



## National Overview

### Canadian Retail Gasoline Prices Remain Virtually Unchanged from Last Week

Average Canadian retail gasoline prices remained virtually unchanged at \$1.04 per litre the week of February 12, 2008, compared to the previous week. However, prices remain 17 cents per litre higher compared to the same time last year.

World crude oil prices, the main component of overall gasoline prices, maintained a steady downward slope in the last two weeks. In addition, the U.S. Energy Information Administration reported strong gasoline inventories which tend to push down prices for consumers. The higher inventories suggest a weakening of gasoline demand in light of the impact of the economic downturn in the U.S. This downward pressure was reflected in wholesale gasoline prices in most centres moderating some slight increases in margins.

Diesel fuel prices decreased, for the sixth consecutive week, by 1 cent per litre to \$1.08 per litre the week of February 12<sup>th</sup>. However, this represents an increase of 14 cents per litre compared to the same period last year. Furnace oil prices rose by less than 1 cent per litre to \$1.01 per litre up 19 cents per litre from a year ago and have essentially remained stagnant, moving up or down by 1 cent per litre, since the beginning of the year.

## Recent Developments

- Newfoundland and Labrador Refinery:** Construction is planned for spring 2008 for a \$5 billion 300,000 barrel per day refinery at Placentia Bay by Newfoundland and Labrador Refinery Corp. The facility, scheduled for a start-up in 2011, will produce low sulphur cleaner burning fuel and use advanced technology to upgrade low value heavy hydrocarbon residues to higher value light hydrocarbon liquids. For further information on the project, please follow: <http://www.nlrefining.com/>
- Fuel Taxes in 2008:** Gasoline taxes vary considerably from province to province and three Canadian centres (Montreal, Vancouver and Victoria) have transportation taxes which are in addition to the federal and provincial taxes. To find out how much taxes you pay on fuel, please visit NRCan's Fuel Focus website at: [http://www.fuelfocus.nrcan.gc.ca/fact\\_sheets/table1\\_e.cfm](http://www.fuelfocus.nrcan.gc.ca/fact_sheets/table1_e.cfm)
- Gasoline Consumption Increase:** In 2007, Canadians consumed 42 billion litres of gasoline, an increase of 4% compared to 2006. Diesel fuel oil sales increased by 5% to reach nearly 28 billion litres while furnace oil sales rose by 7% to 4 billion litres. (Statistics Canada, The Daily <http://www.statcan.ca/Daily/English/080208/do80208b.htm>)

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

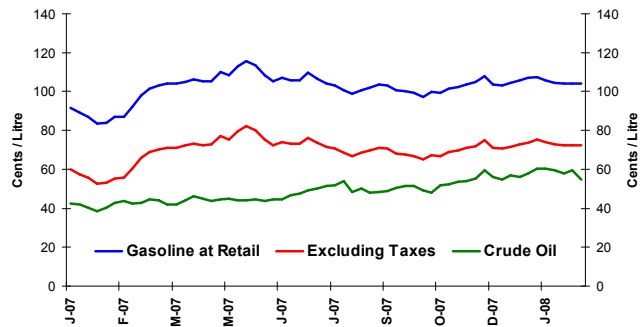
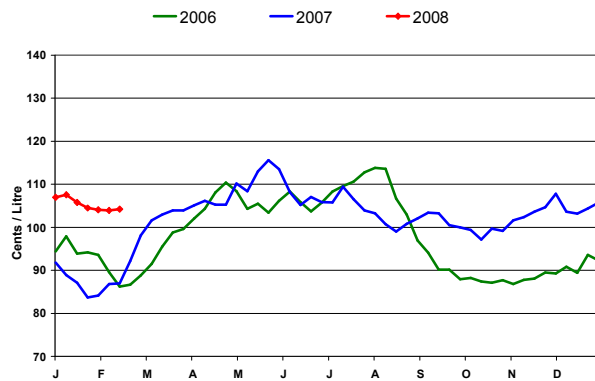


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2008-02-12	Previous Week	Last Year
Gasoline	104.2	+0.3	+17.2
Diesel	107.7	-0.9	+14.2
Furnace Oil	100.6	+0.2	+19.1

Source: NRCan

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**Fuel Focus Supplement:** Provides an analysis of historical gasoline prices when adjusted for inflation.





