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# Fuel Focus

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

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Canada

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## National Overview

### Canadian Retail Gasoline Prices Dropped 3 Cents Per Litre From Last Week

For the week ending December 2, 2008, average gasoline prices dropped 3 cents per litre to 81 cents per litre. This is the eleventh week in a row that prices have declined and are now at the lowest level since January 25, 2005.

Diesel fuel prices dropped by almost 4 cents per litre to \$1.02 per litre compared to the previous week. This is a decrease of 12 cents per litre from the same period last year. Furnace oil prices were down for the eighth straight week as prices fell by 3 cents per litre from the previous week and averaged 88 cents per litre.

The **four-week average** regular gasoline pump price in selected cities across Canada was 85 cents per litre for the period ending December 2, 2008, a decrease of 7 cents per litre since the last report on November 21, 2008.

## Recent Developments

### • Pricing Regulation Review in Nova Scotia:

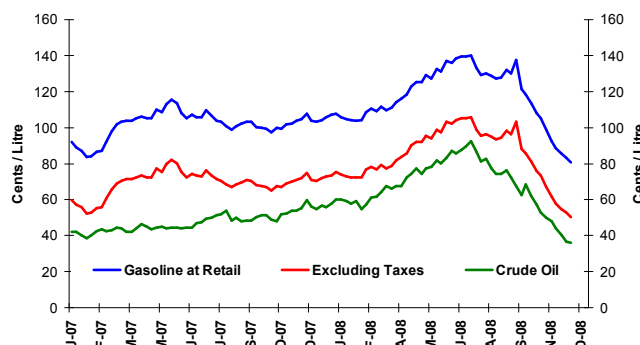
In November 2008, Service Nova Scotia and Municipal Relations released a report entitled *Evaluation of Petroleum Products Pricing Regulation in Nova Scotia - A two-year review*. This review examines whether and to what extent the objectives of the regulation have been achieved, namely: stabilizing prices; maintaining industry infrastructure; and minimizing costs to consumers. The report is available at: [http://www.gov.ns.ca/snsmr/petroleum/pdf/Gas\\_Review\\_11-2008.pdf](http://www.gov.ns.ca/snsmr/petroleum/pdf/Gas_Review_11-2008.pdf)

- **P.E.I Gasoline Tax Reduction:** Effective December 1, 2008, the Prince Edward Island tax on gasoline dropped by 0.6 cents per litre to 14 cents per litre while the diesel oil tax rate remained at 20.2 cents per litre. (Government of Prince Edward Island, [www.taxandland.pe.ca](http://www.taxandland.pe.ca) )

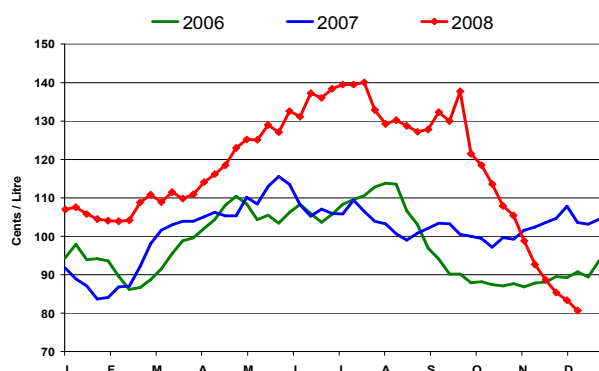
### • North American Transportation Statistics:

On November 19, 2008, the transportation and statistical agencies of Canada, United States and Mexico released a comprehensive online database on transportation statistics. The database covers 12 specific areas of interest, including transportation and the economy, passenger and freight transportation, transportation and energy consumption, as well as transportation safety. The database provides consistent and comparable data for modes of transportation and countries to help evaluate transportation benefits and impacts. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/081119/dq081119g-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:	
	2008-12-02	Previous Week	Last Year
Gasoline	80.7	-2.7	-22.9
Diesel	101.6	-3.5	-12.4
Furnace Oil	87.6	-2.8	-11.3

