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# Fuel Focus

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

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## National Overview

### Canadian Retail Gasoline Prices Decline to Lowest Level in the Last 21 Months

Canadian retail gasoline prices continue to decline because of the lower North American wholesale gasoline prices which have resulted from the U.S. economic downturn. Average Canadian retail pump prices declined for the tenth straight week to 85 cents per litre—a drop of 3 cents per litre for the week ending November 18, 2008. Retail pump prices are now 4 cents per litre lower than at the same time in 2006.

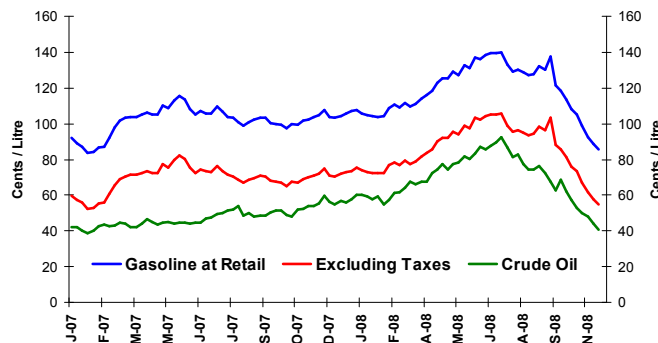
Diesel fuel prices also decreased 4 cents per litre to \$1.11 per litre compared to the previous week, while furnace oil dropped by nearly 2 cents per litre to 93 cents per litre. However, prices for both diesel and furnace oil remain higher than a year ago.

The average Canadian gasoline pump price in selected cities for the **four-week average ending November 18, 2008**, was 91 cents per litre, a decrease of 10 cents per litre from the last report on November 7, 2008.

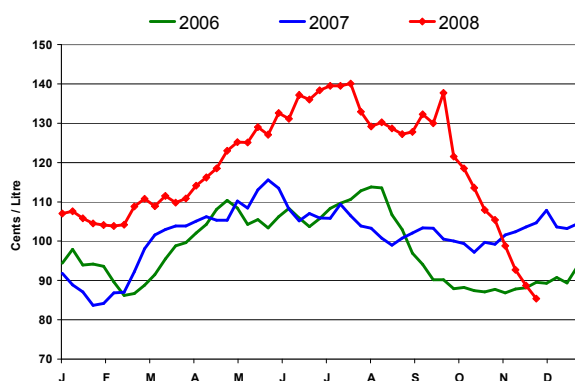
### Recent Developments

- **Canadians Driving Less:** Canadians drove their vehicles less during the second quarter of 2008 compared with the same quarter of 2007. Nationally, the number of kilometres driven declined 7.1%. Fuel prices, which were high and rising throughout the second quarter of 2008, most likely played a role in reducing the amount Canadians drove. (The Daily, <http://www.statcan.ca/Daily/English/081118/do8118c.htm>)
- **Gasoline Sales Decline 0.2% in the First Nine Months of 2008:** Compared to the same period last year, Canadian motor gasoline sales declined 0.2% in the first nine months of 2008 to 36.8 million cubic metres. Up 0.3% from January to September 2008 compared to last year, diesel fuel oil sales totalled 20.6 million cubic metres, while furnace oil declined 14%, to 2.7 million cubic metres for the same period. (Statistics Canada, Refined Petroleum Products, Catalogue 45-004-XIB.)
- **U.S. Energy Outlook:** According to the Energy Information Administration's (EIA) *Short-Term Energy Outlook* released on November 12, 2008, on November 10, 2008, the average U.S. prices for regular-grade gasoline and diesel fuel at \$2.22 and \$2.94 per gallon respectively, were both more than \$1.80 per gallon below their highs in mid-July. With a weak economy continuing through most of 2009, along with lower projected crude oil prices, the annual average retail gasoline and diesel prices in 2009 are projected to be \$2.37 and \$2.73 per gallon, respectively. (EIA, <http://www.eia.doe.gov/emeu/steo/pub/contents.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	2008-11-18	Previous Week	Last Year
Gasoline	85.4	-3.3	-19.3
Diesel	111.0	-3.7	+2.3
Furnace Oil	92.9	-1.5	+0.7

Source: NRCan

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## Retail Gasoline Overview

The average Canadian pump price in selected cities for the **four-week average** ending November 18, 2008, was 91 cents per litre, a decrease of 10 cents per litre from the last report on November 7, 2008. This also represents a 12 cent per litre decrease compared to the same period in 2007.