## Retail Gasoline Overview

The average Canadian pump price in selected cities for the **four-week average** ending February 12<sup>th</sup> was \$1.04 per litre, a decrease of 1 cent per litre from the last report on February 1, 2008. This represents a 19 cents per litre increase compared to the same period in 2007.

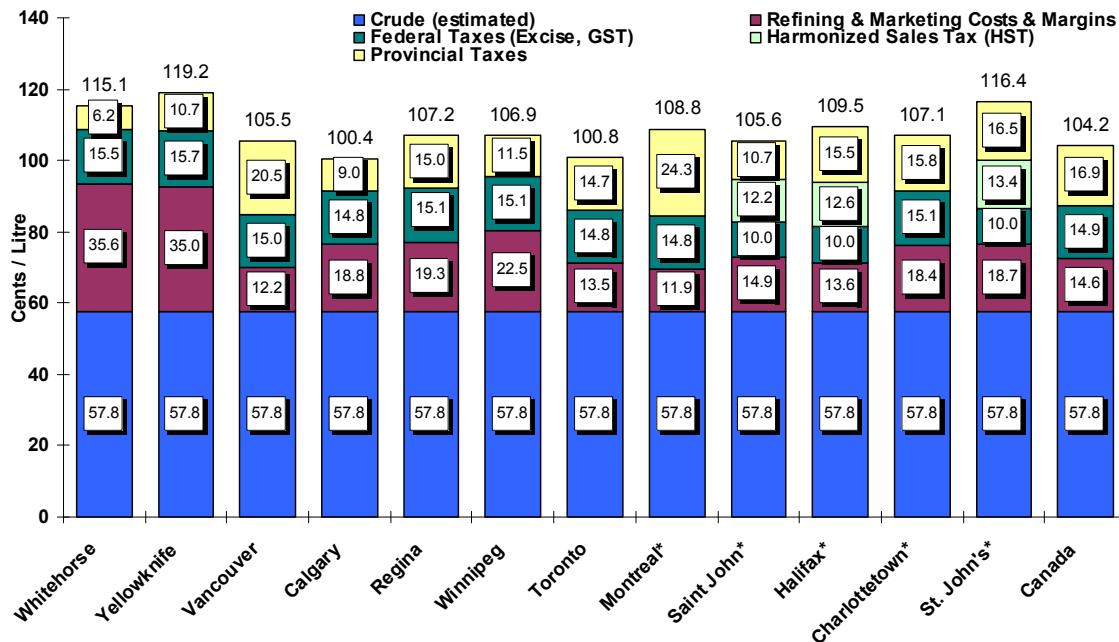
The **four-week average** crude oil price declined by nearly 2 cents per litre to 58 cents per litre compared to two weeks ago. Still, crude oil cost represents 55% of

the retail price and is currently the highest cost component of the total pump price.

While crude oil costs have increased by 17 cents per litre since last year, refining and marketing costs and margins rose by less than 2 cents per litre compared to the same period in 2007.

Retail gasoline prices, when compared to those in the last report, decreased in most centres in the range of 1 cent per litre to 4 cents per litre, while prices in Vancouver and Winnipeg remain unchanged.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4-Week Average (January 22 to February 12, 2008)**



Source: NRCan

\* Regulated Markets

### Gasoline Prices a Concern for U.S. Consumers

Can gasoline prices lead to consumer behavioral changes? According to a U.S. survey of the National Association of Convenience Stores, 45% of consumers said that higher gasoline prices have influenced their spending more than rising food costs, the weakening economy or the mortgage and lending crisis. The survey reveals that the average tipping point for consumers to cut back on gasoline use is \$3.71 US per gallon (approximately 98 cents per litre). However, 13% of the consumers had already reduced the amount of driving at \$3 per gallon and another 50% said they would if gasoline prices hit \$3.25 per gallon.

Rising gasoline prices also encouraged consumers to change other behaviors as 19% said they have bought a fuel efficient vehicle in the last year, while 19% said they would consider buying one. The survey also reveals that a number of people would consider walking more often, drive less and use public transits.

