



National Overview

Pump Prices Decline 1 cent per Litre from Last Week's \$1.37 Record High

Average Canadian retail gasoline prices decline by 1 cent per litre to \$1.36 per litre the week of June 17, 2008, compared to a record high of \$1.37 the previous week. However, this represents an increase of 29 cents per litre from the same period last year.

Wholesale gasoline prices rose for the week ending June 12, 2008, in contrast to the retail gasoline prices surveyed on June 17th. With crude oil prices fluctuating significantly in recent months, the comparison between wholesale and retail prices is more difficult as retail prices in some centres react to different local market conditions and can experience large variations from one week to the next.

Perceived supply constraints in combination with rising demand continue to put upward pressure on crude oil prices. According to the latest U.S. Energy Information Administration Short-Term Energy Outlook, the market remains concerned that the cushion of OPEC spare capacity (about 10% of its production) is insufficient to protect against possible supply disruptions as we enter the summer hurricane season. However, in its efforts to dampen oil prices and increase oil stocks, Saudi Arabia recently agreed to increase output by 500,000 bbl/d. This would bring Saudi crude output to its highest monthly rate since August 1981.

Diesel fuel prices increased by 3 cents per litre to \$1.47 per litre the week of June 17th. This represents an increase of 51 cents per litre compared to the same period last year.

Recent Developments

- **Gasoline Sales Level Out:** Canadians consumed 13 billion litres of gasoline in the first four months of 2008, a marginal increase of 0.2% over the same period in 2007. Diesel fuel sales also increased marginally by 0.2% to 8.8 billion litres for the same period, while furnace oil declined 13% to 1.9 billion litres. (Statistics Canada, The Daily, <http://www.statcan.ca/Daily/English/080606/do80606c.htm>)
- **B.C. Introduces a New Carbon Tax Effective July 1, 2008 :** The Government of British Columbia's revenue neutral fossil fuel tax to be introduced on July 1st, will add 2.34 cents per litre to the current gasoline prices. However, taxpayers will see their personal B.C. income tax rates in 2009 reduced by five per cent on the first \$70,000 in earnings and will see further reductions as the revenue from the carbon tax increases. http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Carbon_Tax/carbon_tax.htm
- **Competition Bureau Uncovers Gasoline Cartel in Quebec:** Criminal charges have been laid against 13 individuals and 11 companies accused of fixing the price of gasoline at the pump in Victoriaville, Thetford Mines, Magog and Sherbrooke. Of the accused, three companies and an individual pleaded guilty and were imposed fines totaling just over \$2 million. <http://www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/en/02694e.html>

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

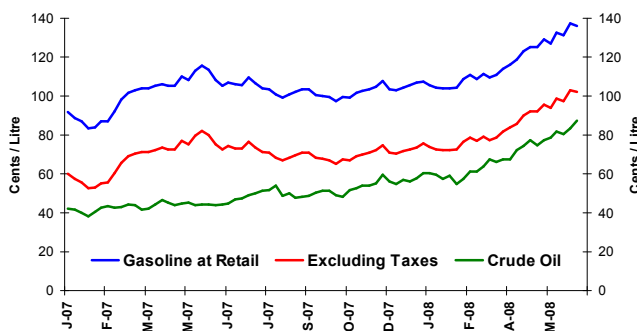
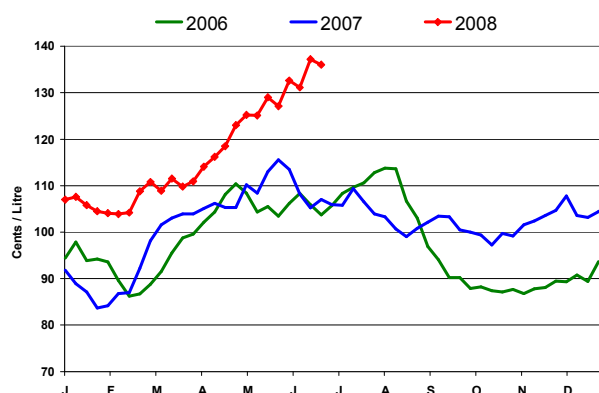


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2008-06-17	Previous Week	Last Year
Gasoline	136.0	-1.2	+28.9
Diesel	147.1	+2.9	+51.2
Furnace Oil	139.7	+1.8	+56.9

