



## National Overview

### Tight Gasoline Supply, Upcoming High Demand Season Buoy Prices

The Canada average retail gasoline price remained unchanged at 103.9 cents per litre for the week ending March 27<sup>th</sup>, compared to last week. However, prices rose nearly 1 cent per litre since the last report two weeks ago.

Canadian gasoline prices moved upward in recent weeks following the growing pressure from higher wholesale gasoline prices, rising gasoline demand and tightening of supply due to low inventory levels. Current prices also reflect the constraints taking place as a result of spring maintenance in various refineries in North America.

As indicated in Figure 2, the 2007 gasoline prices are following a similar trend to last year at this time, except earlier in the year. Some of the contributing factors to the earlier rise are the tightening of gasoline supply while demand is running high at a time when refiners are still producing distillate fuels for heating, and refinery maintenance throughout North America, and some unplanned outages are reducing gasoline production.

Upward pressure on gasoline prices may continue over the next few months given the higher seasonal demand as the driving season approaches. However, retail prices should stabilize once sufficient supplies appear, barring any unanticipated supply disruption or dramatic movement in crude oil prices.

Diesel fuel prices decreased slightly by 0.5 cent per litre from last week to 98 cents per litre, but were still nearly 3 cents per litre higher than at this time last year. Furnace oil prices declined 1 cent per litre to 84 cents per litre and were 1.3 cent per litre higher than a year ago.

## Recent Developments

- The Montreal/Lake Ontario (MLO) section of the St. Lawrence Seaway opened for its 49th shipping season on March 21<sup>st</sup>. The opening marks the earliest starting date on record for the MLO, which opened last year on March 23rd. This will allow crude oil imports from Quebec and overseas to flow through easing Ontario's tight fuel supply observed in the last six weeks.
- Imperial Oil's Nanticoke refinery repairs are now completed and the refinery is returning to full capacity. The Esso retail service stations continue to be restocked and diesel supply to industrial and commercial customers is improving.
- Take advantage of grants, rebates, discounts and other incentives available to help you use less energy, switch to renewable energy and produce less waste at home and on the road. For details on the various rebates and incentives available in your province or territory visit: [http://www.incentivesandrebates.ca/gc\\_fi\\_search.asp?jurisdiction=14&actionArea=0&keyword=&submit=Search&lang=en](http://www.incentivesandrebates.ca/gc_fi_search.asp?jurisdiction=14&actionArea=0&keyword=&submit=Search&lang=en)

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

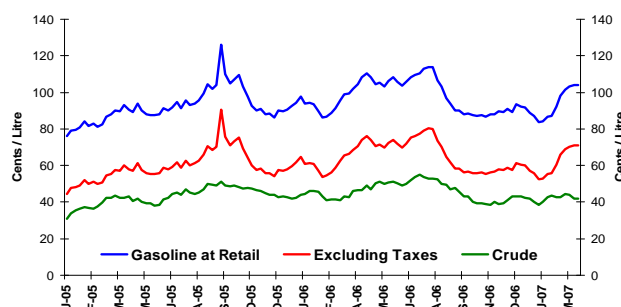
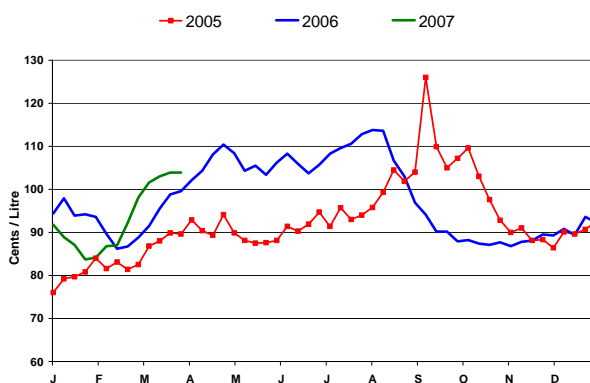


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2007-03-27	Previous Week	Last Year
Gasoline	103.9	0.0	+4.3
Diesel	98.1	-0.5	+2.6
Furnace Oil	84.0	-1.1	+1.3

