## National Overview

## Retail Gasoline Prices Pushed by Higher Crude Oil and Wholesale Gasoline Prices

The average Canadian retail gasoline price increased to 90.8 cents per litre for the week ending December 5, up 1.5 cents per litre from last week, and o. 6 cents per litre above last year's price.

The current rise in gasoline prices reflects the tightening of supplies, as inventory levels are drawn down, and rebound in crude oil prices. The recent strengthening in crude oil prices is due to speculation of further production cuts by the Organization of Petroleum Exporting Countries and concerns over growing political instability in some oil producing regions. Distillate prices has also been influenced by the demand for heating oil as a result of the cold weather front that recently moved across most of Northern America, in particular the U.S. Northeast, the world's biggest heating oil market.

Diesel fuel prices rose by 1 cent per litre last week to 89.3 cents per litre, but stood nearly 7 cents per litre lower than last year. Furnace oil prices increased to 79.2 cents per litre, up 2 cents per litre from last week and down 2 cents per litre from last year at the same period.

## Recent Developments

- NRCan's Oil Division has released its Petroleum Product Market Outlook - Fall 2006. A summary of the Market Outlook is featured in a special supplement on page 6 of this week's report along with the link to the full report on the Fuel Focus website.
- In the first nine months of 2006, crude oil exports, which accounted for $68 \%$ of total production, were $21 \%$ higher, while imports declined $4 \%$ compared to the same period in 2005. Higher crude oil production came from Newfoundland and Labrador's offshore White Rose field and from bitumen and synthetic crude production in Alberta. http://www.statcan.ca/Daily/English/061130/do611 30c.htm
- On December 1, 2006, Prince Edward Island's retail gasoline tax rate, after remaining the same in the last two months, increased o.8 cents per litre to 20.4 cents a litre while diesel taxes increased 0.6 cents per litre to 20.0 cents a litre. Further information is available at: http://www.gov.pe.ca/pt/taxandland/

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: |  |
| :--- | :---: | :---: | :---: |
| $\phi / \mathrm{L}$ | $2006-12-05$ | Previous <br> Week | Last <br> Year |
| Gasoline | 90.8 | +1.5 | +0.6 |
| Diesel | 89.3 | +0.9 | -6.9 |
| Furnace Oil | 79.2 | +2.1 | -1.8 |

Source: NRCan

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## Retail Gasoline Overview

The four-week average gasoline pump price in selected cities across Canada was 89.4 cents per litre for the period ending December 5, an increase of more than 2 cents per litre from the last report two weeks ago. This is slightly higher than the 88.2 cents per litre recorded during the same period in 2005.
The four-week average crude oil price registered almost 40 cents per litre, a 1 cent per litre increase from two weeks ago, but was 4 cents per litre lower than the same period last year.

As shown in Figure 3, the four-week average refining and marketing costs and margins for the period of November 14 to December 5, registered almost 18 cents per litre of the total pump price, an increase of 1 cent per litre from two weeks ago.

The federal and provincial tax component of the pump price breakdown for the selected cities accounted for a total of 31.7 cents per litre.

Figure 3: Gasoline Pump Prices in Selected Cities 4-Week Average (November 14 to December 5, 2006)


Source: NRCan

* Regulated Markets


## Changes in the Retail Gasoline Market

As Canadian consumers are aware, the retail gasoline market has been undergoing transformations in the last few years. According to a recent article published by Octane Magazine http://www.octanemagazine.ca/, a number of significant challenges continue to affect the fuel retailing marketplace. In the period from 2000 to 2005 , the number of gasoline sites declined by $6.9 \%$ while total gasoline volume grew $9.3 \%$ and the average throughput per site increased by $17.4 \%$. Overall, the major and regional chain retailers have benefited the most from these market changes relative to the independents. Some of the market transformation in the retail gasoline sector, such as pressures to reduce operating costs and rising customer demand for services, have resulted in the following changes:

- The growing availability of pay-at-pump service from under $20 \%$ in 2000 to almost $60 \%$ in 2005 with this service found at $96 \%$ of the majors' stations vs. $35 \%$ of the regionals and $22 \%$ of independents;
- The growing trend toward multiple services convenience stores to satisfy the rising consumer demand for increased services and to generate sales and profits from non-fuel sources;
- The increasing difficulty of the traditional independent and non-integrated retailers to compete against newer sites generating higher throughput; and,
- The presence of convenience stores at $80 \%$ of the gas stations, with $31 \%$ offering food and $28 \%$ offering car washes.

