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Fuel Focus

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

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National Overview

Average Canadian Retail Gasoline Prices Increased by 1 Cent to 89 cents per Litre from Last Week

Compared to the previous week, overall Canadian retail pump prices rose by more than 1 cent per litre to 89 cents per litre on March 27, 2009. This represents a four-week consecutive rise and nearly a five-month high.

Canadian retail prices reflect the upward pressure from North American wholesale gasoline and world crude oil prices. Compared to the same period last year, pump prices are 22 cents per litre lower.

Diesel fuel prices increased by 1 cent per litre to 82 cents per litre compared to the previous week. This is a decrease of 46 cents per litre from the same period last year. Furnace oil prices rose by 1 cent per litre from the previous week to an average of 72 cents per litre.

Recent Developments

- Inflation Rises 2.3% in 2008:** For the year as a whole, consumer prices, on average, increased 2.3%, slightly higher than the annual average increase of 2.2% the year before. But this average masked swings in prices for components such as food and energy, which were two main drivers of inflation. Early in the year, gasoline prices, reflecting the price of crude oil, were the main factor in the increase in inflation. However, by the end of the year, gasoline prices had declined 25.8% below levels in the same month the year before. Over the year, prices for food contributed increasingly to the overall growth in consumer prices. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/090323/dq090323b-eng.htm>)
- Suncor and Petro-Canada Merger:** On March 23, 2009, Suncor Energy Inc. and Petro-Canada announced a proposed merger of the two companies. The new entity will operate corporately and trade under the Suncor name, while maintaining the brand presence of Petro-Canada in refined products.
- Quebec Gasoline Cartel Case:** On March 17, 2009, the Competition Bureau announced that two more individuals and one more company have pleaded guilty to criminal charges for conspiring to fix the price of gasoline at pumps in Victoriaville and Thetford Mines, Quebec. These guilty pleas follow charges laid in that case in June 2008 against 13 individuals and 11 companies operating in Victoriaville, Thetford Mines, Magog, and Sherbrooke. (Source: Competition Bureau Canada, <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/O3024.html>)

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

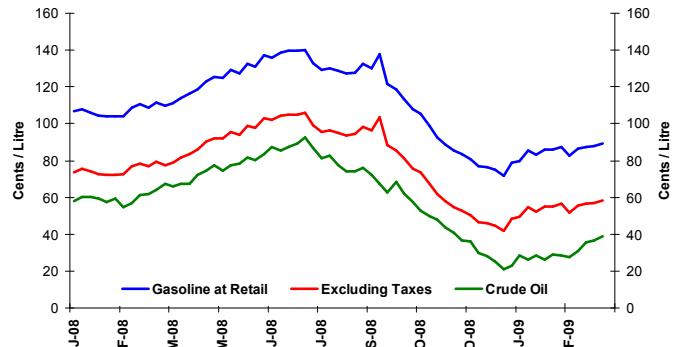
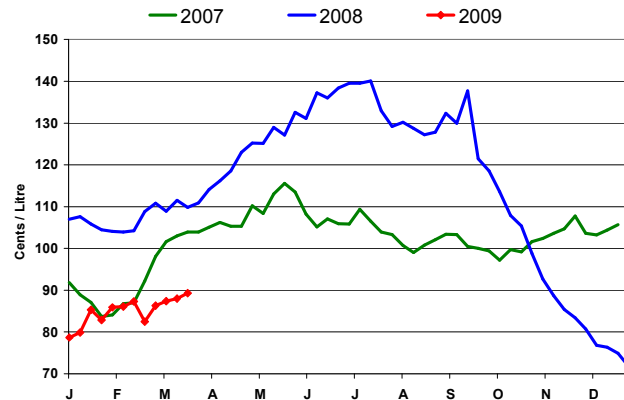


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-03-27	Previous Week	Last Year
Gasoline	89.3	+1.4	-21.6
Diesel	81.7	+1.4	-45.5
Furnace Oil	72.0	+0.7	-43.1

