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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 4, Issue 1

January 30, 2009

Canada

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National Overview

Canadian Retail Gasoline Prices Drop 2 Cents Per Litre From Last Week

After three weeks of straight increases overall Canadian retail pump prices decreased by 2 cents per litre to 83 cents per litre for the week ending January 27, 2009. Although retail gasoline prices are at nearly a two-month high, they are 21 cents per litre lower than at the same time last year and at the same level as in 2007.

Diesel fuel decreased by 1 cent per litre to 91 cents per litre compared to the previous week. Furnace oil prices also decreased 1 cent per litre from the previous week and averaged 80 cents per litre. However, diesel fuel and furnace oil prices are now 19 and 22 cents per litre lower, respectively, compared to the same period in the previous year.

U.S. commercial crude oil inventories and gasoline stocks have increased primarily due to a weak demand, contributing to the downward pressure on prices. Crude oil inventories continue to build and are well above the 5-year average range indicating that world crude oil supply is still more than adequate to meet demand.

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

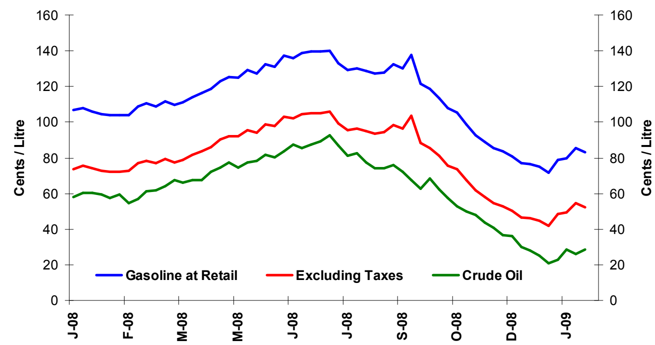
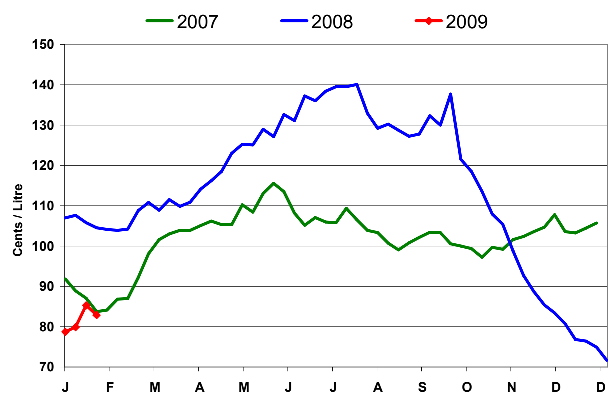


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2009-01-27	Previous Week	Last Year
Gasoline	82.9	-2.4	-21.2
Diesel	91.1	-0.8	-19.1
Furnace Oil	80.3	-0.7	-21.5

Source: NRCan

Recent Developments

- **Gasoline Sales Decline 1% to November 2008:** Compared to the same period last year, Canadian motor gasoline sales declined 1% in the first eleven months of 2008 to nearly 39 million cubic metres. Conversely, diesel fuel sales increased 1% from January to November 2008 compared to the previous year, totalling 26 million cubic metres. Furnace oil sales declined 14%, to 3.3 million cubic metres for the same period. (Statistics Canada, Modified Monthly Report for Petroleum Products, 45-004-XIB.)
- **Massive Sales:** On September 29, 2008, the newsletter *Oil Express* reported that the collapse of Wall Street could not have come at a worse time for distributors wanting to buy service stations from the major oil companies. The problem lies in the tightening of lending rules by the U.S. banks, which has a negative impact on distributors interested in making an offer on the stations. Independent distributors are expected to purchase an estimated 3,000 service stations belonging to the major oil companies.
- **Refinery Investments:** ExxonMobil Refining & Supply announced a planned investment of more than $1 billion in three refineries to increase the production of ultra low-sulfur diesel by about 6 million gallons per day, adding new units, and modifying existing facilities in Texas, Louisiana, and Belgium refineries by 2010. (Oil and Gas Journal, January 6, 2009.)