Source: Octane Magazine, November 2006

## Wholesale Gasoline Prices

Wholesale gasoline prices increased in most selected centres for the week of November 30, compared to the previous week. Canadian and American wholesale gasoline price increases ranged from 1 to 3 cents per litre in the selected centres. This week's prices are 6 (Edmonton) to 16 cents per litre (Seattle) higher than they were at the same time last year.
Overall, wholesale gasoline prices appear to be moving upward in most centres after a series of minor fluctuations in the last two months. The Seattle wholesale gasoline price was nearly 60 cents per litre on November 30, approximately 1 cent per litre lower than two weeks ago, while the competing rack price in

Vancouver remained virtually unchanged at 58 cents per litre.

Over the course of 2006, the average Halifax wholesale price has been about 4 cents per litre lower than the corresponding Boston price, although this gap has narrowed considerably in recent weeks. In comparison, all other Canadian centres included here, have shown prices in the range of 1 to 3 cents per litre higher than the corresponding American centres.

In general, the current firmness in gasoline prices reflects the tightening of supplies and the effects of the recent upward movement of crude oil prices. These factors together increase pressure on gasoline prices.

Figure 4: Wholesale Gasoline Prices (Weekly Average)
Rack Terminals Prices for Selected Cities ending November 30 ${ }^{\text {th }}$ (Can $\$ / \mathrm{L}$ )


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## Refining and Marketing Margins

After experiencing significant declines of as much as 10 cents per litre from their summer peaks, refining margins have rebounded in the last few weeks, now averaging about 13 cents per litre across Canada. The upward swing in the refining margin is indicative of a tightening of supplies as a result of fall maintenance operations in various refineries.

These margins are defined as the difference between the cost of crude oil and the wholesale price at which the refiner can sell the gasoline. The margin includes the costs associated with refining the product as well as the profit for the refiner.

Conversely, marketing margins remained stable nationally as indicated by the trend line. The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline. Although representing the smallest component of the retail price, in general this margin is expected cover all the costs associated with operating the retail outlet and include a profit.

Overall, these graphs show that marketing margins can be volatile as outlets compete for market share. As gasoline is essentially the same from outlet to outlet, the only way for retailers to differentiate themselves is through price and other product offerings.

Figure 5: Refining and Marketing Margins (Four-Week Rolling Average)
------- Refining Margin




## ——Marketing Margin





Source: NRCan

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## Crude Oil Overview

## World Crude Oil Prices Rising

Prices for the three crude oil benchmarks shown in Figure 6 ended the week in the $\$ 409$ to $\$ 446$ per cubic metre range, an increase of $\$ 16$ to $\$ 29$ per cubic metre from last week. The Edmonton Par price remains below last year's levels while Brent is nearly $\$ 55$ per cubic metre higher than last year.
Prices have been partly influenced recently by a healthy demand for heating oil as a result of a cold weather front in the North Western U.S. Winter weather remains a key uncertainty and will be a major determinant in how quickly heating oil inventories are drawn down. This could put upward pressure on
both product and crude oil prices as more supplies will be required to satisfy the demand.

Other factors contributing to the crude oil prices upward momentum include a decline in the value of the U.S. dollar, the currency in which crude oil is traded; speculation of further production cuts by the Organization of Petroleum Exporting Countries; civil unrest in Nigeria shutting down some oil production; and a growing concern about the split developing within the Shia community in Iraq which could threaten the oil infrastructure and exports from the southern part of the country.