Source: NRCan

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Retail Gasoline Overview

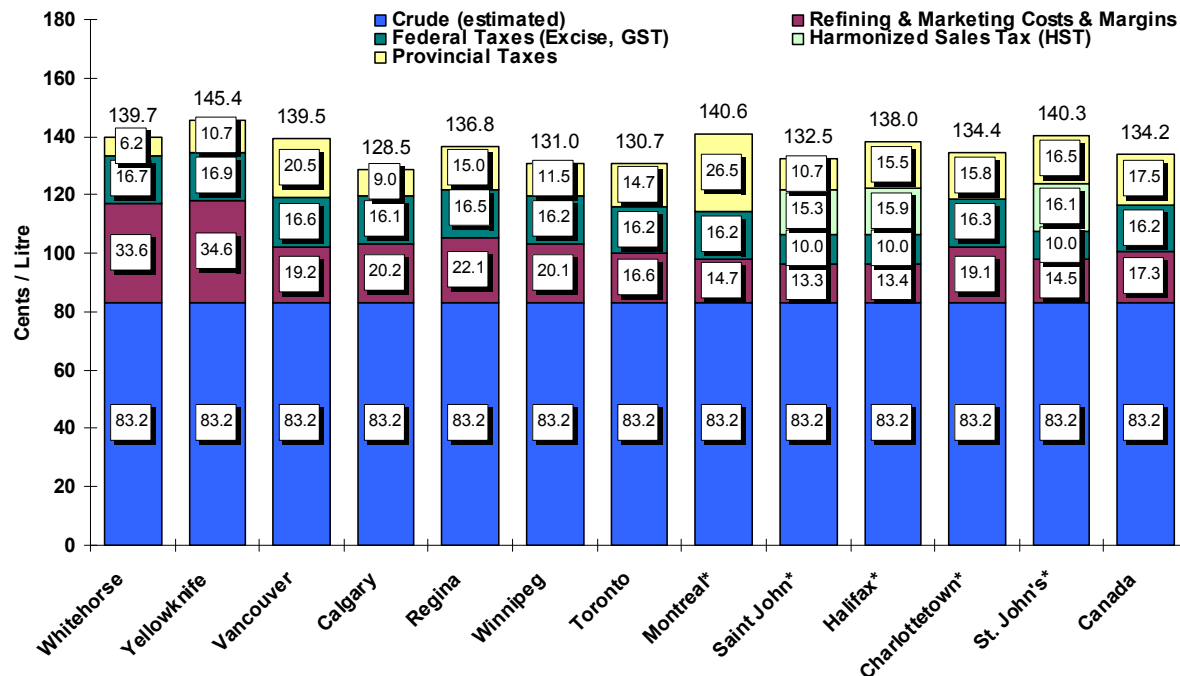
The average Canadian pump price in selected cities for the **four-week average** ending June 17th was \$1.34 per litre, an increase of 4 cents per litre from the last report on June 6, 2008. This represents a 26 cents per litre increase compared to the same period in 2007.

The **four-week average** crude oil price rose by 4 cents per litre to 83 cents per litre compared to two weeks ago. The crude oil component of the pump price is by far the largest item, currently representing 62% of the total retail gasoline price.

Retail gasoline prices in most Western centres (Vancouver to Winnipeg) increased on average about 4 cents per litre ranging from \$1.29 to \$1.40 per litre when compared to the previous report two weeks ago. Price increases in Eastern cities (Toronto to St. John's) rose on average 4 cents per litre, and ranged from \$1.31 to \$1.41 cents per litre.

At the national level, refining and marketing costs and margins remained unchanged at 17 cents per litre from those in the previous report. However, this represents a significant decline of 14 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
4-Week Average (May 27 to June 17, 2008)**



Source: NRCan

* Regulated Markets

Legislation to Encourage Fair Competition in Canada

The *Competition Act* (1985), administered and enforced by Competition Bureau Canada, contains provisions to prevent price fixing, price maintenance and abusive behaviour by any firm which results in the lessening of competition. The Act applies to all types of markets, not just gasoline markets.

Under the *Competition Act*, it is illegal for gasoline retailers to:

- ✓ Agree to fix prices or enter into other anti-competitive agreements;
- ✓ Try to influence another retailer's prices by agreement, threat or promise;
- ✓ Persuade wholesalers to cut off gasoline supplies to discount retailers because of the discounter's low prices.

Under the Act, gasoline wholesalers are prohibited from:

- ✓ Agreeing to fix prices or enter into other anti-competitive agreements;
- ✓ Trying to influence another retailer's prices by agreement, threat or promise;
- ✓ Refusing to supply a gasoline retailer just because that retailer charges low prices.