Source: National Association of Convenience Stores, [http://www.nacsonline.com/NACS/Resource/PRToolkit/Campaigns/prtk\\_gp2008\\_TopConcerns.htm](http://www.nacsonline.com/NACS/Resource/PRToolkit/Campaigns/prtk_gp2008_TopConcerns.htm)





## Wholesale Gasoline Prices

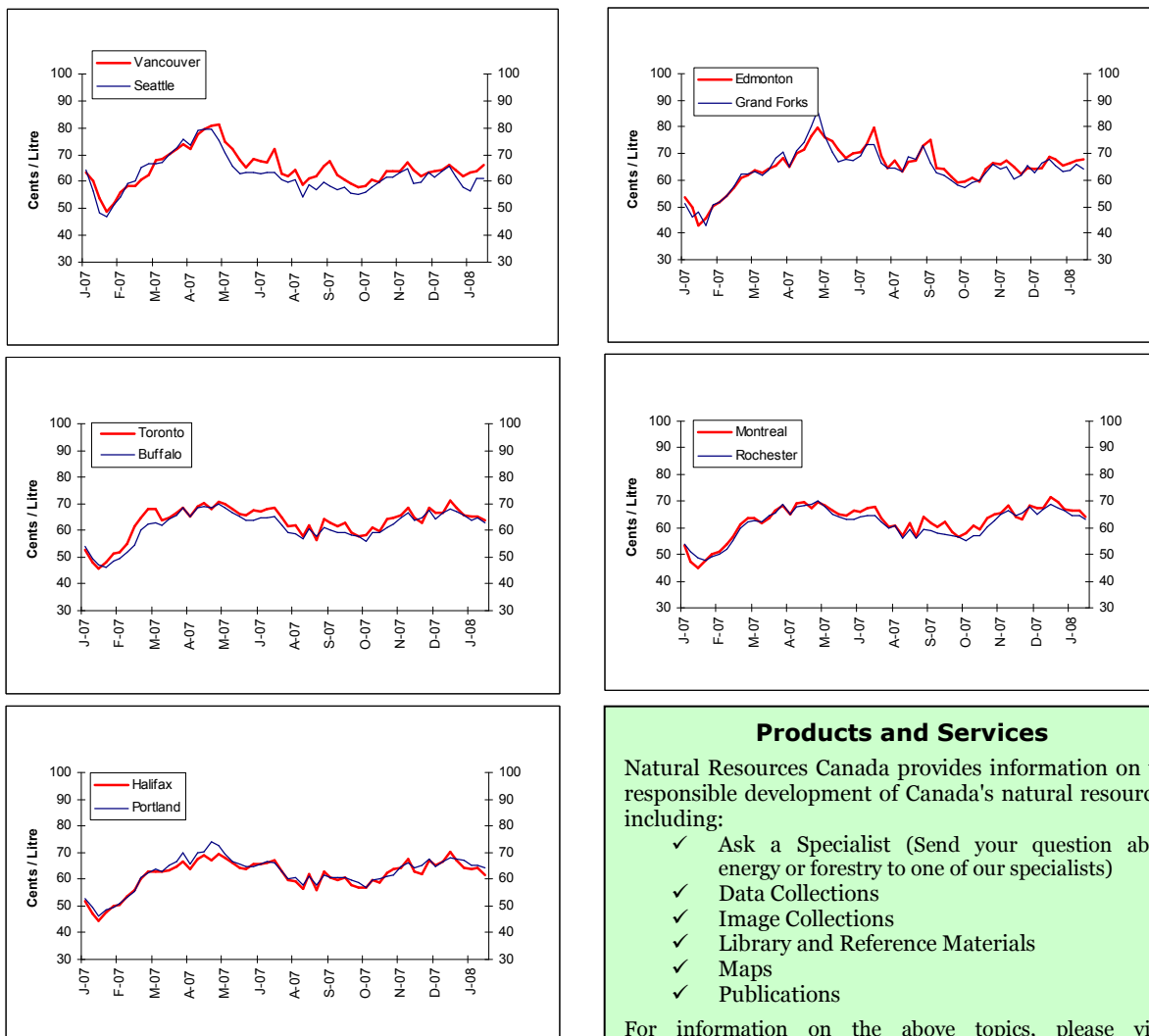
Wholesale gasoline prices declined in most selected centres for the **week of February 7<sup>th</sup>**, compared to the previous week. Overall, price changes ranged from a drop of 3 cents per litre to an increase of 2 cents per litre.

Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered decreases ranging from 1 to 3 cents per litre, compared to the previous week, ending the period in the 62 to 64 cents per litre range. Western wholesale gasoline price

changes ranged from a decline of 2 cents per litre to an increase of 2 cents per litre ending in the range of 61 to 68 cents per litre. Vancouver and Edmonton prices remain in the higher range and above the U.S. centres due to the tightness of supply following further interruptions at Shell's Scotford upgrader in Alberta.

Overall, prices in most selected centres are well above last year's level with increases ranging from 7 to 16 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 February 7, 2008  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

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## Refining and Marketing Margins

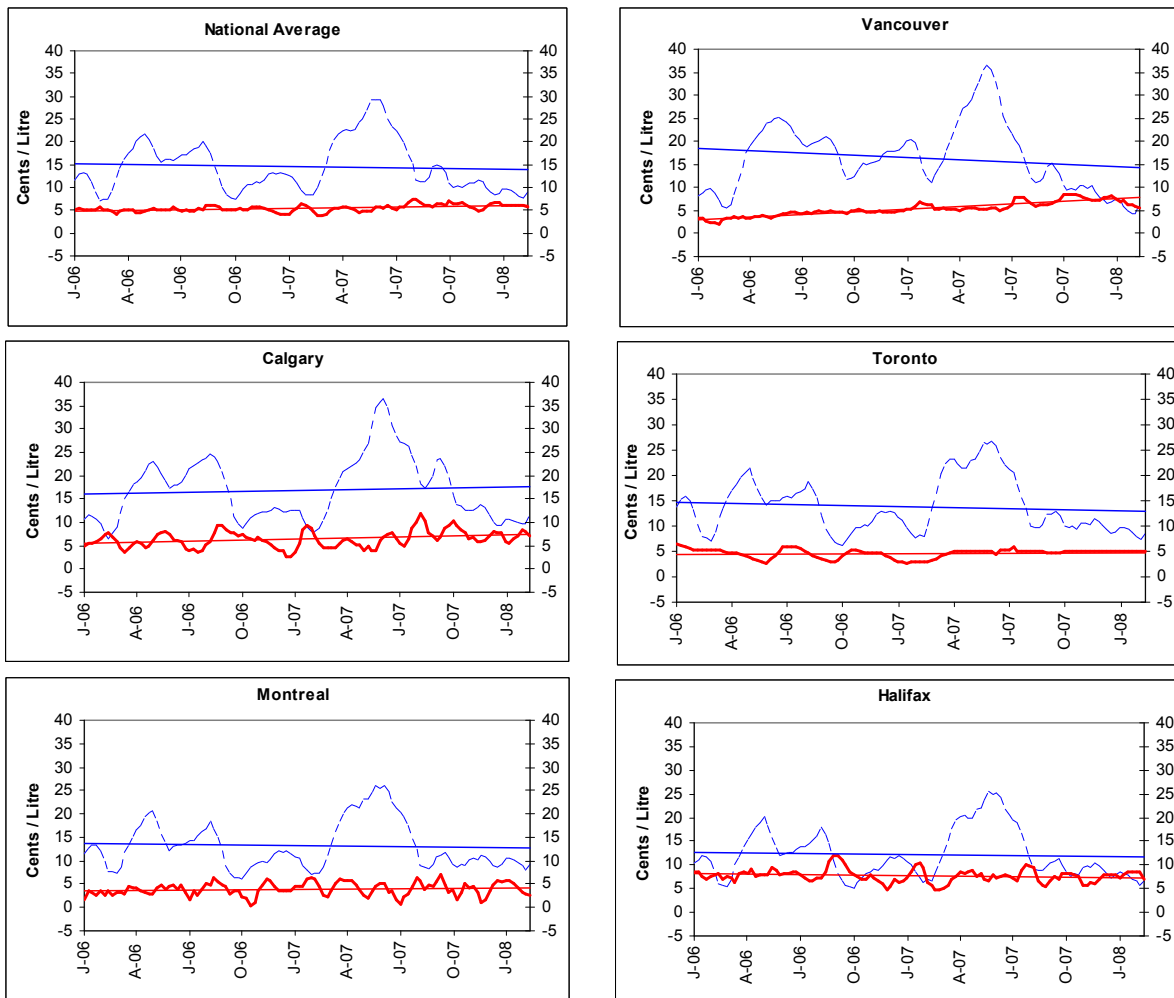
**Four-week rolling averages** are used to illustrate the refining and marketing margins for gasoline in Figure 5 for the period ending February 12, 2008. The marketing margin is the difference between the pump price (excluding taxes) and the price paid by the retailer to purchase the gasoline.