Source: NRCan

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## Retail Gasoline Overview

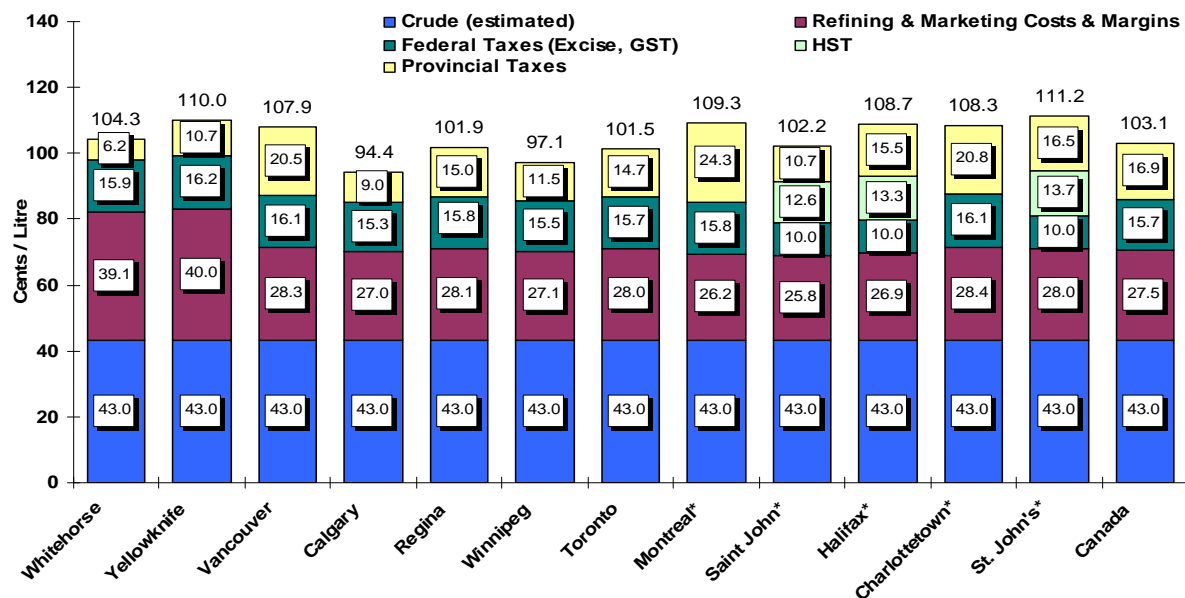
The four-week average regular gasoline pump price in selected cities across Canada was 103 cents per litre for the period ending March 27<sup>th</sup>, an increase of more than 4 cents per litre from the last report two weeks ago. Prices are almost 7 cents per litre higher than those recorded during the same period in 2006.

The four-week average crude oil price registered 43 cents per litre, a 0.4 cent per litre decrease from two weeks ago, and 1 cent per litre higher 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 March 6<sup>th</sup> to 27<sup>th</sup>, registered almost 28 cents per litre of the total pump price, an increase of 4.5 cents per litre from two weeks ago. All centres showed an increase in refining and marketing costs and margins ranging from 3.6 cents per litre in Toronto to 6.4 cents per litre in Charlottetown.

The federal and provincial tax component of the pump price breakdown for the selected cities accounted for a total of 32.6 cents per litre an increase of 0.3 cent per litre since the last report two weeks ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities**  
4-Week Average (March 6 to March 27, 2007)



Source: NRCan

\* Regulated Markets

### Why Canada Doesn't Regulate Gasoline or Crude Oil Prices

After a brief period of regulation, Canada is committed to a market-based approach to determine prices for crude oil and fuels such as gasoline. While today Canada relies upon competitive markets to determine the price you pay for fuels such as gasoline, it wasn't always that way. From the 1970s to the early 80s, Canadian consumer prices for gasoline and other fuels were subject to government price controls. A significant agreement between the federal government and the governments of British Columbia, Alberta and Saskatchewan reached in 1985 removed those controls to ensure that sufficient supplies of petroleum products were available at the most competitive price.