Source: NRCan

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Retail Gasoline Overview

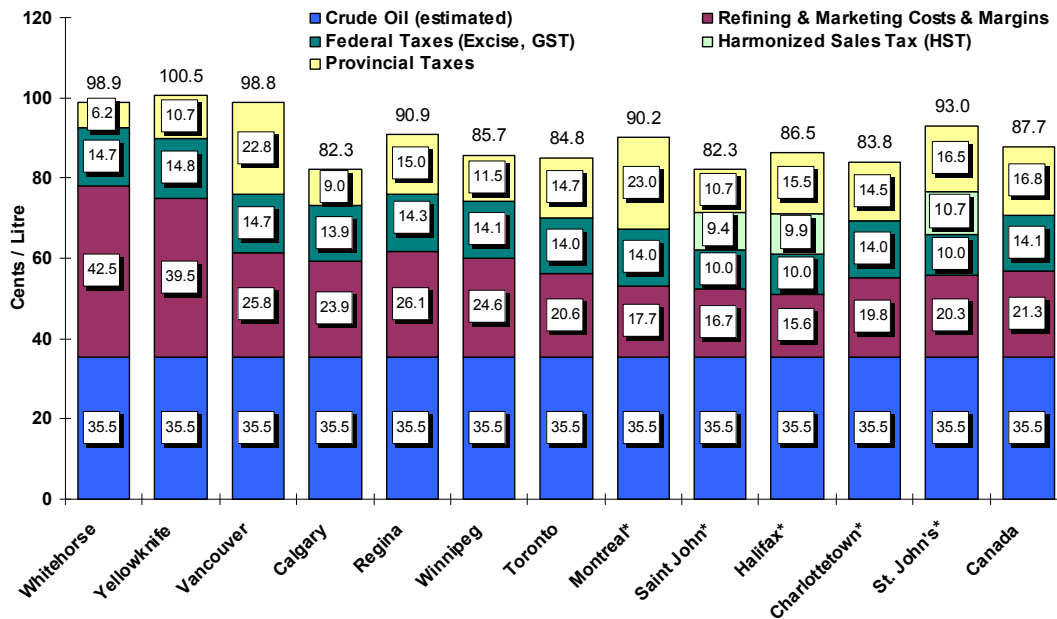
The **four-week average** regular gasoline pump price in selected cities across Canada was 88 cents per litre for the two-week period ending **March 24, 2009**.

The **four-week average crude oil** price component of gasoline rose by 5 cents per litre to 36 cents per litre when compared to the previous report on March 13, 2009. However, crude oil prices are 29 cents per litre lower than at the same time last year.

Retail gasoline prices in Western centres (Vancouver to Winnipeg) increased, on average, 1 cent per litre when compared to the previous report, ranging from 82 to 99 cents per litre. Prices in Eastern centres (Toronto to St. John's) increased on average by 1 cent per litre, and ranged from 82 to 93 cents per litre.

Since our last report on March 13, 2009, the overall refining and marketing costs and margins component declined 3 cents per litre, and are 7 cents per litre higher than at the same period last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 3 to 24, 2009)**



Source: NRCan

* Regulated Markets

Decline in Industrial Capacity Utilization Rates

According to a recently released report by Statistics Canada, Canadian industries operated at 74.7% of their capacity in the fourth quarter of 2008, down from 78.1% in the third quarter. This was the lowest capacity utilization rate since the start of the data series in 1987. The fourth-quarter decline was driven mainly by weak domestic and foreign demand for manufactured goods. Combined, three industries (transportation equipment manufacturing, construction, and primary metal manufacturing) accounted for more than half of the decline. Rates fell in 16 of the 21 major industries, notably manufacturing, construction, mining, and oil and gas extraction, as well as electric power generation, transmission and distribution. In the non-manufacturing group, only the forestry and logging sector posted a moderate increase.

For 2008 as a whole, the annual industrial capacity utilization rate fell from 82.1% in 2007 to 77.8%, the lowest rate ever on record. The previous record low had been registered in 1992. On an annual basis, the manufacturing sector reduced its use of production capacity by 4.8 percentage points from 2007 to 78.1% in 2008. Capacity use in the transportation equipment manufacturing industry fell by 17.5 percentage points during the year to 69.3%.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/090316/dq090316b-eng.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices ranged from a decline of less than 1 cent to an increase of more than 4 cents per litre in selected centres for the **week of March 19, 2009**.

Compared to two weeks ago, in both Canada and the U.S, wholesale prices in selected centres are lower on average by approximately 1 cent per litre.

