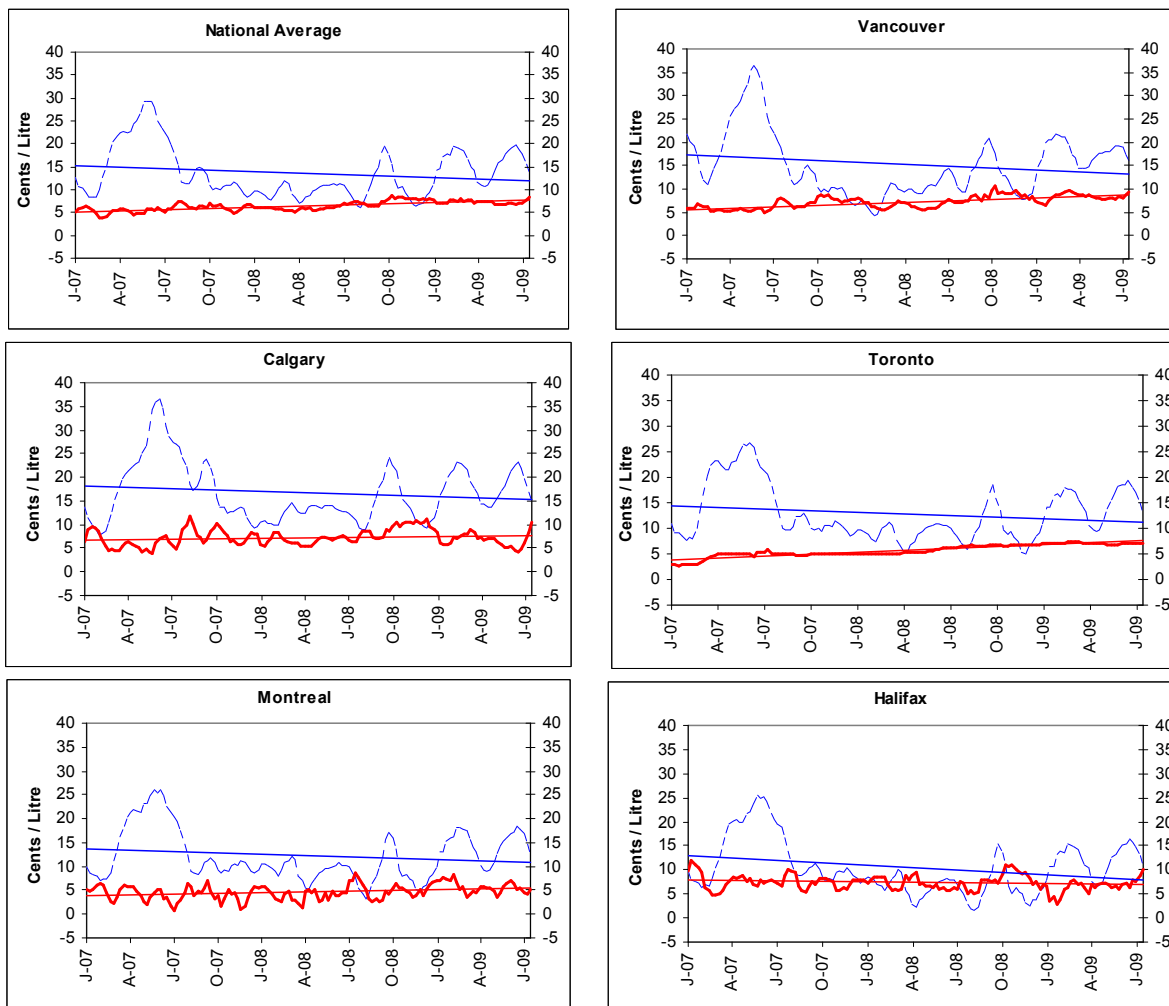
**Four-week rolling averages** are used to illustrate the refining and marketing margins for gasoline. See Figure 5 for the period ending July 14, 2009.

Reflecting lower wholesale gasoline prices due to a decrease in demand for gasoline and an adequate supply in the North American distribution system, gasoline refining margins continued their downward trend in this reporting period. In addition, strong U.S. gasoline and crude oil supplies further contributed to keeping a downward pressure on wholesale prices, hence, lowering refining margins.

Nationally, marketing margins hovered around 8.5 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold, and availability of other product offerings such as convenience stores and car washes.

For the five centres, marketing margins ranged from a low of 5 cents per litre in Montreal to 10 cents per litre in Calgary and Halifax.