Source: NRCan

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## Retail Gasoline Overview

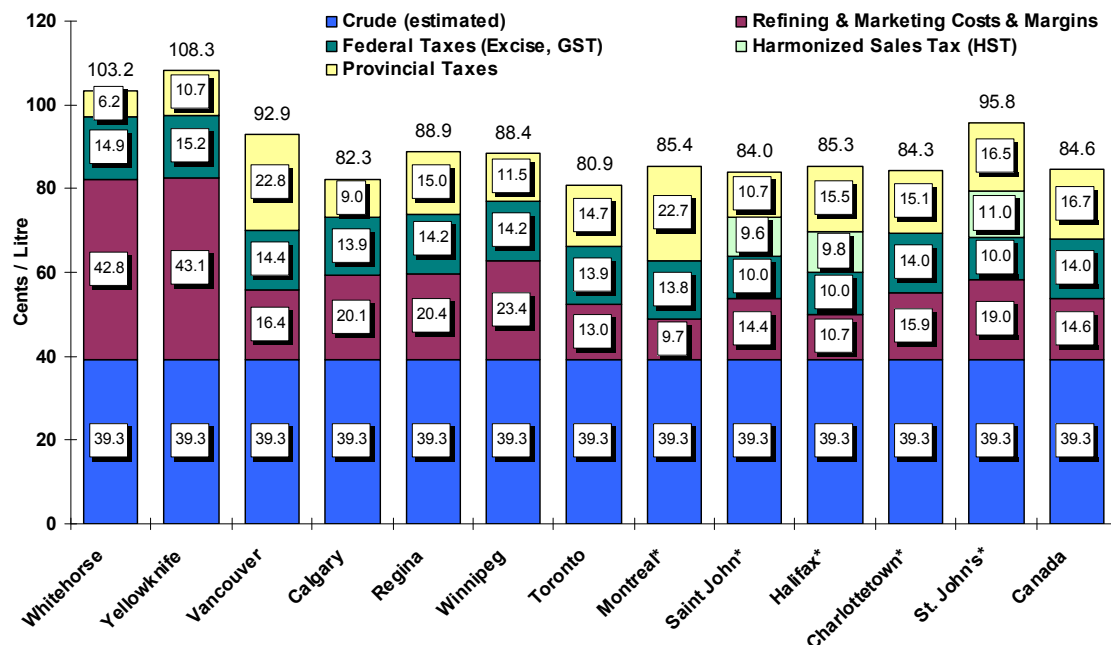
For the period ending **December 2, 2008**, the **four-week average** regular gasoline pump price in selected cities across Canada was 85 cents per litre. This decrease of 7 cents per litre since the last report on November 21, 2008, represents a drop of 20 cents per litre compared to the same period last year.

The **four-week average** crude oil price component of gasoline registered 39 cents per litre, down 6 cents from two weeks ago, and 17 cents per litre below the same period in 2007.

Retail gasoline prices in most Western centres (Winnipeg to Vancouver), which ranged from 82 to 93 cents per litre, declined on average 8 cents per litre when compared to the previous report. Similarly, prices in Eastern centres (Toronto to St. John's) dropped on average 8 cents per litre and ranged from 81 to 96 cents per litre.

Since our last report, the refining and marketing costs and margins component at the national level declined slightly by 0.2 cents per litre, remaining almost unchanged.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (November 11 to December 2, 2008)**



Source: NRCan

\* Regulated Markets

### Vehicle Owners Moving One Size Down

The late 1970s and early 1980s are remembered as a period of "downsizing." Cars lost length, tonnage and cubic inches. In an effort to increase fuel economy across manufacturers' lineups, massive cars became large cars while previously large cars became midsize. These changes often had mixed results and some models were not very successful. During the second round of downsizing, cars got smaller and, as a result, with very few exceptions, entire lines of vehicles lost significant weight and size.

As gasoline prices spiked last summer, sales of small vehicles soared. However, there is a growing phenomenon of consumers moving 'one size' down—or taking a step sideways—with their vehicle purchases which can mean swapping one gas guzzler for another. Unfortunately, as is the case with those exiting large SUVs, former minivan buyers realize very little enhanced fuel economy in their new midsize crossovers. Conversely, moving from an SUV of any sort to an intermediate or compact car will often deliver better performance and fuel economy while still meeting the day-to-day needs of the average consumer. Vehicle sizes are still growing and consumers are making lateral moves, but are doing so under the mistaken belief that their choice will give them greater efficiency. In fact, vehicle weight is the single worst enemy of fuel efficiency.