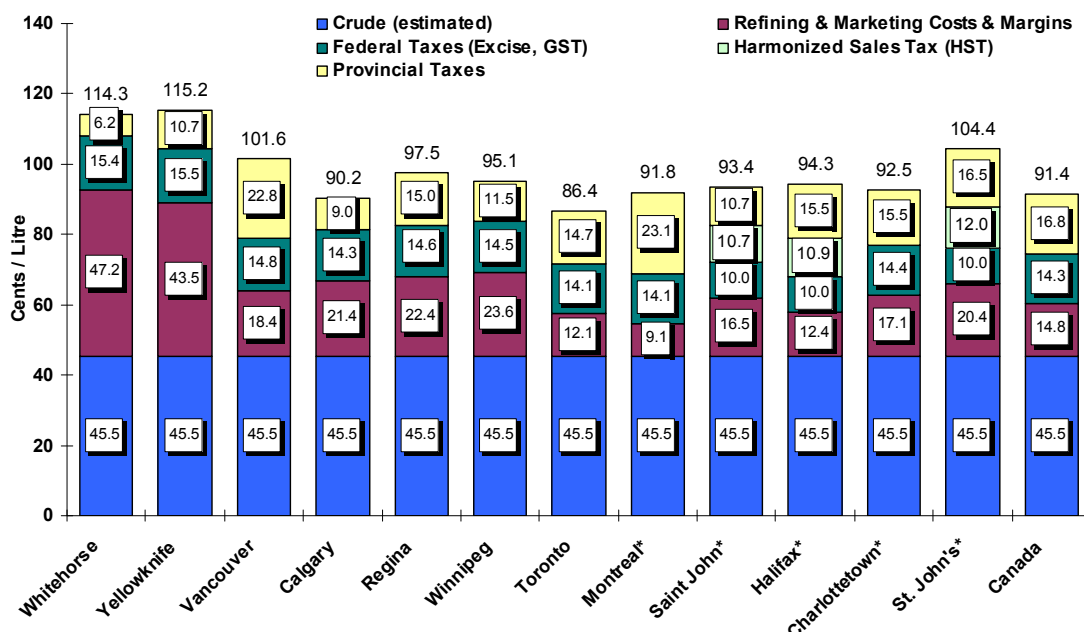
The **four-week average** crude oil price component of gasoline declined by 6 cents per litre to 46 cents per litre compared to two weeks ago, the lowest price since

July 2007. Crude prices are 8 cents per litre below the same period last year.

The crude oil component of gasoline accounts for 50% of the retail price of gasoline, while federal and provincial taxes on gasoline account for 34% of the consumer price.

At the national level, refining and marketing costs and margins have decreased by 3 cents per litre, to 15 cents per litre, since the last report, which is 2 cents per litre lower than last year at the same period.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (October 28 to November 18, 2008)**



Source: NRCan

\* Regulated Markets

### Inventory Levels in the Canadian Petroleum Industry

To provide added flexibility to the distribution of petroleum products, refiners and marketers maintain inventories of the various products in strategic locations throughout the distribution chain. If supplies of imported or domestic crude oil were interrupted for any reason, or if the product distribution system failed, companies would rely on commercial inventories to meet short-term needs while alternate arrangements were being made.

Refiners also build up inventories of all products in advance of scheduled refinery maintenance (called turnarounds). Turnarounds can vary in frequency from annually to once every few years and sometimes require the refinery to be completely shut down for a period of several weeks. Refiners anticipate this by building up product stocks that can be used during the turnaround.

Refiners' crude oil inventories fluctuate over a very narrow band and are less seasonal than product stocks. There are significant regional variations in crude oil stocks, with refiners in the West, who run domestic crude oil maintaining about 5-7 days of oil, and refiners in eastern Canada who run imported crude oil averaging 15-20 days.

Source: NRCan, [http://www.fuelfocus.nrcan.gc.ca/reports/2005-07/overview/inventory\\_e.cfm](http://www.fuelfocus.nrcan.gc.ca/reports/2005-07/overview/inventory_e.cfm)





## Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 43 to 52 cents per litre in selected centres for the **week of November 13, 2008**. Overall, compared to the previous week, most Canadian and American centres recorded price decreases ranging from 1 to 7 cents per litre.

Compared to two weeks ago, wholesale prices in all the selected centres are lower on average by 8 cents per litre in both Canada and the U.S.

