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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 Increased 1 Cent per Litre from Last Week

For the week ending March 10, 2009, Canadian retail pump prices continued to fluctuate upward of more than 1 cent per litre to a four-month high of 87 cents per litre. This reflects the rise in North American wholesale gasoline prices which, in turn, is buoyed by rising world crude oil prices. However, compared to the same time period in 2008 and 2007, retail prices are considerably lower by 22 and 16 cents per litre, respectively.

Diesel fuel prices declined by nearly 1 cent per litre to 82 cents per litre compared to the previous week. This is a decrease of 45 cents per litre from the same period last year. Furnace oil prices were marginally down by less than 1 cent per litre from the previous week to an average of 71 cents per litre.

Recent Developments

- Canada - U.S. Clean Energy Dialogue:** Following his visit to Canada, U.S. President, Barack Obama and Prime Minister Stephen Harper formally agreed that the two countries will work together on environmental protection and the development of clean energy, through the establishment of a senior level U.S.-Canada Clean Energy Dialogue. The topics of the Dialogue will include: expanding clean energy research and development such as carbon capture and sequestration technology at coal-fired plants; developing and deploying clean energy technology; and building a more efficient electricity grid based on clean and renewable generation.
- Canadian Annual Corporate Operating Profits Up in 2008:** Despite the largest fourth quarter decline in 16 years, corporations earned \$284 billion in 2008—up 5.4% from 2007. Much of the growth came from oil and gas extraction—up 43% to \$38 billion—as oil and natural gas prices were high in the first half of the year. Meanwhile, banking and depository credit intermediaries dragged down financials as amounts set aside for future losses on investments, loans, and other assets more than doubled in 2008. Banks registered profits of \$22 billion—down 20% from 2007. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/090226/dq090226a-eng.htm>)
- P.E.I Gasoline and Diesel Tax Change:** Effective March 1, 2009, the Prince Edward Island tax on gasoline declined by 0.1 cent per litre to 14.5 cents per litre while the diesel oil tax rate was reduced by 0.6 cent per litre to 19.0 cents per litre. (Government of Prince Edward Island, www.taxandland.pe.ca)

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

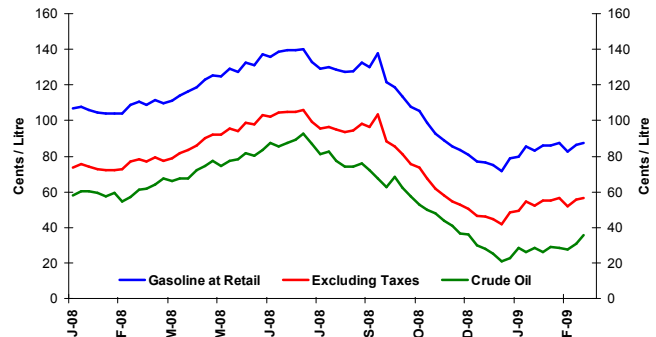
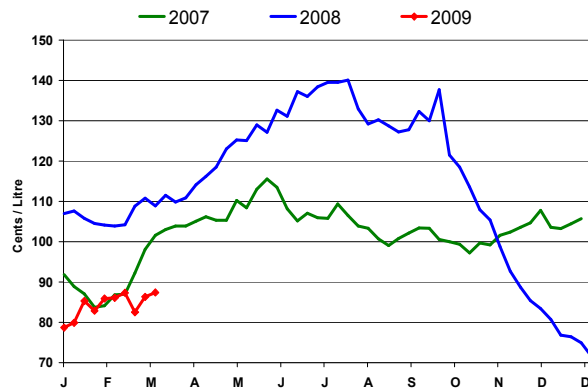


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-03-10	Previous Week	Last Year
Gasoline	87.4	+1.2	-22.3
Diesel	81.8	-0.8	-44.6
Furnace Oil	71.3	-0.2	-42.0