Source: DesRosiers Automotive Consultants Inc., *Observations*, November 15, 2008, ISSN 0841-9957





## Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 35 to 46 cents per litre in the selected centres for the **week of November 27, 2008**. Overall, compared to the previous week, Canadian and American centres recorded price decreases of 3 cents per litre to increases of nearly 3 cents per litre.

Changes in wholesale gasoline prices in Eastern markets, in both Canada and the United States, compared to the previous week, ranged from an increase of almost 3 cents per litre to a decline of more

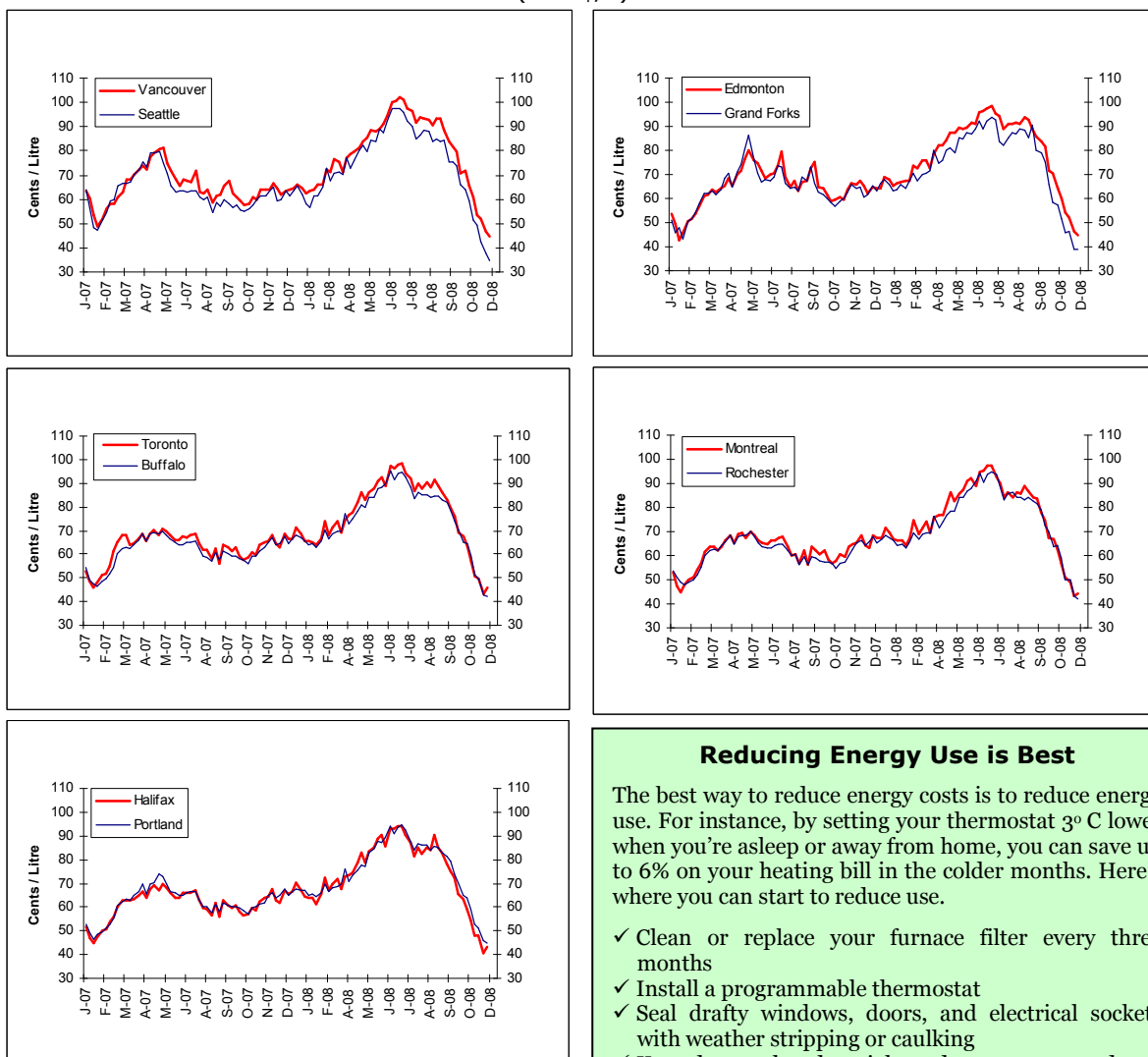
than 1 cent per litre, ending the period in the 42 to 46 cents per litre range.