Wholesale gasoline price increases in Western centres ranged from a decline of less than 1 cent per litre to an increase of 4 cents per litre and ended the period between 41 and 54 cents per litre.

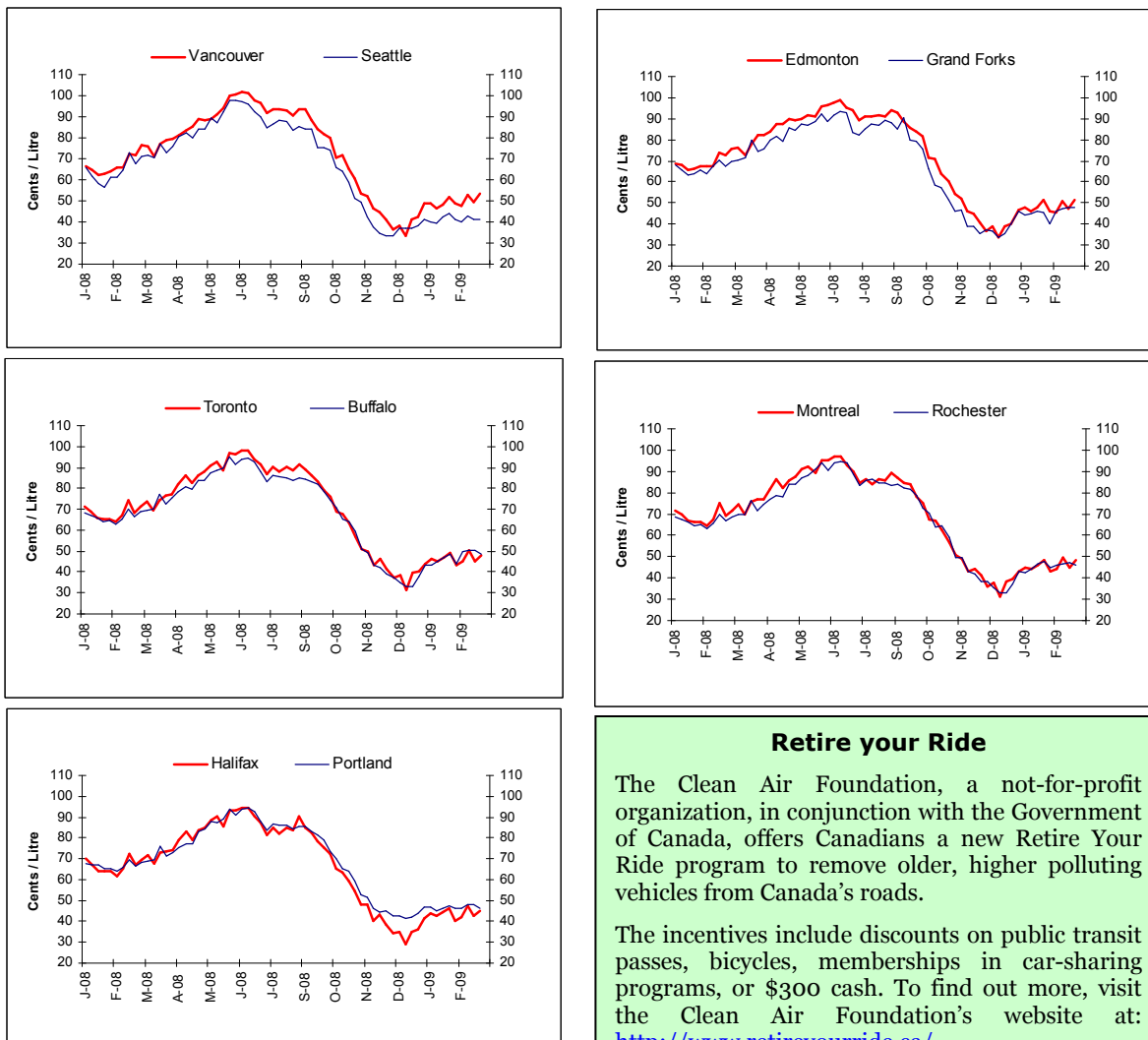
Wholesale gasoline prices remain buoyed in Canada's Western centres compared to their American

counterparts mainly due to supply constraints from planned refinery maintenance. This is also the time of the year when maintenance operations are taking place in many refineries across North America ahead of the summer demand for gasoline.