Source: NRCan

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Retail Gasoline Overview

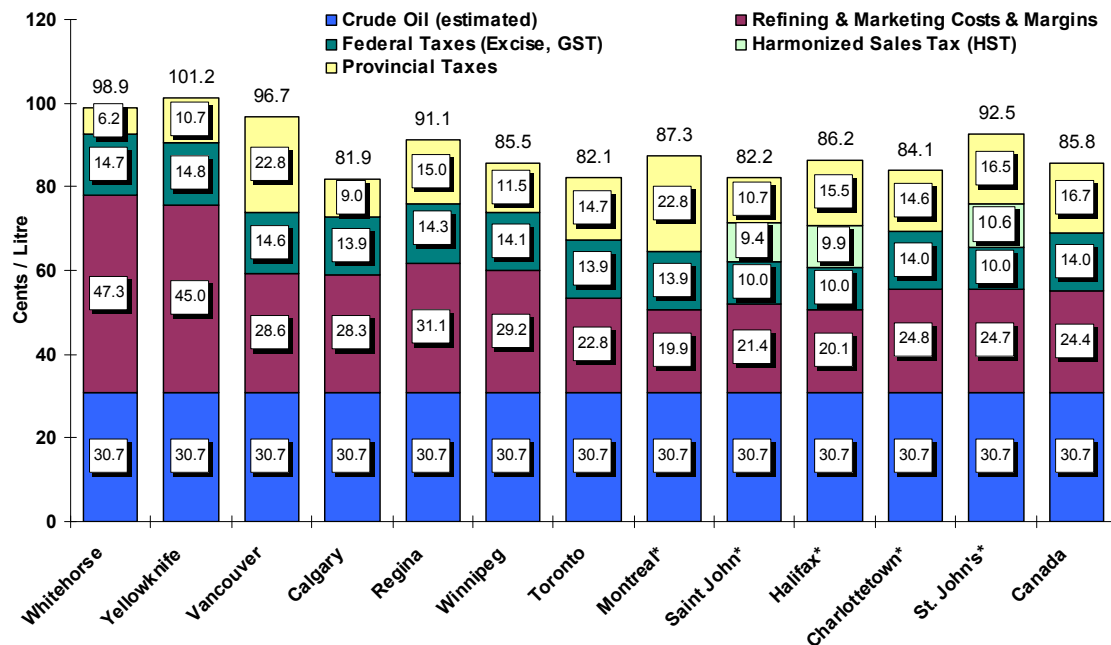
The average Canadian pump price in selected cities for the **four-week average** ending March 10, 2009, was 86 cents per litre—a marginal increase of 0.3 cent per litre from the last report on February 27, 2009. This is 24 cents per litre lower than in the same period in 2008.

Overall, compared to two weeks ago, the **four-week average** crude oil prices rose by 1 cent per litre to 31 cents per litre for the period ending March 10, 2009.

Retail gasoline prices in most Western centres (Vancouver to Winnipeg) increased, on average, by 1 cent per litre when compared to the previous report, ranging from of 82 cents to 97 cents per litre. Conversely, prices decreased slightly in Eastern centres (Toronto to St. John's) by less than 1 cent per litre, and ranged from 82 to 93 cents per litre.

Refining and marketing costs and margins declined by 1 cent per litre to 24 cents per litre since the last report on February 27, 2009.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (February 17 to March 10, 2009)**



Source: NRCan

* Regulated Markets

Why Not Make More Gasoline to Reduce Prices?

Gasoline is made in refineries that transform crude oil into useable fuels like gasoline and diesel oil. There are many factors that can have an impact on the amount of gasoline being refined. Some of these include:

- Refinery utilization rates – refinery utilization rates have been above 90% nationally for six of the last ten years. Only recently, with the economic downturn and reduced demand, has the utilization rates declined slightly.
- Temporary closures while refineries install new equipment or conduct maintenance.
- Fuel standards that result in lower outputs.
- The high cost of construction, which is currently estimated at more than \$5 billion for a new refining facility with a seven year lead time before operation.
- The relatively low profit margin in the refining industry over the last two decades.
- Environmental regulatory processes and approvals.

Ultimately, any reductions in the production of gasoline, such as reduced supply, work their way to the pump and push prices up for consumers.





Wholesale Gasoline Prices

Wholesale gasoline prices increased in all selected centres for the **week of March 5, 2009**, compared to the previous week. Overall, prices ranged from 43 to 53 cents per litre.

Wholesale gasoline prices in Eastern markets in both Canada and the United States registered increases ranging from 1 to 5 cents per litre, compared to the previous week, and ended the period in the 47 to 50 cent per litre range.