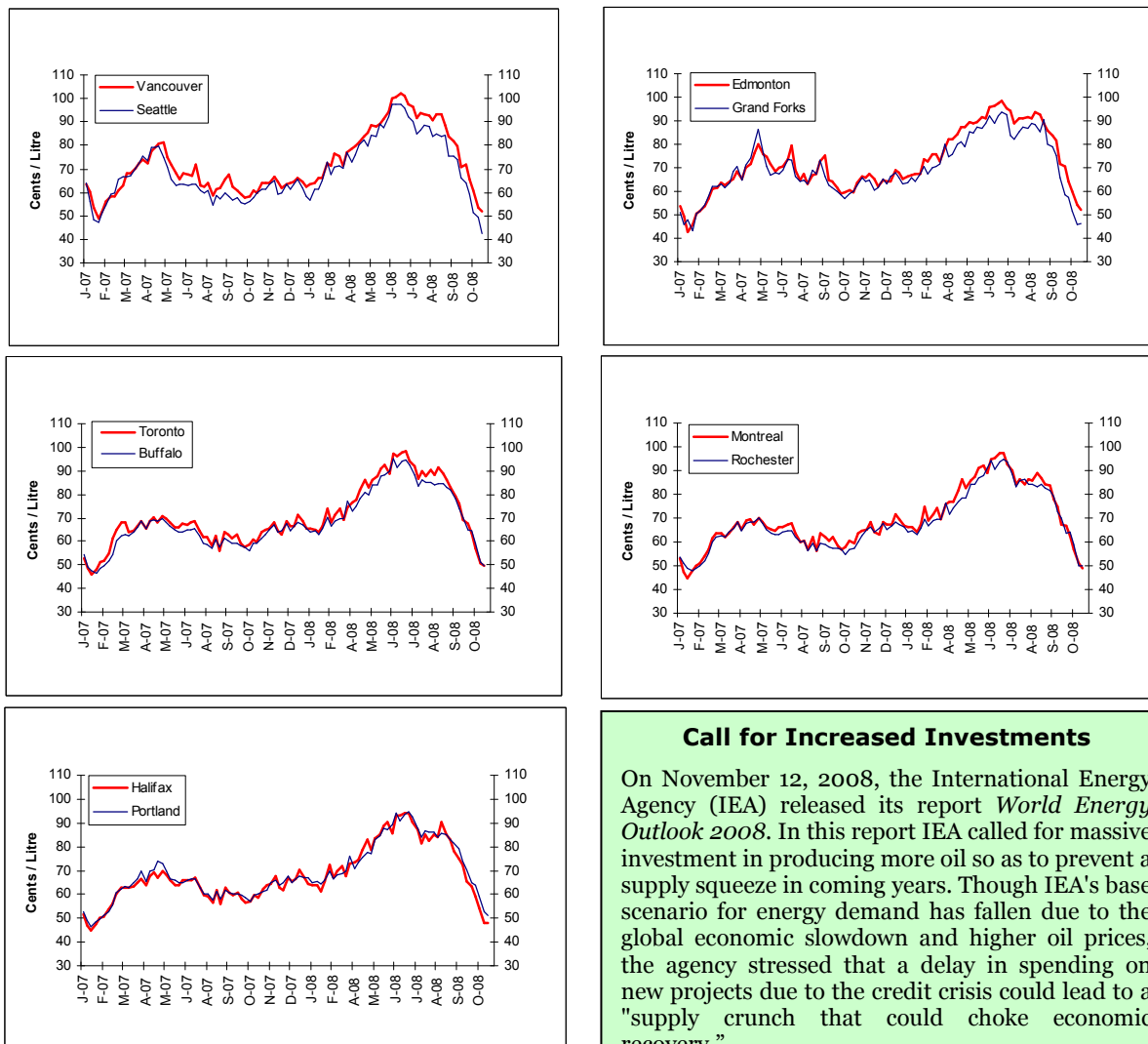
In the last four weeks, wholesale prices in Canadian

and American selected centres have declined on average 18 and 15 cents per litre, respectively.

Overall, prices in most selected centres are below last year's level with decreases ranging from 12 to 21 cents per litre, compared to the same period last year.