In the Western centres, price declines ranged between 1 and 3 cents per litre ending at 35 to 45 cents per litre. The gap in prices between Canada and the U.S. widened in Western Canada surpassing 10 cents per litre in Vancouver mainly due to gasoline supply constraints in Western Canada.

Overall, prices in all selected centres have dropped in the range of 19 to 25 cents per litre below the same period last year.

**Figure 4: Wholesale Gasoline Prices**

Rack Terminals Prices for Selected Canadian and American Cities Ending November 27, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Reducing Energy Use is Best

The best way to reduce energy costs is to reduce energy use. For instance, by setting your thermostat 3° C lower when you're asleep or away from home, you can save up to 6% on your heating bill in the colder months. Here's where you can start to reduce use.

- ✓ Clean or replace your furnace filter every three months
- ✓ Install a programmable thermostat
- ✓ Seal drafty windows, doors, and electrical sockets with weather stripping or caulking
- ✓ Keep drapes closed at night and open on sunny days

Source: Enbridge, An Update, November 2008





## Refining and Marketing Margins

**Four-week rolling averages** are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending December 2, 2008.

Overall, refining margins indicate a downward movement that reflects the decrease in demand for gasoline which is in turn affected by the downturn in the economy. In addition, sufficient gasoline and crude oil inventories in the U.S. further contribute to the lower refining margins.

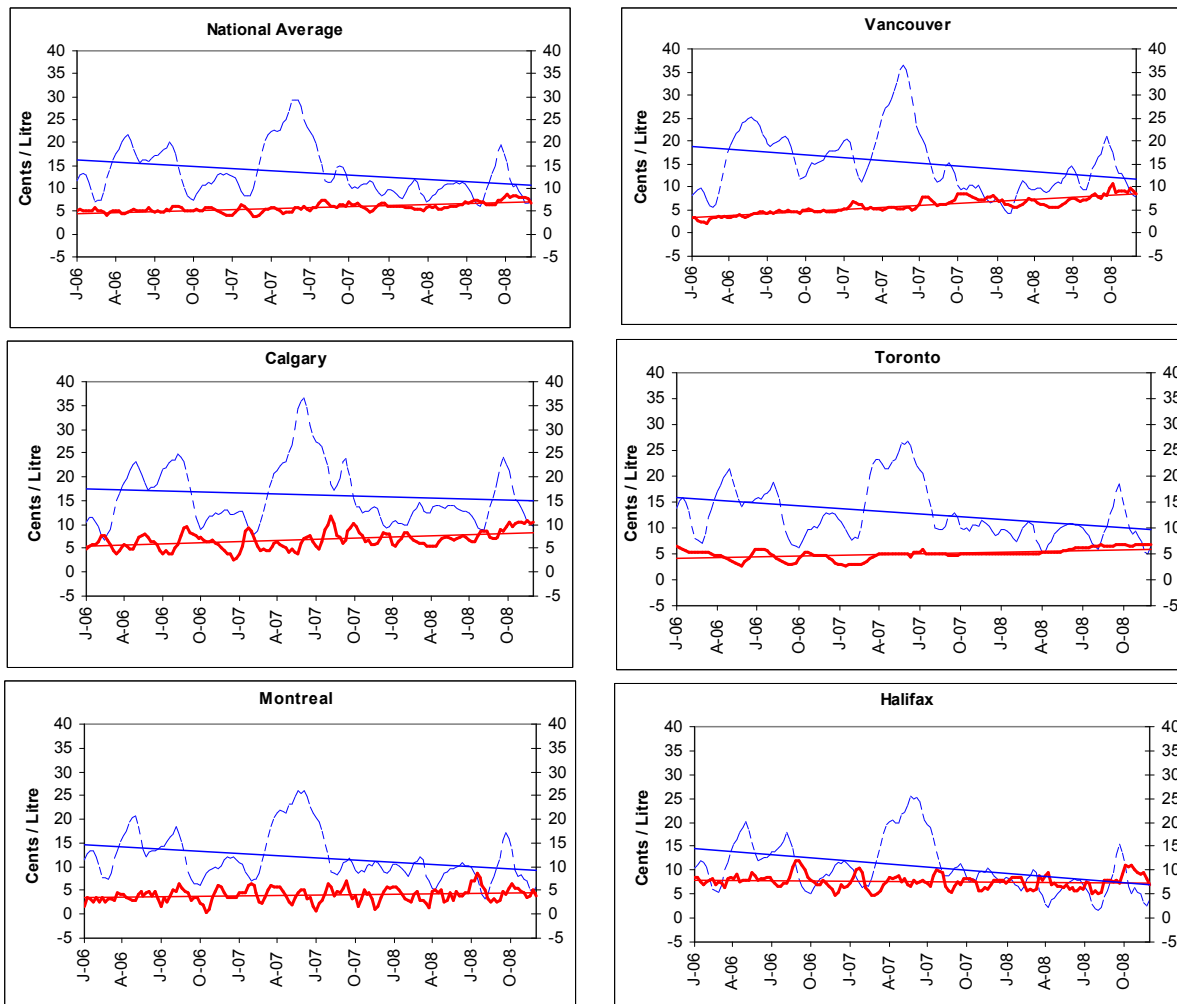
These factors help keep overall retail gasoline prices lower. However, they also make it difficult for companies to consider new investments to expand