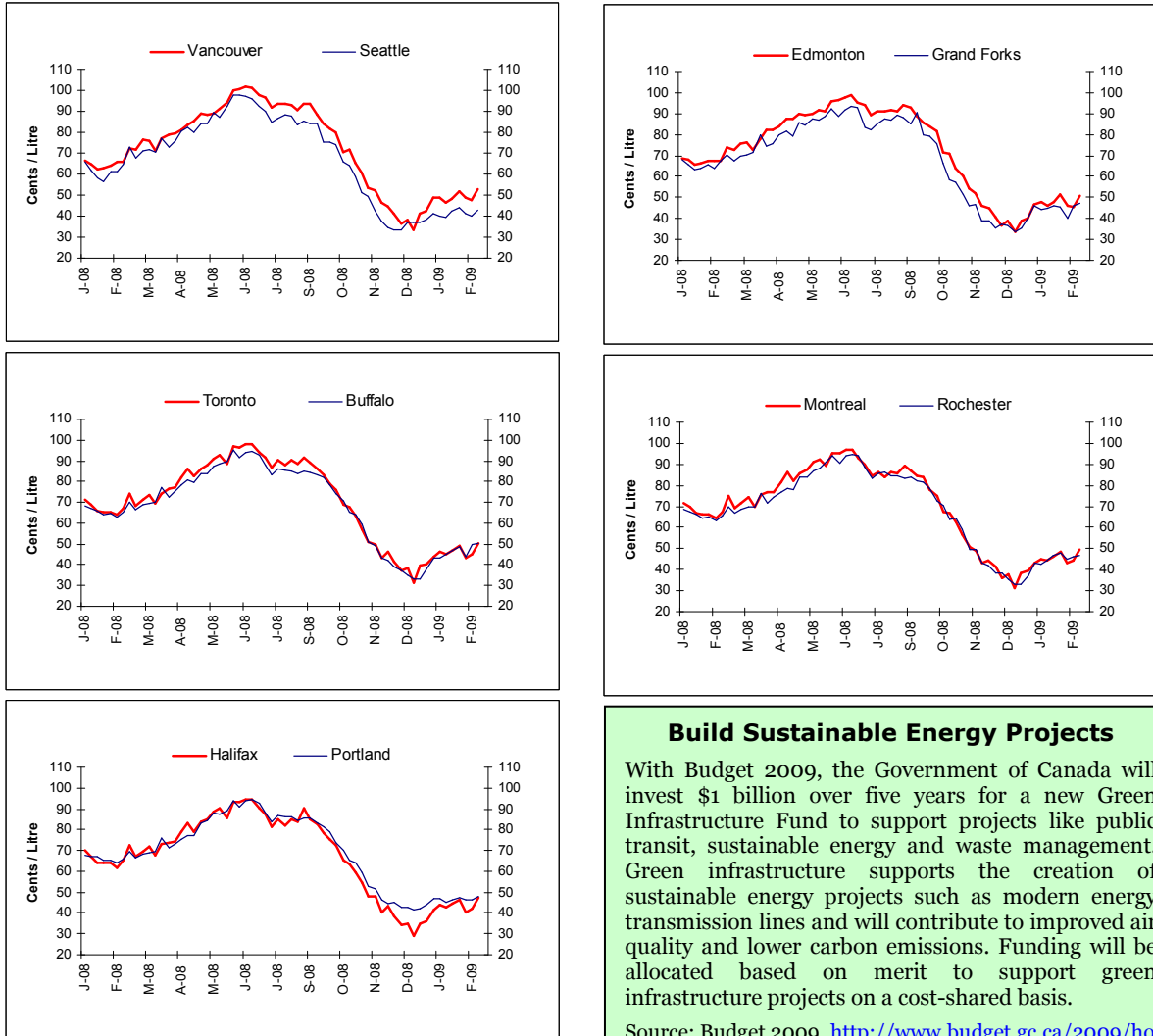
Wholesale gasoline price increases in Western centres also ranged from 1 to 5 cents per litre and ended the

period between 43 and 53 cents per litre. Of all centres, Vancouver sustained higher wholesale prices mainly due to supply constraints from planned refinery maintenance in Western Canada. The price gap with Seattle has remained consistent for the last ten weeks.

In the last four weeks, wholesale prices in most Canadian and American selected centres have increased in the range of 1 and 5 cents per litre.

Overall, wholesale gasoline prices in most markets are 19 to 28 cents per litre below last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending March 5, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Build Sustainable Energy Projects

With Budget 2009, the Government of Canada will invest \$1 billion over five years for a new Green Infrastructure Fund to support projects like public transit, sustainable energy and waste management. Green infrastructure supports the creation of sustainable energy projects such as modern energy transmission lines and will contribute to improved air quality and lower carbon emissions. Funding will be allocated based on merit to support green infrastructure projects on a cost-shared basis.

