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Fuel Focus

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

Volume 7, Issue 15

August 10, 2012

Canada

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*



National Overview

National Retail Gasoline Prices Increased 2 Cents per Litre from Last Week

For the week ending August 7, 2012, the average Canadian retail gasoline price was \$1.30 per litre—a three month high. This is an increase of 2 cents per litre from the previous week and an increase of 4 cents per litre from a year ago.

Overall, prices were driven up by higher wholesale gasoline prices across North America which, in turn are raising partly due to world crude oil prices. In addition, declining U.S. gasoline and crude oil inventories continue to put upward pressure on prices.

Diesel fuel prices are down by less than 1 cent per litre from the previous week. This is a decrease of 5 cents per litre from the same period last year.

Recent Developments

- **Canadian Energy Overview 2011:** On July 26, 2012, the National Energy Board (NEB) released the *Canadian Energy Overview 2011 – Energy Briefing Note*. The report provides information on the production, consumption, trade, and prices for oil, natural gas and electricity. It describes major factors, both domestic and international, contributing to market developments and discusses in broad terms the contribution of energy to the Canadian economy. (Source: NEB, <http://www.neb-one.gc.ca/clf-nsi/rcmmn/hm-eng.html>)
- **Alternatives to Pipeline Expansions:** A report for the U.S. State Department indicates that there are more than enough options to transport oil sands bitumen to markets even if major pipeline expansions like Keystone and Northern Gateway don't proceed. Oil sands crude will move to major U.S. and international markets even without major new pipelines being built. Rail and incremental pipeline expansions and modifications are seen as the potential ways to move the bitumen to markets. Source: The Daily Oil Bulletin, July 30, 2012)
- **Domestic Crude Oil Production:** Production of crude oil and equivalent hydrocarbons increased 10% to 15.7 million cubic meters in April 2012 compared to the same period last year. Exports also increased 10% to 11 million cubic meters. About 71% of Canada's total domestic production went to the export market, unchanged from a year earlier. Imports fell 5% to 3.1 million cubic meters. (Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/120713/dq120713a-eng.htm>)

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

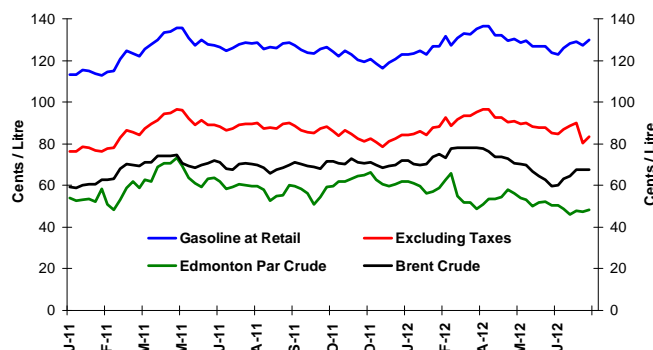
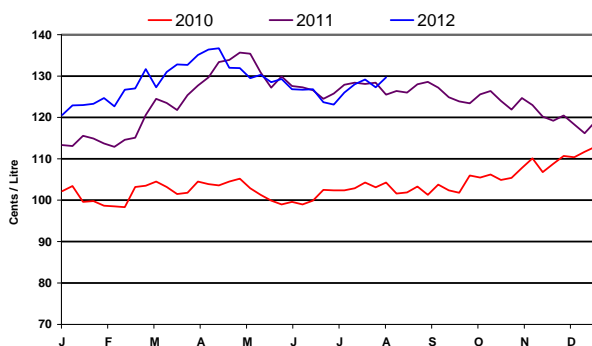


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

| ¢/L | Week of: | Change from: | |
|-------------|------------|---------------|-----------|
| | 2012-08-07 | Previous Week | Last Year |
| Gasoline | 129.7 | +2.4 | +4.2 |
| Diesel | 118.0 | -0.4 | -4.6 |
| Furnace Oil | 113.0 | +0.3 | +0.9 |

Source: NRCan

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Retail Gasoline Overview

The average Canadian gasoline pump price in selected cities for the **four-week average** ending August 7, 2012 was \$1.29 per litre, up 2 cents per litre from two weeks ago and 1 cent per litre higher compared to the same period last year.