With the exception of a national emergency, the Government of Canada has no jurisdiction over the direct regulation of retail fuel prices. Under the Canadian Constitution, the provinces have that authority. Some provinces choose not to exercise their regulatory authority, relying instead on market forces. Others, including Prince Edward Island, Newfoundland and Labrador, Nova Scotia, New Brunswick and Quebec, regulate prices in some way. This approach has not resulted in lowered prices for consumers in these jurisdictions. Provincial price regulations are generally introduced to provide more stable prices.





## Wholesale Gasoline Prices

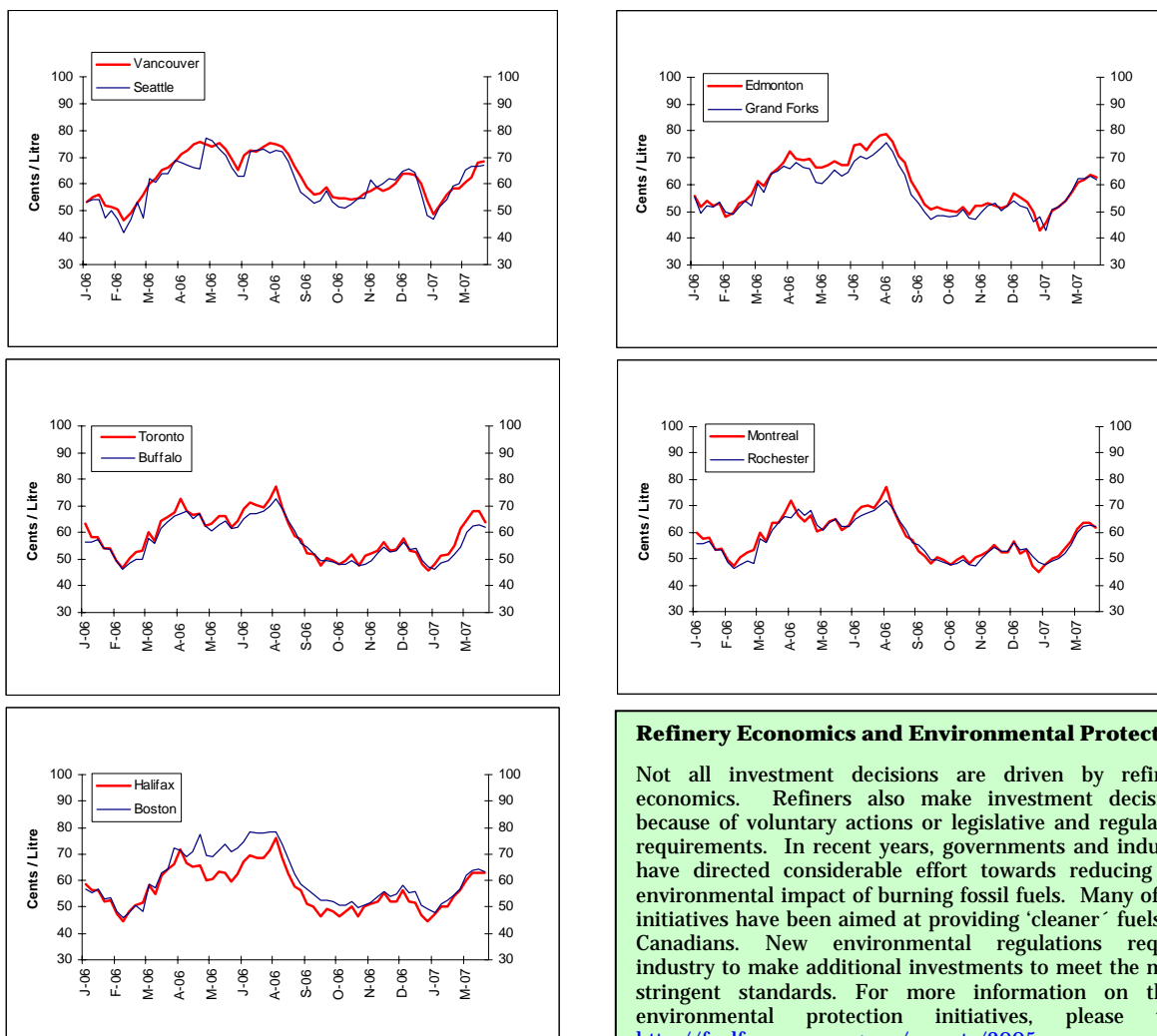
For the week of March 22<sup>nd</sup>, wholesale gasoline prices declined in most selected centres, except for Vancouver and Seattle, compared to the previous week. Canadian and American wholesale gasoline prices ranged from a decline of more than 4 cents per litre to an increase of almost 1 cent per litre.