Please note that the data from October 9 to 30, 2008, for Grand Forks has been revised due to erroneous wholesale gasoline average prices reported in the Bloomberg Oil Buyers Guide.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminals Prices for Selected Canadian and American Cities Ending November 13, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Call for Increased Investments

On November 12, 2008, the International Energy Agency (IEA) released its report *World Energy Outlook 2008*. In this report IEA called for massive investment in producing more oil so as to prevent a supply squeeze in coming years. Though IEA's base scenario for energy demand has fallen due to the global economic slowdown and higher oil prices, the agency stressed that a delay in spending on new projects due to the credit crisis could lead to a "supply crunch that could choke economic recovery."

<http://www.worldenergyoutlook.org/2008.asp>





## Refining and Marketing Margins

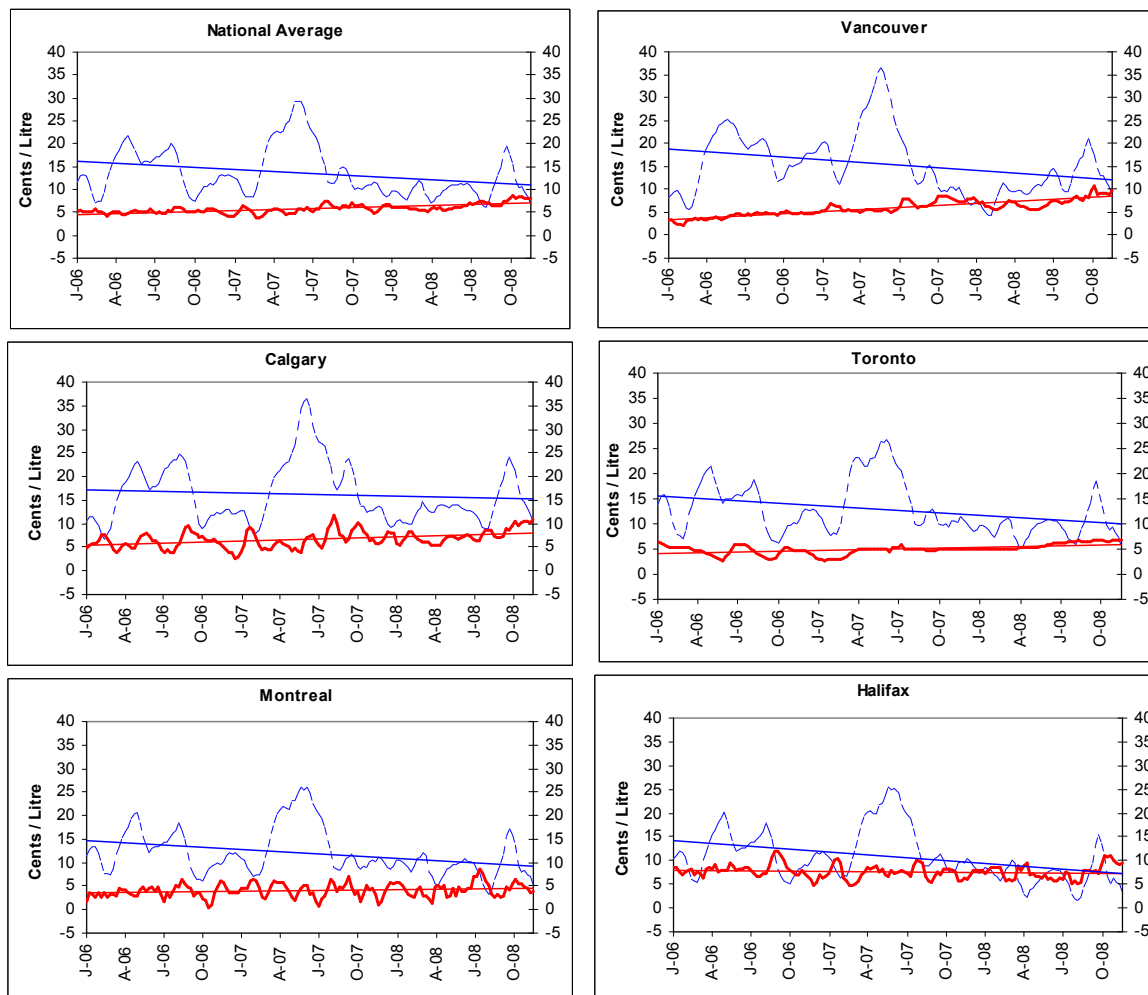
**Four-week rolling averages** are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending November 18, 2008.