Nationally, the marketing margin continues to hover around the 5 cents per litre. However, some centres such as Vancouver and Montreal recently saw their marketing margins decline as a result of increased competition between outlets. Although a small portion

of the total pump price, the marketing margin has to cover the costs associated with operating an outlet and include a profit for the station owner.

Overall, this margin can be fairly volatile as shown in the Calgary, Montreal and Halifax markets, as outlets compete for market share. A notable exception is Toronto where the marketing margin has remained essentially unchanged in the last six months or so. This may be due, in part, to the fact that Ontario has the lowest number of outlets per capita of all provinces which usually relates to throughput efficiencies and retail competitiveness with respect to pump prices.

**Figure 5: Refining and Marketing Margins**  
Four-Week Rolling Average Ending February 12, 2008  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### North American Crude Oil Inventories Continue to Increase

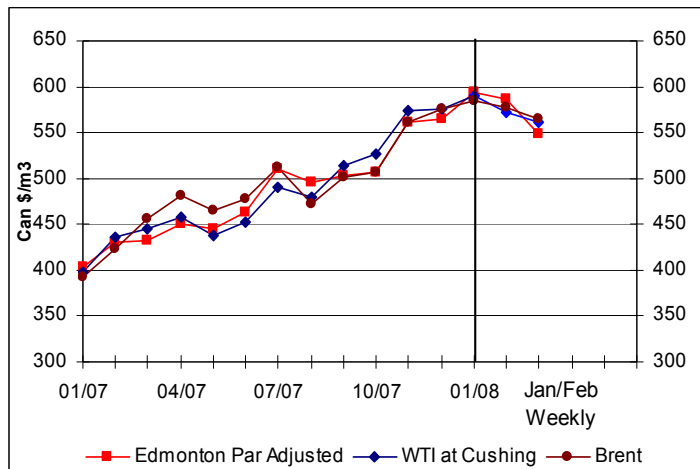
For the week ending February 15<sup>th</sup>, 2008, crude oil prices averaged between \$549 and \$565/m<sup>3</sup> (\$US87 to \$US90 per barrel). Depending on crude type, prices saw a decrease of between \$11 and \$38/m<sup>3</sup> (\$US2 to \$US6 per barrel) week over week.

The United States economy continues to be seen by most analysts as the most influential factor affecting crude oil prices in the short term. With many analysts predicting that the country is heading into a recession, it would seem that crude prices may decline in the future.

North American crude oil and product inventories have continued their climb in anticipation of the summer driving season and a lower than average demand for this time of year, putting increased downward pressure on prices. Each year, refiners increase their inventories in anticipation of heightened demand for transportation fuels over the summer months - inventories will likely see a small decline over that period.

As expected, there was no production hike announced at the meeting of the ministers of the Organization of Petroleum Exporting Countries on February 1, 2008.

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week ending: 2008-02-08		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	548.93	87.10	-37.98	-6.35	+114.98	+28.71
WTI	561.53	89.09	-10.83	-2.04	+123.05	+30.09
Brent	565.04	89.65	-11.95	-2.22	+135.93	+31.92

Source: NRCan

### The Impact of Crude Oil on the World's Economic Growth

The world's economy is better insulated from the impact of the higher crude oil prices than it has been in the past. According to the International Monetary Fund (IMF), over the past 30 years, oil intensity, (the use of oil per unit of output) has declined by half in advanced countries and by one-third in developing countries.

The effect of higher nominal prices has been muted by continued progress in lowering energy intensity, meaning that higher prices have not been slowing economic growth as much as in the 1970s and the early 1980s.

Impact of Nominal Oil Price Increases on Economic Growth		
Year	US\$ Billions	% of GDP
1973 -1974	-88	-2.6
1979 -1980	-232	-3.7
1989 -1990	-38	-0.2
1999 -2000	-96	-0.4
2003 -2004	-97	-0.3

Source: IMF

The table above shows that the impact of the average oil price increase in 2004 (\$US41.45/bbl) on the trade balance for developed countries was estimated at 0.3 % of GDP, which is less than 1/10 of the average effect attributable to the two oil price shocks in the 1970s. Significant improvements in energy intensity in developed countries have prevented the world's economy from suffering a recession comparable to those in the past when the price of oil has risen. However, the impact is stronger in emerging markets that face external financial constraints, and who may no longer be able to cushion their economies through price subsidies.