The rise in wholesale gasoline prices in recent weeks reflect the increase in demand, declining gasoline inventory levels at this time of the year and lower North American refinery activity due to seasonal maintenance operations in anticipation of higher demand for gasoline in the spring.

Toronto wholesale gasoline prices dropped the most by more than 4 cents per litre compared to last week, ending at nearly 64 cents per litre on March 22<sup>nd</sup>, while Vancouver and Seattle registered a marginal increase of less than 1 cent per litre respectively. The higher wholesale gasoline price in those two centres is indicative of the tight gasoline supply situation observed in both the Canadian and U.S. West Coast markets.

Overall, prices have risen in the range of more than 2 cents per litre to almost 10 cents per litre in all centres in the last four weeks. Prices are also in the range of 3 to 8 cents per litre higher than they were at the same period last year.

**Figure 4: Wholesale Gasoline Prices** (Weekly on Thursday)  
Rack Terminals Prices for Selected Cities ending March 22<sup>nd</sup> (Can ¢/L)



Sources: NRCan, Bloomberg

### Refinery Economics and Environmental Protection

Not all investment decisions are driven by refinery economics. Refiners also make investment decisions because of voluntary actions or legislative and regulatory requirements. In recent years, governments and industry have directed considerable effort towards reducing the environmental impact of burning fossil fuels. Many of the initiatives have been aimed at providing 'cleaner' fuels for Canadians. New environmental regulations require industry to make additional investments to meet the more stringent standards. For more information on these environmental protection initiatives, please visit [http://fuelfocus.nrcan.gc.ca/reports/2005-07/overview/initiatives\\_e.cfm](http://fuelfocus.nrcan.gc.ca/reports/2005-07/overview/initiatives_e.cfm)





## Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending March 27<sup>th</sup>. After experiencing a decline in December and the earlier part of January, refining margins have rebounded in the last month, now averaging around 22 cents per litre across Canada. This number is different than in Figure 3 because of the four-week rolling average methodology used here.

The March – April period can often present challenges for the refiners. If the early spring is colder than expected, heating oil demand will remain strong at a time when refiners are trying to convert their operations away from distillate production toward more gasoline production. Refiners need to build gasoline inventories through the spring in anticipation of the higher summer demand. This is also a time of the year that many refiners do maintenance on equipment, which often requires short term closures of specific units or even the whole refinery for a few days or a few weeks.