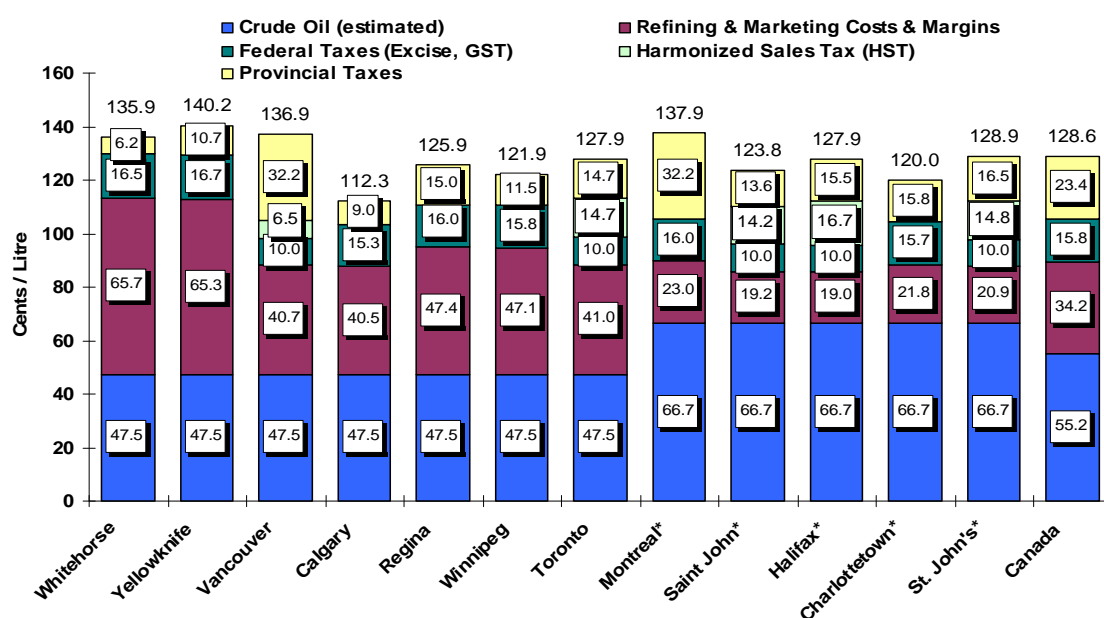
Compared to two weeks ago, the four-week average crude oil component increased by less than 1 cent per litre. The crude oil component of gasoline is 8 cents per

litre lower than last year at this time, and makes up the largest component of the pump price at 43 percent.

Retail gasoline prices in Western centres decreased about 1 cent per litre compared to those in the previous report two weeks ago, while average prices in Eastern centres increased 3 cents per litre.

Overall refining and marketing costs and margins rose by 1 cent per litre from last year at the same period.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 17 to August 7, 2012)



Source: NRCan

* Regulated Markets

Fuel Price Subsidies: Update on Country Policies

According to a PIRA Energy Group special report, energy subsidies continue to be a major concern due to their strain on government finances and upward pressure on global energy demand. Most developing countries, particularly net oil and gas exporting countries, continue to rely on heavy subsidies.

In 2012, net oil importing countries including China, India, Thailand, Pakistan and Sri Lanka adjusted prices in both directions to reflect market changes. However, economic and inflationary concerns in many of these countries delayed additional reform to fully deregulate and eliminate subsidies. Among the net crude exporting countries, Russia, Kazakhstan, Nigeria, Mexico and Syria have raised prices while most Middle East and North African exporters maintained low prices.

Net oil exporting countries such as Saudi Arabia, Kuwait, Iraq and Venezuela heavily rely on subsidies for political support and generally face little pressure to reform pricing. However, oil exporting countries that either rely on product imports, such as Mexico, Nigeria, Iran and most recently Syria, or have aspirations to expand exports and curb runaway demand, like Russia, generally have higher retail prices.

Source: PIRA Energy Group, Special Report, July 26, 2012





Wholesale Gasoline Prices

Wholesale gasoline prices increased in all selected centres in the range of less than 1 to 5 cents per litre for the **week of August 2, 2012**.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered increases ranging from 2 to 4 cents per litre. Prices for the period ended in the 78 to 82 cent-per-litre range.

Wholesale gasoline prices in the Western centres increased by less than 1 to almost 5 cents per litre closing the week at 79 to 81 cents per litre compared to the previous week.