In Eastern centres, wholesale gasoline prices ranged from a drop of 2 cents to an increase of more than 3 cents per litre.

Overall, prices have increased in the range of less than 1 cent to 5 cents per litre in all centres in the last four weeks. However, prices are considerably lower than they were at the same period last year with decreases ranging from 18 to 29 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending March 19, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Retire your Ride

The Clean Air Foundation, a not-for-profit organization, in conjunction with the Government of Canada, offers Canadians a new Retire Your Ride program to remove older, higher polluting vehicles from Canada's roads.

The incentives include discounts on public transit passes, bicycles, memberships in car-sharing programs, or \$300 cash. To find out more, visit the Clean Air Foundation's website at: <http://www.retireyourride.ca/>





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 March 24, 2009.

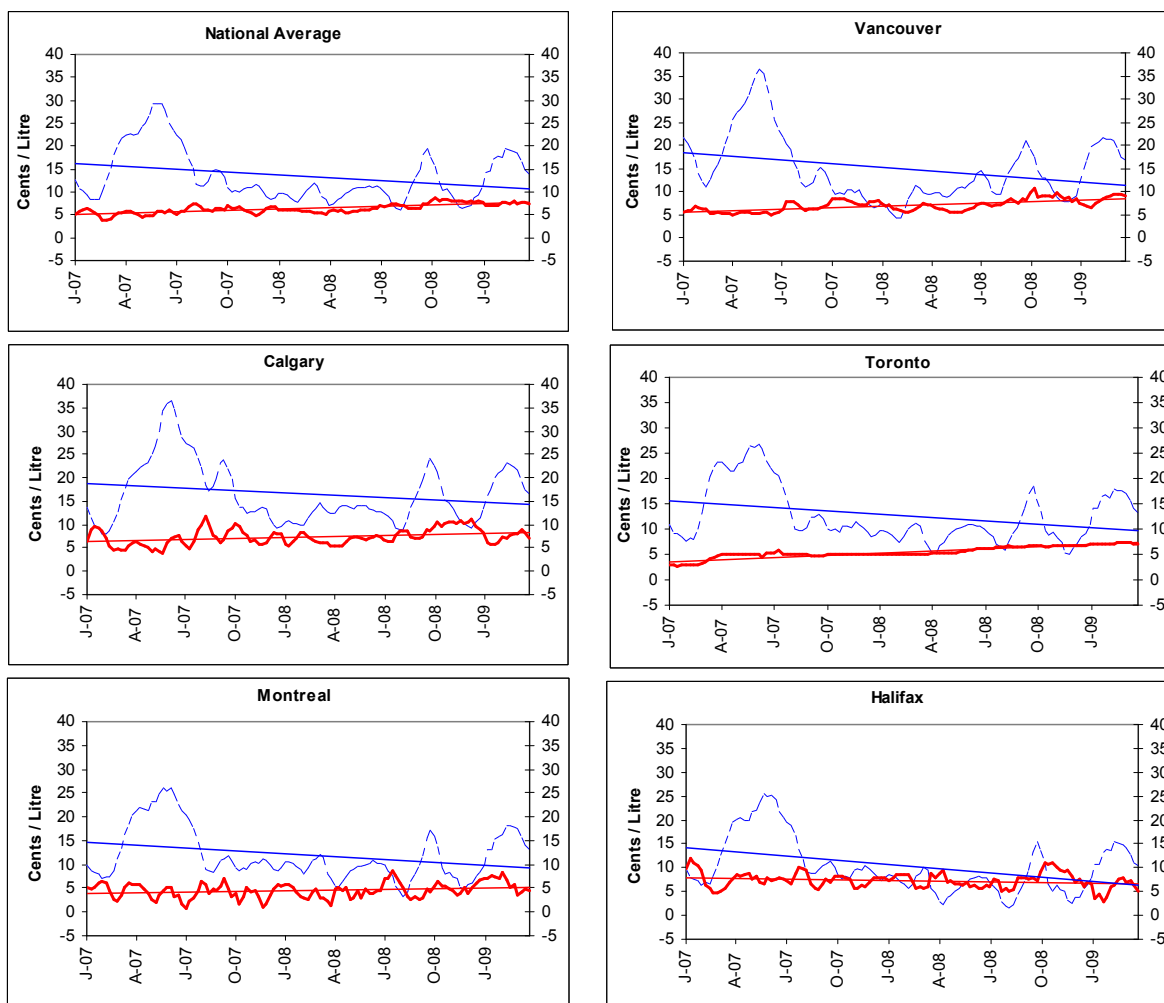
Refining margins continue to move downward in all selected centres, reflecting the decrease in demand for gasoline in North America and the adequate supply in the distribution system. North American gasoline

inventories have reached the upper level of the 5-year average range while crude oil inventories remain significantly above the 5-year average range.