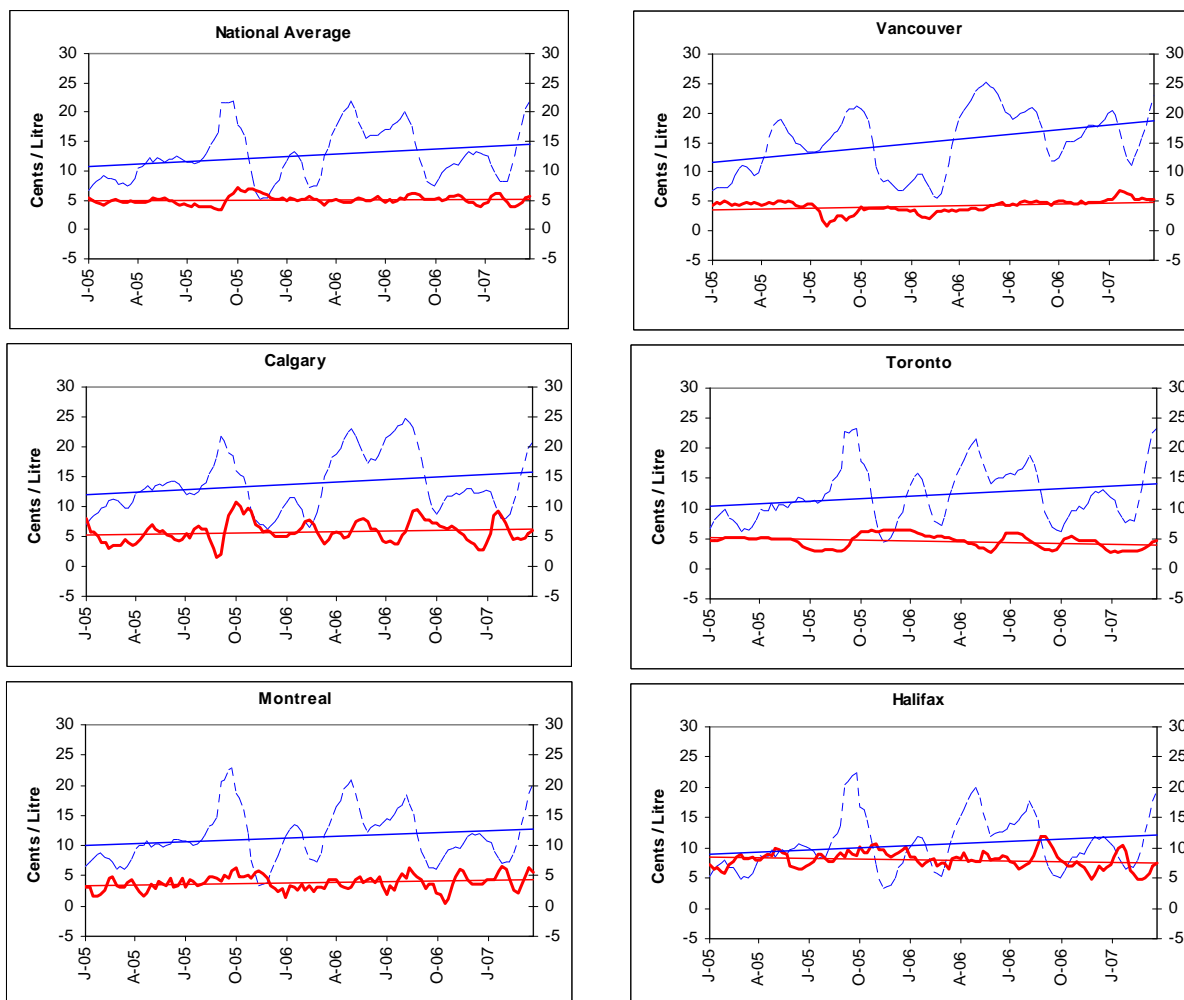
All of these conditions can limit the available supply of products and put upward pressure on prices, thereby increasing refining margins.

Conversely, marketing margins remained fairly stable nationally hovering around 5 cents per litre 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 to cover all the costs associated with operating the retail outlet and include a profit for the station owner.

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 Ending March 27<sup>th</sup>)

----- Refining Margin  
----- Marketing Margin



Source: NRCan





## Crude Oil Overview

### Iranian Tensions Lead to Highest Prices in 2007

Crude oil prices ended the week of March 23<sup>rd</sup> in the \$417 to \$449/m<sup>3</sup> range (\$US 57 to \$US 61/bbl) down slightly from the previous week. Edmonton Par decreased \$6/m<sup>3</sup> (\$US 1/bbl) over last year's levels, while Brent remained relatively unchanged over the same period.