Compared to two weeks ago, wholesale prices in the Canadian and American centres ranged from a decline of 1 cent to an increase of nearly 1 cent per litre. However, compared to the same time last year, prices ranged from less than 1 cent per litre to an increase of nearly 7 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 2, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

North American Tight Light Oil

Horizontal drilling and multi-stage fracture stimulation, the same extraction technique so successful in allowing shale gas production, has proved to work equally well for releasing light crude oil trapped in low permeability (e.g., tight) shale, sandstone, or carbonate rock formations.

Tight oil production (also called shale oil in some cases) has reversed a decline in U.S. crude oil production and Western Canadian light oil production. For more information, please visit: <http://www.nrcan.gc.ca/energy/sources/crude/2114>





Gasoline Refining and Marketing Margins

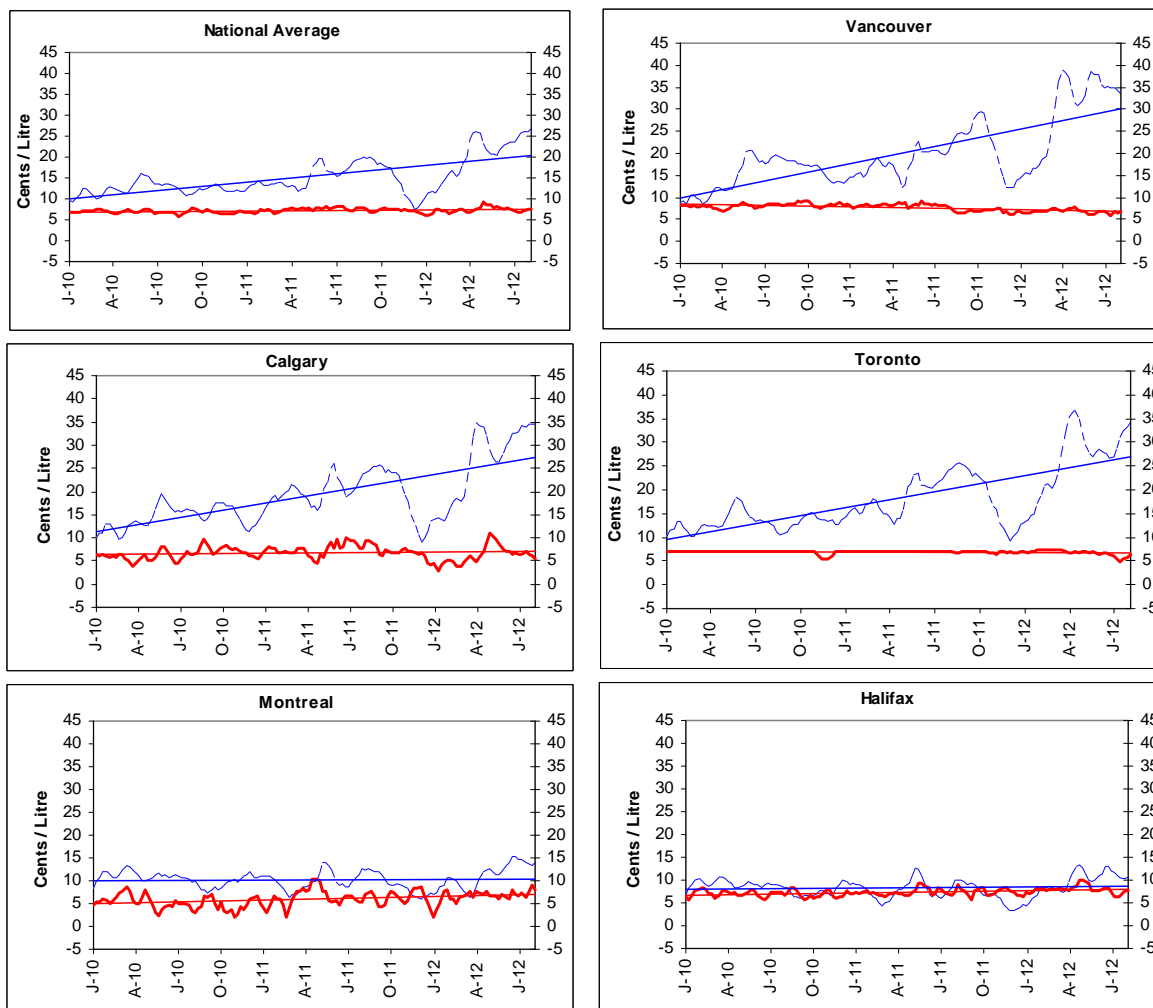
Four-week rolling averages are used for the refining and marketing margins for gasoline. Four-week rolling averages are used because of the price volatility of crude oil and wholesale and retail prices. Figure 5 shows the trends for the period ending August 7, 2012.