Source: Budget 2009, <http://www.budget.gc.ca/2009/home-accueil-eng.asp>





Refining and Marketing Margins

Four-week rolling averages are used for the gasoline refining and marketing margins in Figure 5 for the period ending March 10, 2009.

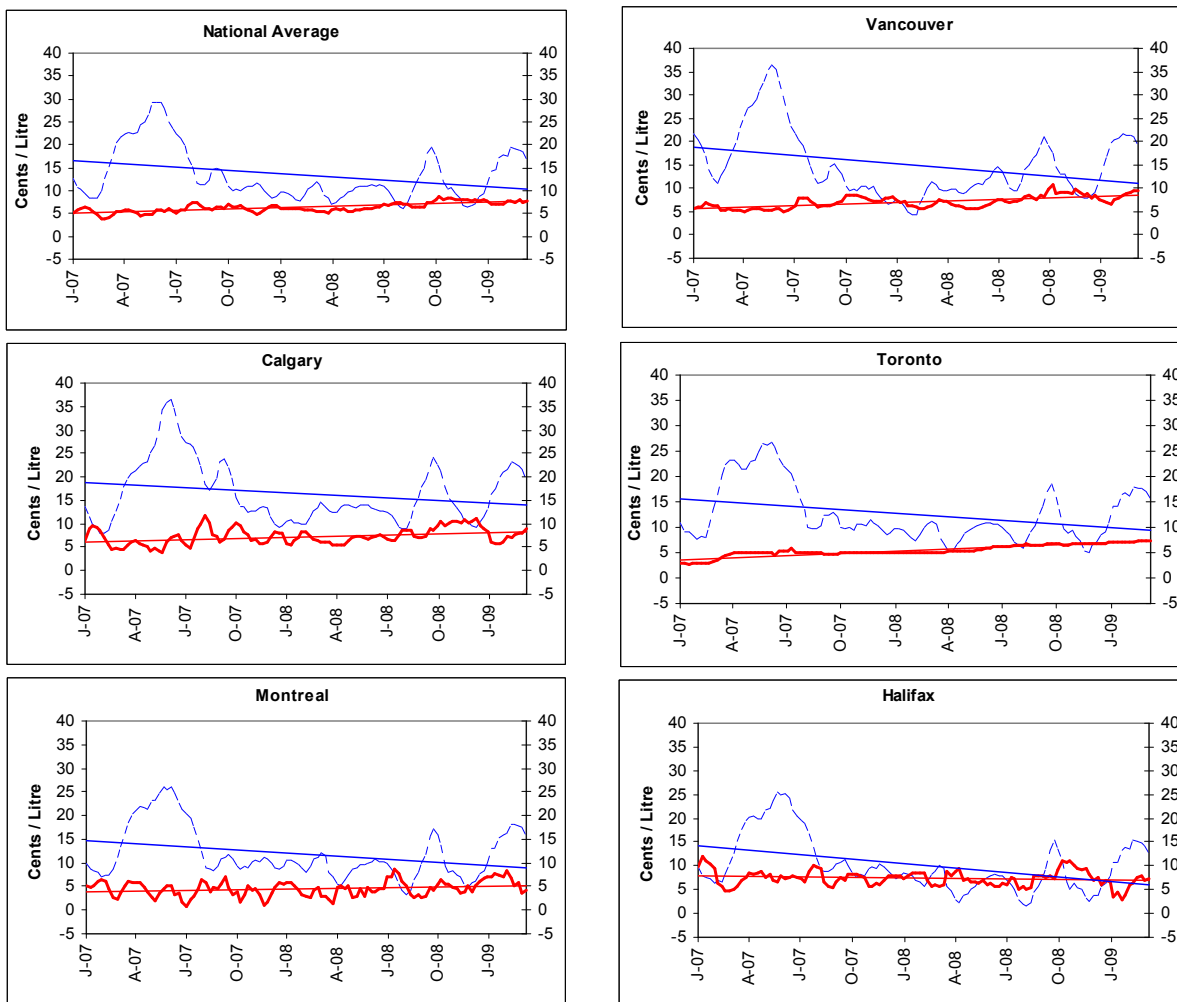
Nationally, marketing margins hover around 7 cents per litre. This margin can also be fairly volatile, as shown for Calgary, Montreal and Halifax, as outlets compete for market share. While Vancouver registered the highest marketing margins at more than 9 cents per

litre, Montreal showed the lowest marketing margin at 4 cents per litre for the period ending March 10, 2009.