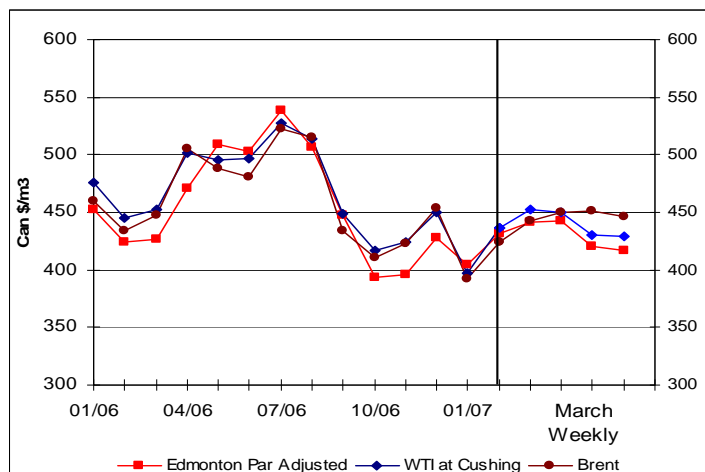
The price of crude oil on world markets has hit its all-time high for 2007 with the price of Brent reaching \$64/bbl early this week - the highest since December 2006. Contrary to the last edition of Fuel Focus, geopolitical factors have now begun to have an effect on the price of crude oil.

On March 23, 2007, Iran's Revolutionary Guard seized 15 British sailors and marines operating in Iraqi waters of the Persian Gulf, suggesting they may be tried for illegally entering Iranian waters. This along with continued U.S. military buildup in the Middle East and Iran's refusal to stop enriching uranium has added a political risk premium to crude oil prices on world markets.

As Iran is OPEC's second largest oil producer, any disruption in supply from this area could result in a significant reduction in world crude oil supplies. Any military action against Iran could also result in a reduction in shipping traffic through the Strait of Hormuz, by which approximately a quarter of all world oil production travels on its way to market.

As the summer driving season approaches in the Northern hemisphere, refiners are starting to ramp up production in order to ensure the increased demand for gasoline is supplied. The higher demand for crude oil will put further pressure on supplies and prices.

Figure 6: Crude Oil Price Comparisons



### Changes in Crude Oil Prices

Crude Oil Prices	Week ending: 2007-03-23		Change from:			
			Previous Week		Last Year	
	\$Can/ m <sup>3</sup>	\$US/ bbl*	\$Can/ m <sup>3</sup>	\$US/ bbl*	\$Can/ m <sup>3</sup>	\$US/ bbl*
Edmonton Par	416.90	57.00	-3.50	0.00	-6.02	-0.70
WTI	429.69	58.75	-0.94	-0.37	-23.52	-3.08
Brent	449.43	61.45	-1.95	+0.25	-1.45	-0.07

\*Note that prices per barrel are reported in U.S. dollars

Source: NRCan

### World's 20 Largest Refineries

Company	Location	Crude Capacity in b/cd *
Paraguana Refining Centre	Venezuela	940,000
SK Corp	South Korea	817,000
Reliance Industries Ltd.	India	660,000
LG-Caltex	South Korea	650,000
Exxon Mobil Refining & Supply Co.	Singapore	605,000
Exxon Mobil Refining & Supply Co.	Texas	563,000
Saudi Arabian Oil Co.	Saudi Arabia	550,000
Formosa Petrochemical Co.	Taiwan	520,000
S-Oil Corp.	South Korea	520,000
Exxon Mobil Refining & Supply Co.	Louisiana	503,000
Hovensa Ltd.	Virgin Islands	500,000
Shell Eastern Petroleum Ltd.	Singapore	458,000
BP PLC	Texas	446,500
Kuwait National Petroleum Co.	Kuwait	442,700
OA O Yukos	Russia	440,700
Citgo Petroleum Corp.	Louisiana	440,000
Shell Nederland Raffinaderij BV	Netherlands	406,000
Sinopec	China	403,000
Saudi Arabian Oil Co.	Saudi Arabia	400,000
Saudi-Aramco-Mobil	Saudi Arabia	400,000
Irving Oil Ltd. **	Canada	280,000

\* Barrels per Calendar Day (b/cd)

\*\* Canada's largest refinery included for reference only.

Source: Oil and Gas Journal, December 18, 2006