For more information, please visit the Competition Bureau's website at:

<http://www.competitionbureau.gc.ca/epic/site/cb-bc.nsf/Intro>





Wholesale Gasoline Prices

Wholesale gasoline prices increased in all selected centres for the **week of June 12th**, compared to the previous week. Overall, price changes ranged from 3 to 9 cents per litre.

Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered increases ranging from 3 to 9 cents per litre, compared to the previous week, ending the period in the 93 to 97 cents per litre range. Despite these increases, Halifax (a regulated market) has registered slightly lower

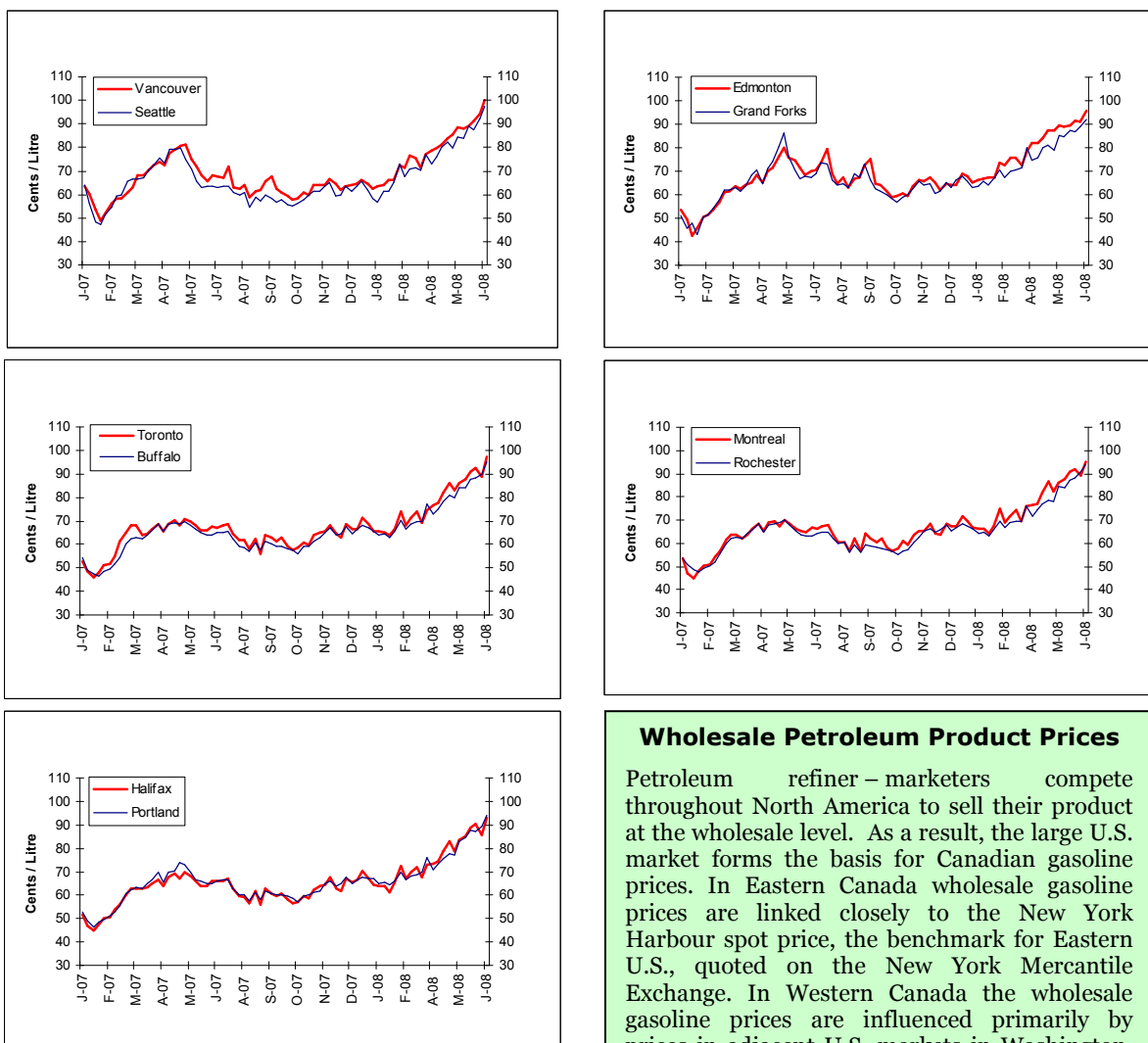
wholesale gasoline prices than all the Canadian centres in the last two weeks, including its American counterpart.