**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending July 14, 2009  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### World Crude Oil Prices Ease as Demand for Refined Products Remains Low

For the week ending July 10, 2009, prices for the three marker crudes averaged between \$427/m<sup>3</sup> and \$450/m<sup>3</sup>, (\$US58 to \$US61 per barrel). This is a decrease of \$46 to 57/m<sup>3</sup> (\$US6 to \$US8 per barrel) compared to the previous week.

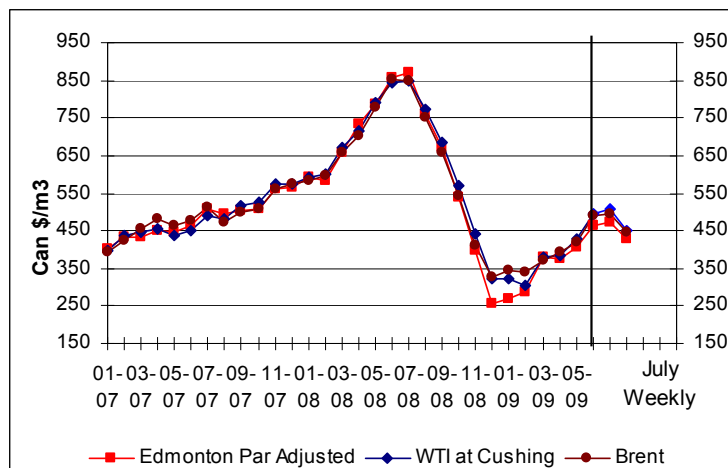
A year ago at this time, the three benchmark crude oil average price (WTI, Brent and Edmonton Par), reached a record high trading around \$US142 per barrel. Overall, prices rose in part to speculative trading on the energy futures market and from the potential conflicts over the Iranian nuclear program and Iran's missile testing. Prices are nearly at the same level as they were two years ago.

Contrary to the upbeat mood of the last month, crude oil

prices declined as an expected firmness in economic recovery appeared less likely. However, the main reason for the decline remains the lower demand for petroleum products, such as gasoline, because of the toll the recession has taken on consumer spending. The build-up in U.S. gasoline inventories, during what has always been the peak driving season, further contributed to the decline in oil prices.

The Organization of the Petroleum Exporting Countries (OPEC) lowered its medium- and long-term forecast for global demand because of the worldwide recession. In its *World Oil Outlook 2009*, OPEC revised its main forecast to oil demand being less than 106 million barrels per day in 2030, down from 113 million per day.

**Figure 6: Crude Oil Price Comparisons**



### U.S. Short-Term Energy Outlook

According to the July *U.S. Energy Information Administration Outlook* the price of WTI crude oil is expected to average near \$70 per barrel through the second half of 2009. This is an increase of about \$18 compared with the average for the first half of the year. The WTI spot price is projected to rise slowly as economic conditions improve and to average about \$72 per barrel in 2010.

Crude oil prices rose in June for the fourth consecutive month—in part because of stronger-than-anticipated global economic activity, primarily in Asia. Market sentiment continues to reflect expectations of an economic recovery and a future rebound in oil demand that are outweighing weak current oil consumption and high inventory levels. Continued production restraint by members of the Organization of the Petroleum Exporting Countries (OPEC) and unrest in Iran and Nigeria, respectively OPEC's second- and seventh-biggest oil producers, are also supporting prices. The downside price risks of this forecast are a delayed or weaker-than-expected global economic recovery, ample global surplus production capacity, and high commercial inventories.

The consumption decline rate is expected to moderate later in 2009 partly due to a projected gradual global economic improvement. Global consumption is projected to grow by 0.9 million bbl/d in 2010 in response to expected positive global economic growth.

Source: U.S. Energy Information Administration Short-Term Energy Outlook, July 2009, <http://www.eia.doe.gov/emeu/steo/pub/contents.html>

### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-07-10		Change From:			
	\$Can/ m <sup>3</sup>	\$US/ bbl	Previous Week		Last Year	
			\$Can/ m <sup>3</sup>	\$US/ bbl	\$Can/ m <sup>3</sup>	\$US/ bbl
Edmonton Par	427.36	58.40	-45.62	-6.36	-486.82	-85.99
WTI	449.91	61.48	-56.53	-7.87	-447.62	-79.28
Brent	446.04	60.95	-47.21	-6.58	-447.83	-79.24

Source: NRCan