Overall, refining margins increased about 1 cent per litre from two weeks ago, an indication that increases in wholesale prices have been more significant than

price increases for crude oil. Refining margins are about 8 cents per litre higher than last year at this time.

Nationally, in the last two weeks, gasoline retail margins remained almost unchanged at 7.5 cents per litre. For the five centres, the marketing margins ranged from a low of 5 cents in Calgary to a high of 8 cents in Montreal. The marketing margins have to cover all costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 7, 2012
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Brent Crude Oil Prices Push Higher

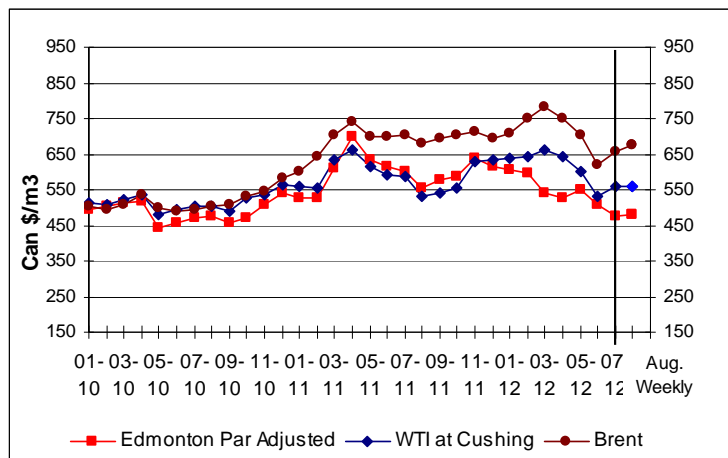
For the week ending August 3, 2012, prices for the three marker crudes averaged between \$481/m³ and \$675/m³, (US\$76 to US\$107 per barrel). The gap between WTI and Brent prices stood at \$114/m³ (US\$18 per barrel).

World crude oil prices firmed-up for the week ending August 3, 2012, despite the fragile economic recovery in the US and the weakness in gasoline demand. US crude oil and gasoline inventories declined 6.5 and 2.2 million

barrels respectively, in the week under review moderating the decline in prices.

The political ramifications in the Middle East remain a concern due to its large oil supply capacity. Tensions over the Syrian peace negotiations and the Iranian nuclear program impasse translate into concerns over global oil supply, which in turn pushes prices up.

Figure 6: Crude Oil Price Comparisons



Canadian Energy Overview 2011

Canadian crude oil production increased by six per cent in 2011, compared to five per cent in 2010. The increase is largely attributable to additional oil sands activity. Mined bitumen production, in situ bitumen production and upgrading all reached new highs in 2011.

Increases in marker crude oil prices led to higher export prices for Canadian heavy and light crude and led to a 10 per cent increase in Canadian energy export revenues in 2011. Higher crude prices also increased oil-targeted drilling.

Interest in oil and gas exploration in the East Coast Offshore regions was renewed in 2011.

WTI oil prices continued to increase in 2011, averaging approximately US\$95/bbl, a 20 per cent increase from 2010. In Canada, light crude oil prices averaged \$96/bbl (Edmonton Par) and heavy crude oil averaged \$77/bbl (Western Canadian Select) in 2011. Throughout 2011 a lack of transportation capacity out of the U.S. Midwest depressed WTI prices relative to the average US\$111/bbl Brent price.

Source : NEB, <http://www.neb-one.gc.ca/clf-nsi/rnrgynfmrtn/nrgyvrpt/nrgyvrw/cndnnrgyvrw2011/cndnnrgyvrw2011-eng.pdf>

Changes in Crude Oil Prices

| Crude Oil Types | Week Ending: 2012-08-03 | | Change From: | | | |
|-----------------|----------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| | | | Previous Week | | Last Year | |
| | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl | \$Can/ m ³ | \$US/ bbl |
| Edmonton Par | 480.77 | 76.26 | +3.87 | +1.52 | -101.13 | -19.41 |
| WTI | 561.40 | 89.06 | -5.83 | +0.16 | +9.07 | -1.77 |
| Brent | 674.94 | 107.07 | +0.61 | +1.38 | -8.25 | -5.26 |

Source: NRCan