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## Historical Gasoline Prices

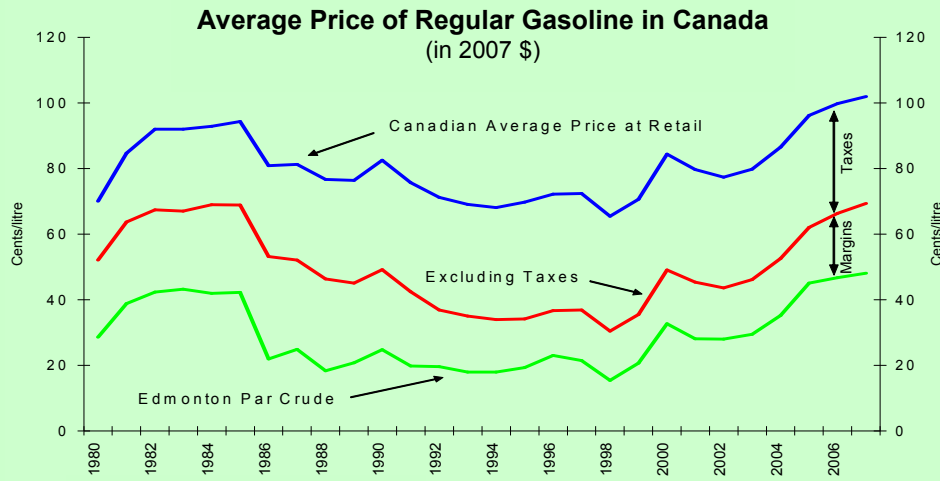
Canadian retail gasoline prices have reached their highest level in the last 27 years buoyed by rising crude oil prices. In fact, the average pump price has more than triple since 1980, which can be shocking news to consumers and prompt public debates about the causes of the increase. In the end, the debate splits into two trains of thoughts – those who argue that the price reflects the market response to stronger demand and increased costs against those arguing that oil companies are withholding output and artificially inflate prices.

However, a different picture emerges when reviewing historical nominal and real (adjusted for inflation) prices. The following analysis reveals that average gasoline prices reached \$1.02 per litre in 2007, and when adjusted for inflation, were only 7.5 cents per litre above their highest peak in the mid-1980s. The average gasoline price increased by 4 cents per litre from 2000-2007 compared to the 1980s.

The figure below also shows that pump price components follow crude oil prices. Excluding taxes, gasoline prices (in 2007 \$) are only 0.5 cent per litre higher in 2007 compared to their highest point in the 1980s. However, the tax component of the retail gasoline price, which comprises all provincial and federal taxes, increased gradually over the decades from 18 cents per litre in 1980, peaking at 36 cents per litre in 1995, and then declining to almost 33 cents per litre in 2007.

Gasoline margins, defined as the difference between the price of crude oil and the price of gasoline excluding taxes, ranged from 23 to 31 cents per litre throughout the 1980s, but declined significantly to a range of 14 and 17 cents per litre from the early 1990s until 2005. Margins rose again in the last few years to reach 21 cents per litre in 2007.

Canadian consumers were partially shielded from the high crude oil prices in the early 1980s with a regulated oil price that remained several dollars per barrel below world oil prices. Government price controls were removed in 1985 to ensure that sufficient supplies of petroleum products were available to consumers at the most competitive price. In 2007, crude oil prices reached 48 cents per litre, or 5 cents per litre higher than the regulated peak of 43 cents per litre in 1983, when measured in 2007 dollars.



Source: Statistics Canada and NRCan

	With Taxes		Excluding Taxes	
	Nominal ¢/L	Real ¢/L (2007 \$)	Nominal ¢/L	Real ¢/L (2007 \$)
1980s	46.0	84.1	31.7	58.5
1990s	55.7	71.7	28.7	37.1
2000 - 2007	82.3	88.2	50.8	54.3
1980 - 2000	51.9	78.2	30.8	47.8
1980 - 2007	59.8	80.8	36.1	49.6