production which could alleviate the impact on prices that small supply disruptions can cause when supply and demand balances are too tight.

Nationally, the marketing margins also declined to an average of 7 cents per litre from the last report on November 21, 2008. This represents an increase of 1 cent per litre from the same period last year. Marketing margins for the five centres ranged from 4 cents per litre in Montreal to 11 cents per litre in Calgary.

With the exception of Montreal, refining margins in all centres are now below the marketing margins.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending December 2, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Crude Oil Continues its Downward Trend

For the week ending November 28, 2008, crude oil prices averaged between \$361/m<sup>3</sup> and \$410/m<sup>3</sup> (\$US47 to \$US53 per barrel), with WTI trading at a significant premium to both Edmonton Par and Brent. The average three benchmark crude oil prices shown in Figure 6 have lost over 65% of their value since their peak in July and have now fallen to levels not seen since the spring of 2005.

The price impact of geopolitical events in oil producing regions seems to have almost disappeared over the last couple of months as the price of crude oil has plummeted.

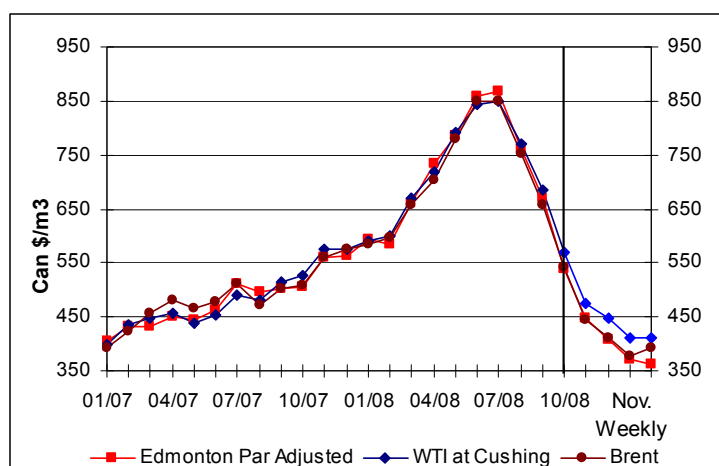
Crude oil prices continue to drop as demand in both developed and developing countries continues to be much less robust than originally forecast.

However, many analysts are predicting that if the economic slowdown is short lived, consumers will see prices rise significantly—although not likely to the same level that we saw in July of this year.

With oil prices below \$US50 per barrel, OPEC's meeting on December 17, 2008, could result in further cuts to production in an effort by the cartel to balance supply and demand. Even if OPEC does agree to further cuts in production, it is unlikely to have a significant price impact.

Energy Ministers from across the globe will be meeting in London on December 19, 2008, to discuss a number of issues under the theme of "Oil, Energy and the World Economy."

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2008-11-28		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	360.83	46.64	-9.95	-0.55	-205.52	-43.51
WTI	410.35	53.06	-0.77	+0.74	-167.72	-39.43
Brent	393.57	50.87	+15.30	+2.75	-180.62	-41.00

Source: NRCan

### Canadian Resource Boom Benefits Most Provinces

According to a study conducted by Statistics Canada from 2003 to 2007, the rising price of commodities, falling import prices and the appreciating dollar led to gains in purchasing power for most provinces. During this five-year period, real gross domestic income per capita in Canada increased at an annual average rate of 2.9%. At the same time, real gross domestic product per capita rose at an annual average rate of 1.7%.