Western wholesale gasoline price changes ranged from 3 cents per litre to 6 cents per litre ending in the range of 92 cents per litre to \$1 per litre (Vancouver).

Overall, prices in most selected centres are well above last year's level with increases ranging from 24 to 34 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices

Rack Terminals Prices for Selected Canadian and American Cities ending June 12, 2008
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Wholesale Petroleum Product Prices

Petroleum refiner – marketers compete throughout North America to sell their product at the wholesale level. As a result, the large U.S. market forms the basis for Canadian gasoline prices. In Eastern Canada wholesale gasoline prices are linked closely to the New York Harbour spot price, the benchmark for Eastern U.S., quoted on the New York Mercantile Exchange. In Western Canada the wholesale gasoline prices are influenced primarily by prices in adjacent U.S. markets in Washington, North Dakota and Minnesota.





Refining and Marketing Margins

Four-week rolling averages are used to illustrate the refining and marketing margins for gasoline in Figure 5 for the period ending June 17, 2008.

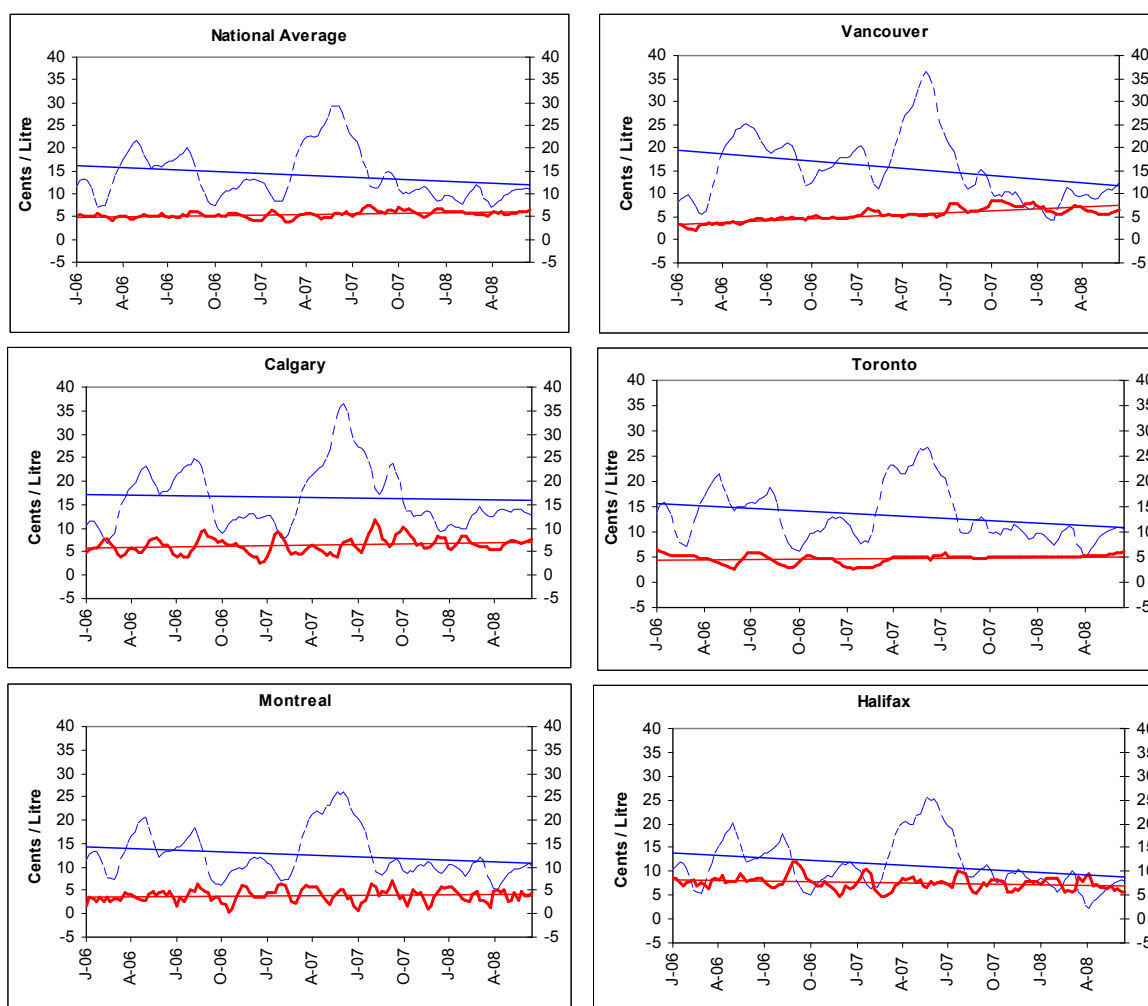
Nationally, marketing margins rose slightly to levels seen at the beginning of the year or around 6 cents per litre. This margin can also be fairly volatile, as shown for Calgary, Montreal and Halifax, as outlets compete for market share. After a long hiatus, the Toronto marketing margin has started to gradually move