Overall, the average year-to-date refining margins declined by 6 cents per litre compared to the same period in 2007. Nationally, the marketing margins continue to hover around 6 cents per litre. On a year-to-date basis, marketing margins rose by 1 cent per litre in 2008 over 2007.

The marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Some individual centres, however, show more fluctuations depending on the region, volume sold and availability of other product offerings such as convenience stores and car washes.

Marketing margins in the following five centres ranged from 4 to 11 cents per litre.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending November 18, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### World Crude Oil Prices Drop 50% Since Their Peak in July

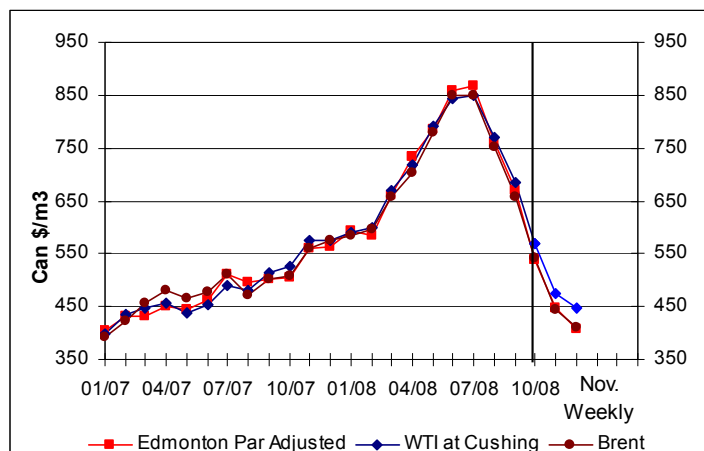
For the week ending November 14, 2008, crude oil prices averaged between \$407/m<sup>3</sup> and \$448/m<sup>3</sup> (\$US53 to \$US59 per barrel). The average three benchmark crude oil prices shown in Figure 6 have fallen to levels not seen since January 2007. Despite the decline in world crude oil prices, Canadian oil prices have remained partly buoyed by the decline of the Canadian dollar, relative to the U.S. dollar.

Overall, the global economic slowdown reduces the demand for refined petroleum products in the largest energy consuming countries and therefore pushes crude oil prices down. U.S. commercial inventories of crude oil and gasoline, which remain adequate, further contribute to downward pressure on prices.

World crude oil prices continue to decline and OPEC announced another emergency meeting for the end of the month. This latest meeting will follow the emergency meeting held only three weeks ago that resulted in slashed production quotas by 1.5 million barrels a day and signaled that OPEC, for the moment, may have lost much of its ability to control the price of oil through production cuts.

While crude oil prices were taking their signal from speculative trading in oil commodities futures markets for much of last year and early this year, they are now taking their cue from market fundamentals, namely the falling demand for petroleum products and the global economic slowdown.

**Figure 6: Crude Oil Price Comparisons**



#### Refinery Outages Can Have an Impact on Petroleum Product Prices

In October 2008, the U.S. Government Accountability Office (GOA) released a report indicating that though refinery outages can have an impact on petroleum product prices, no federal requirements to report outages exist. GAO's analyses of commercial data from 2002 through 2007 indicate that the hurricanes resulted in two patterns of outages for refiners depending on whether they were directly affected. Specifically: (1) Certain refiners that were forced to shut down due to the hurricanes opted to upgrade equipment and perform what maintenance they could during their unplanned outages. These refiners thereby extended the length of time until the next round of planned outages for maintenance at their refineries. (2) Sometimes refiners, not directly affected by the hurricanes, because they deferred planned outages to continue to supply the market, partially increased the need for planned outages in subsequent years.

At present, there are no federal requirements for refiners to report planned or unplanned refinery outages. As a result, the GOA concludes that given the tight balance between supply and consumption of refined petroleum products, the critical role refining plays in providing fuels to consumers and industry, and the importance of petroleum products to the economy, it is essential to ensure that the information be collected by the Energy Information Administration to allow the federal government to comprehensively track and understand refinery outages and other market phenomena.

Source: GOA, Energy Markets, October 2008, <http://www.gao.gov/new.items/do987.pdf>

#### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-11-14		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	406.73	53.25	-41.15	-7.50	-143.84	-35.43
WTI	447.86	58.64	-26.12	-5.67	-119.91	-35.05
Brent	412.26	53.98	-31.92	-6.28	-139.89	-37.12

Source: NRCan