Unlike the early 1980s, when only a select number of commodities had large swings in prices, the post-2002 period stands out because prices of almost all commodities increased. Both the appreciation of the Canadian dollar, and the downward pressure placed on the prices of many manufactured products by China's integration into the global economy, decreased import prices for a wide range of goods in Canada.

The combination of falling import prices and rising commodity export prices led to a widespread sharing of benefits from terms of trade improvements across Canada. Between 2003 and 2007, trading gains were an important source of real income growth for most provinces.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/081118/dq081118b-eng.htm>







## Petroleum Product Regulating Agencies and Price Information Centres

Under the Canadian Constitution, the Federal Government may regulate energy prices in the case of a national emergency. However, apart from emergency situations, the provinces have this authority. Currently, a number of provinces have chosen to regulate petroleum prices in some manner. The following includes Web site links to provincial ministries and agencies that provide information on fuel prices.

### Newfoundland and Labrador

The Petroleum Pricing Office regulates fuel prices, under the *Petroleum Products Act*. The Office sets the maximum retail prices including all applicable taxes to be charged for gasoline, diesel and furnace oil. Retailers may price at or below the listed prices, but may not exceed them. Prices are set every two weeks or as required to adjust for market developments. <http://n225h099.pub.nf.ca/ppo.htm>

### Nova Scotia

Service Nova Scotia and Municipal Relations, under the *Petroleum Product Pricing Act*, sets the minimum and maximum prices for various zones in the province. Prices are based on a benchmark price to which are added wholesale and retail margins, as well as transportation allowances and applicable taxes. Prices change every week or as required to adjust for market developments. <http://www.gov.ns.ca/snsmr/petroleum/>

### New Brunswick

Under the *Petroleum Products Pricing Act* price regulation of automotive fuels and heating fuels (furnace oil and propane), the New Brunswick Public Utilities Board sets a maximum price based on a benchmark price to which are added wholesaler and retailer margins as well as all applicable taxes and distribution costs. The Board sets a maximum price for the whole province allowing for additional distribution or delivery charges to various parts of the province. There are no minimum prices set for retailers. Prices are adjusted every week or as required in the event of dramatic changes to the benchmark prices. [http://www.gnb.ca/cnb/Promos/fuel\\_prices/index-e.asp](http://www.gnb.ca/cnb/Promos/fuel_prices/index-e.asp)

### Prince Edward Island

The Island Regulatory and Appeals Commission supervises wholesalers and retailers regarding the pricing of automotive fuels and home heating oil and propane. The Commission decides when and how often prices may change. It also determines the minimum and maximum difference between the wholesale and retail price. Retailers applying for price increases must show that the proposed price is fair and reasonable. <http://www.irac.pe.ca/>

### Québec

The Québec Régie de l'énergie is responsible for monitoring petroleum product prices and providing information to consumers. Every three years the Régie de l'énergie determines the minimum retail margin for gasoline and diesel that is required to cover a retailer's operating costs and decides whether or not this margin should be included in the total cost used to determine the minimum retail price by region. The minimum price is calculated based on the wholesale price, plus the transportation costs, applicable taxes and the retail margin. Retail prices must be maintained above this minimum level. <http://www.regie-energie.qc.ca/en/index.html>

### Ontario

The Government of Ontario does not regulate fuel prices. Ontario's Ministry of Energy and Infrastructure provides weekly information on fuel prices at: <http://www.energy.gov.on.ca/index.cfm?fuseaction=oilandgas.fuelprices>.

### Yukon

Prices are not regulated in the Yukon. The Yukon Bureau of Statistics publishes motor and residential fuel prices in their monthly *Fuel Report*. [http://www.eco.gov.yk.ca/stats/stats\\_princ.html#fuel](http://www.eco.gov.yk.ca/stats/stats_princ.html#fuel)

### Natural Resources Canada (NRCan)

NRCan provides current weekly information on petroleum product prices across Canada, by selected cities and by years from 1987. In addition to prices, NRCan's *Fuel Focus* report provides a bi-weekly assessment of the Canadian gasoline markets. [http://www.fuelfocus.nrcan.gc.ca/index\\_e.cfm](http://www.fuelfocus.nrcan.gc.ca/index_e.cfm)