Figure 6: Crude Oil Price Comparisons


## Changes in Crude Oil Prices

| Crude Oil <br> Prices <br> $(\$ C a n)$ | Week ending: <br> 2006-12-01 |  | Change from: |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Previous Week |  | Last Year |  |  |
|  | $\$ / \mathrm{m} 3$ | $\$ / \mathrm{bbl}$ | $\$ / \mathrm{m} 3$ | $\$ / \mathrm{bbl}$ | $\$ / \mathrm{m} 3$ | $\$ / \mathrm{bbl}$ |  |
| Edmonton <br> Par | 409.00 | 65.02 | +15.90 | +2.53 | -16.04 | -2.55 |  |
| WTI | 444.07 | 70.60 | +28.79 | +4.58 | +20.01 | +3.18 |  |
| Brent | 446.51 | 70.99 | +24.61 | +3.91 | +55.20 | +8.78 |  |

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## Lower Gasoline Prices Ease Inflation in October

Statistics Canada's Consumer Price Index (CPI) report released November 22, 2006, http://www.statcan.ca/english/Subjects/C pi/cpi-en.htm indicates that lower gasoline prices mitigated the upward pressure on consumer prices in October. On a year to year basis, excluding energy, the index climbed over the $2 \%$ threshold for the first time since June 2003.

The all-items CPI rose $0.9 \%$ in the twelve months since October 2005, a slight increase from the $0.7 \%$ recorded in September. However, on a monthly basis, the all-items index fell 0.2 \% in October, following a decline of $0.5 \%$ in September, due primarily to lower overall fossil fuel prices, but also from the significant downward movement of gasoline prices. In October 2006, the $4 \%$ reduction in the price of gasoline was the main source of the drop in the monthly index. New Brunswick posted the largest decline in gasoline prices in October at $10.1 \%$, while Ontario posted the smallest at $1.8 \%$ for the same period.

Source: Statistics Canada, Consumer Price Index, November 22, 2006.

## Petroleum Product Market Outlook - Fall 2006

The following is a summary of NRCan's Petroleum Product Market Outlook - Fall 2006 report released in November 2006.

Heading into the 2006-2007 winter, consumers may have a reason for optimism. Over the course of the August to October period, gasoline and heating oil prices have fallen by $\$ 0.27$ and $\$ 0.17$ per litre respectively. Although prices have leveled off in recent weeks, this marks the first time in several years that consumers are not facing substantially higher petroleum product prices going into the winter heating season. Lower crude oil prices, above-average inventory levels in the United States, and predictions of normal to above-normal temperatures for most of Canada should provide some stability in gasoline and distillate prices this winter.

Some of the highlights of the Petroleum Market Outlook are:

- Canadian average gasoline prices have fallen from about $\$ 1.14$ per litre in early August to $\$ 0.87$ per litre by the end of October, a decrease of $\$ 0.27$ per litre.
- Distillate prices have also fallen significantly during this time frame. Diesel fuel and furnace fuel oil prices each fell by 17 cents per litre to $\$ 0.90$ and $\$ 0.75$ per litre respectfully by the end of October.
- Lower crude oil prices, above-average inventory levels, reduced anxiety about weather related supply disruptions and a smoother-than-anticipated transition to ultra-low sulphur diesel fuel have all contributed to lower prices.
- Refinery maintenance turnarounds planned for this Fall are nearing completion and refinery production is expected to return to full capacity in the next few weeks.
- Refiners are currently focused on distillate production and inventories are expected to build as facilities return to full production capacity.
- Unforeseen delays could significantly change the current inventory situation, but industry has indicated that current gasoline and distillate inventories in Canada are near targeted levels for this time of year.

In conclusion, the Canadian refining industry has taken the necessary steps to ensure that markets are well supplied this winter. Fall maintenance plans are progressing well and inventory levels appear to be on target for this time of year. After a summer of high and volatile prices, consumers should see some relief from prices this winter. Although developments in world oil markets or colder than expected winter weather could significantly alter price forecasts for gasoline and heating oil, lower crude oil prices and high inventory levels in the U.S. are expected to contribute to stable prices throughout the winter.

The full report is available on the Fuel Focus website at:
http://fuelfocus.nrcan.gc.ca/


[^0]:    Source: NRCan