The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. Although this margin is a small portion of the total pump price, it has to cover the costs associated with operating an outlet while still generating a profit for the station owner.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending March 10, 2009

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Edmonton Par Crude Oil Prices Rebound

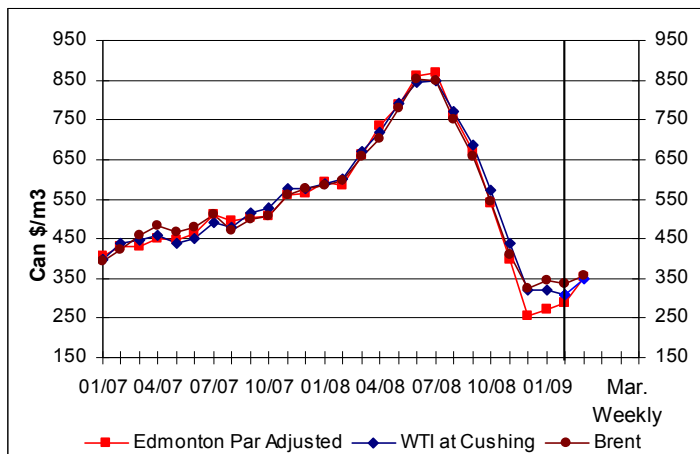
For the week ending March 6, 2009, crude oil prices averaged between \$350/m³ and \$357/m³ (\$US43 to \$US44 per barrel) increasing week over week. After trading at a significant discount to Brent and WTI over the past few months, Edmonton par is now priced similarly to these other light crude oils.

The global economic contraction continues to depress the demand for crude oil and keep prices low. The U.S. Energy Information Agency (EIA) lowered its demand forecast for 2009 in its Short-Term Energy Outlook released March 10, 2009. The EIA forecasts a decrease in average annual world oil consumption by approximately 1.4 million barrels per day (bbl/d) in 2009 and consumption in the OECD decreasing by 1.6 million bbl/d.

This brings the EIA's projection for 2009 global oil consumption to 3 million barrels per day lower than it was in its September 2008 Energy Outlook.

The Organization of Petroleum Producing Countries (OPEC) will meet in Vienna on March 15, 2009, to discuss current market situations and determine production targets. Revealing a fair level of compliance with previously agreed to production quotas, it is estimated that OPEC crude oil production fell by 1.1 million bbl/d during the fourth quarter of 2008, and reached 30.6 million bbl/d. OPEC crude oil production is expected to fall by an additional 2 million bbl/d to 28.6 million bbl/d in the first quarter of 2009.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-03-06		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	354.86	43.85	+56.95	+6.10	-282.33	-57.98
WTI	350.07	43.26	+21.36	+1.60	-293.36	-60.10
Brent	357.29	44.15	+18.12	+1.16	-273.23	-57.13

Source: NRCan

Short-Term Energy Outlook

According to the U.S. Energy Information Administration (EIA) *Short-Term Energy Outlook* released on March 10, 2009, the global oil market has remained relatively stable since the beginning of the year following the sharp price decline that occurred during the second half of 2008. This situation is expected to continue through most of 2009, until economic recovery in the United States and elsewhere leads to a rebound in oil demand growth.

The future direction of world oil prices in the short-term will largely depend upon the timing and pace of the recovery of the global economy. If economic growth in the United States and overseas rebounds sooner than expected, oil demand could experience stronger-than-expected growth and outpace production increases, leading to rising prices. However, any upward movement in oil prices will be muted by the relatively high levels of commercial inventories in the Organization for Economic Cooperation and Development and surplus production capacity among members of the Organization of the Petroleum Exporting Countries.

U.S. real gross domestic product (GDP) is expected to decline by 2.8 percent in 2009, leading to a reduction in domestic energy consumption for all major fuels. An economic rebound is projected to begin in 2010, with a 1.9-percent year-over-year growth in U.S. real GDP.

Source: EIA, *Short Term Energy Outlook*, <http://www.eia.doe.gov/emeu/steo/pub/contents.html>