upward almost to the national average. In contrast, Montreal registered the lowest marketing margin of all centres at 4.5 cents per litre.

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 and generate a profit for the station owner.

Figure 5: Refining and Marketing Margins
Four-Week Rolling Average Ending June 17, 2008

----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Hits New Record Highs

For the week ending June 13th, 2008, crude oil prices averaged between \$863/m³ and \$870/m³ (\$US134 to \$US135 per barrel). All prices saw significant increases week over week.

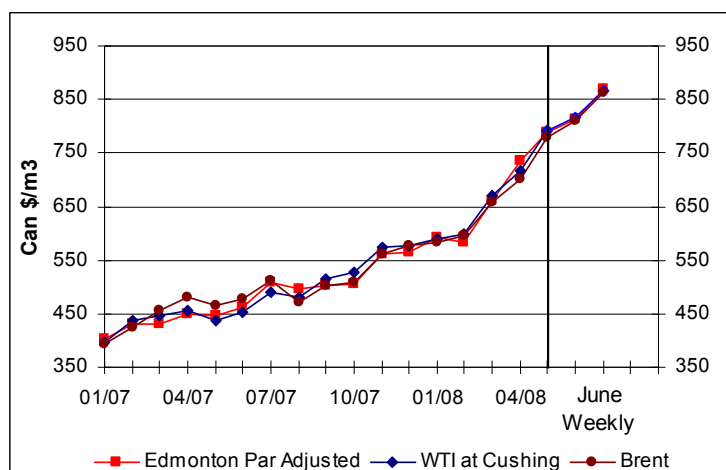
The price of crude oil increased by a record \$US11/bbl on to June 6th in response to comments by an Israeli minister indicating that an attack on Iran is inevitable. Oil reached a new record on this day, closing at over \$US138/bbl on the NYMEX.

Controversy continues between speculators, analysts and politicians alike as to the drivers behind the recent increases in crude oil. Many consuming countries have

been quick to blame the producing countries (in particular OPEC nations) for increasing prices through supply constraint. Other analysts as well as producing countries have taken the stand that increased speculative trading and weakly regulated futures markets have been the primary driver. Saudi Arabia has organized a meeting on June 22nd to bring together both producing and consuming countries to discuss current prices as well as possible actions to help reduce prices.

With the hurricane season now upon us, there is always the possibility of weather related supply disruptions which could push prices up further.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-06-13		Change from:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	869.58	135.12	+56.98	+7.47	+423.58	+68.58
WTI	866.89	134.71	+51.21	+6.57	+420.18	+68.06
Brent	863.45	134.17	+53.62	+6.94	+391.31	+63.73

Source: NRCan

Energy Contribution to the Canadian Economy

In 2007, the energy industry accounted for 5.6% of Canada's GDP and directly employed 372 200 people (2.2% of the Canadian labour force). Energy export revenue totalled \$90 billion, which accounted for 20% of the value of all exports. The proportion has held roughly steady for the last three years and is double the 1990s average of 10% of export value.

Total energy production in Canada increased by 1.8% in 2007, largely due to increased petroleum production, as well as wind production. Offsetting total growth in Canadian production was a decline in natural gas production as a result of a slow down in drilling activity in Western Canada and decreased nuclear energy production due to plant outages during the year.

Canadian energy demand trends are driven by changes in population, economic conditions, energy prices, the weather, conservation, technology and consumer preferences. According to Statistics Canada, the Canadian population increased by nearly 2% in 2007, which contributed to strong energy demand growth in the residential and the commercial sectors in 2007.

Source: National Energy Board, *Canadian Energy Overview 2007 - May 2008*.