The sufficient gasoline and crude oil inventories in the U.S. further contribute to the lower refining margins, and help moderate the increase in overall retail gasoline prices.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending March 24, 2009

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Creep Upwards

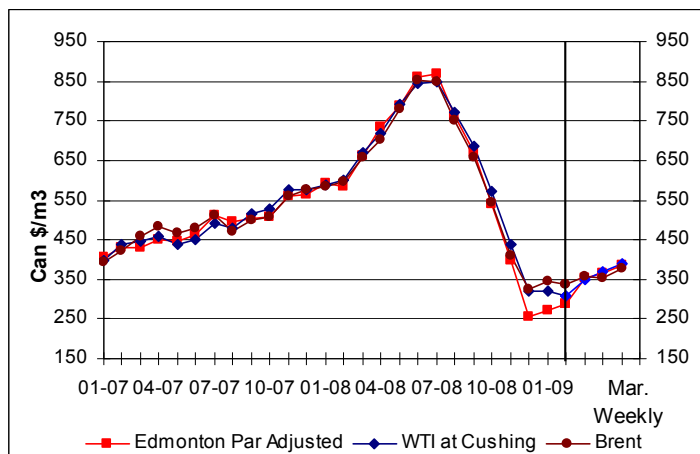
For the week ending March 20, 2009, crude oil prices averaged between \$376/m³ and \$391/m³ (\$US48 to \$US49 per barrel) increasing week over week. While all the following benchmark crude prices have increased, they are still trading significantly lower than at this time last year.

At OPEC's most recent meeting in Vienna on March 15, 2009, leaders urged all member countries to comply with output targets. The recent increase in prices and the tightening of differentials between the different benchmark crudes could be an indication that OPEC production cuts are having an impact on crude oil markets.

Contrary to the recent situation where there has arguably been an over-supplied market, as international supply is decreased through cuts, crude purchasers (typically refiners) will go farther to get the best available price for crude, their primary input. This competition for crude oil brings oil prices with similar qualities in line with each other while at the same time puts upward pressure on world prices.

Suncor Energy Inc. and Petro-Canada, two of Canada's largest petroleum companies, announced that they would merge their operations early this week. If this merger goes through, the resulting company will be the largest energy company in Canada and the 5th largest energy company in North America.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-03-20		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	386.86	48.95	+19.90	+3.56	-273.12	-54.90
WTI	390.96	49.46	+21.67	+3.79	-279.34	-56.55
Brent	375.59	47.52	+21.67	+3.74	-274.25	-55.27

Source: NRCan

Who Are the Major Players Supplying the World Oil Market?

Governments of oil-rich countries have a major influence on the world supply of oil through ownership of national oil companies and, for some governments, their membership in OPEC.

Although investor-owned oil companies are often thought of as those most responsible for world oil production, government-controlled companies actually control the majority of both current production (more than 52% in 2007) and proven reserves (88% in 2007), one indicator of future production potential. OPEC is a group of some of the world's most oil-rich countries that coordinate their oil production policies. As of January 2009, the twelve member countries in OPEC control approximately three-quarters of the world's total oil proven reserves.

In addition to influencing the operation of national oil companies, governments of oil-rich countries can directly impact world oil supplies by changing financial regulations, e.g., tax structures. Such a change would force commercially oriented companies to change production plans or form strategic alliances with other major producing nations, such as OPEC members. As the majority of reserves become increasingly concentrated in fewer countries, changes in leadership or strategic alliances of individual countries have more substantial effects on world oil supply and energy markets than in past years.

Source: EIA, http://tonto.eia.doe.gov/energy_in_brief/world_oil_market.cfm