In this Issue

Retail Gasoline Overview

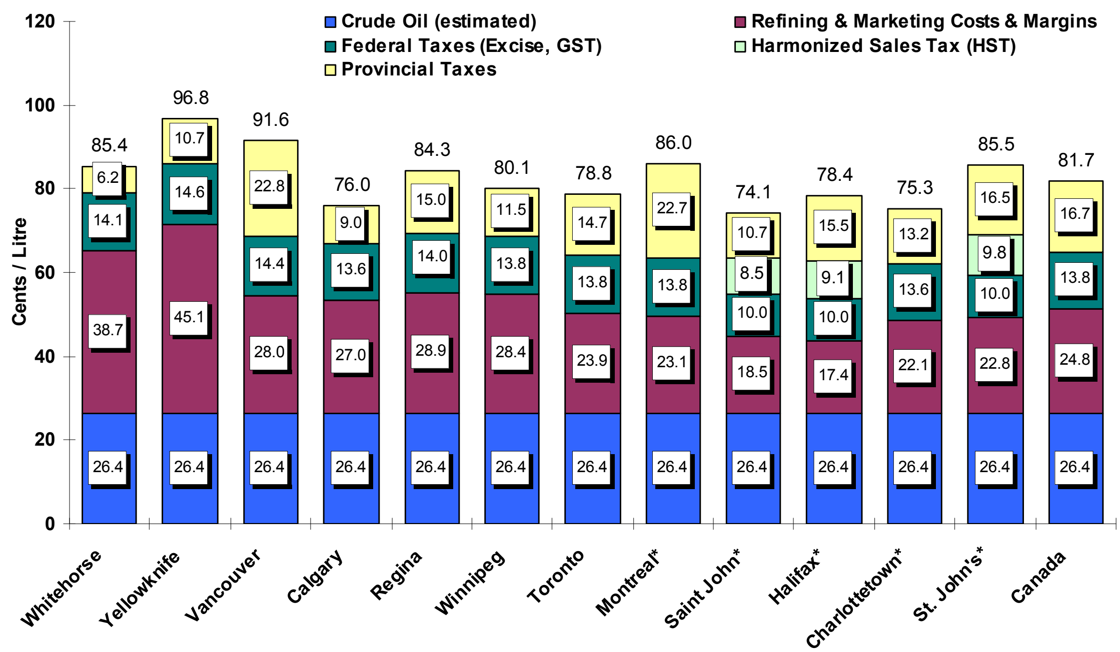
The **four-week average** regular gasoline pump price in selected cities across Canada was 82 cents per litre for the period ending **January 27, 2009**. Average four-week retail pump prices are 24 cents per litre lower than those recorded at the same time last year.

The **four-week average crude oil** price component of gasoline declined by 33 cents per litre to 26 cents per litre compared the same period the previous year.

While world crude oil prices continue to decline in U.S. dollars, the impact of the decline is partially felt by Canadian consumers. During the summer the Canadian dollar was strengthen by the high crude oil price. Since crude oil is priced in U.S. dollars, the impact of higher prices was dampened by the value of the Canadian dollar. Recently, the value of the dollar has declined, thus dampening the impact of lower crude oil prices. This explains, in part, why pump prices do not fully reflect the fall in crude oil costs.

At the national level, refining and marketing costs and margins were 25 cents per litre for the period ending January 27, 2009—almost 11 cents per litre higher than last year at the same period.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 6 to 27, 2009)



Source: NRCan ** Regulated Markets*

Research in Transportation Energy Technologies and Fuels

Canada's transportation sector accounts for approximately 30% of total energy use and 25% of greenhouse gas emissions (Energy Efficiency Trends in Canada 1990 to 2005). Since the early 1970s, many breakthroughs have been made in research and development that have brought about new alternative and renewable energy options for transportation. These technologies and fuels present an enormous potential for increasing energy efficiency and reducing air pollution and greenhouse gas emissions.

At Natural Resources Canada CanmetEnergy, advanced research, development and demonstrations (RD&D) are helping to refine these transportation energy technologies and fuels and to build the supporting infrastructure. CanmetEnergy partners with industry, government and academia on RD&D activities in the following areas: Alternative Fuels; Hybrid and Electric Vehicles; Hydrogen and Fuel Cells; and Bitumen-Derived Fuels. For more information, visit: http://canmetenergy.nrcan.gc.ca/eng/transportation.html.

Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 40 to 49 cents per litre in selected centres for the **week of January 22, 2009**. Overall, compared to the previous week, Canadian and American centres recorded price increases ranging from less than 1 to more than 2 cents per litre in half of the centres, while the other half also decreased in the range of less than 1 to 2 cents per litre.

Compared to two weeks ago, wholesale prices in all the selected centres are higher on average by 6 cents in Canada and by 4 cents per litre in the U.S.

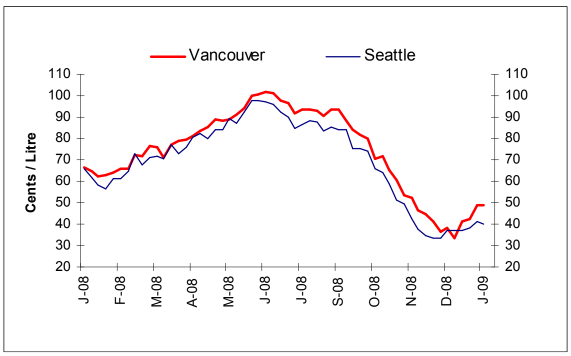
In most Western centres, compared to the previous week, prices declined in the range of 1 to 2 cents per litre and ended at 40 to 49 cents per litre for the week ending January 22, 2009. Conversely, in most Eastern centres, prices increased in the range of less than 1 to more than 2 cents per litre ending at 42 to 47 cents per litre.

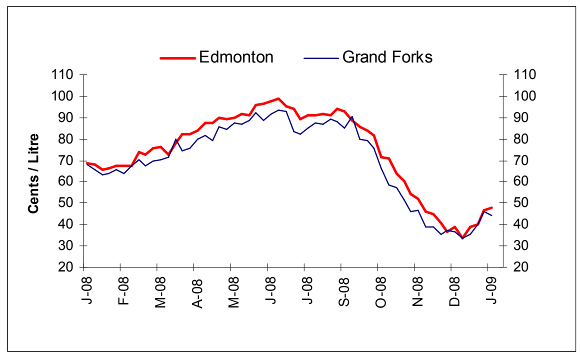
Overall, compared to the same period last year, wholesale prices in most selected centres are well below last year's level with decreases ranging from 15 to 22 cents per litre.

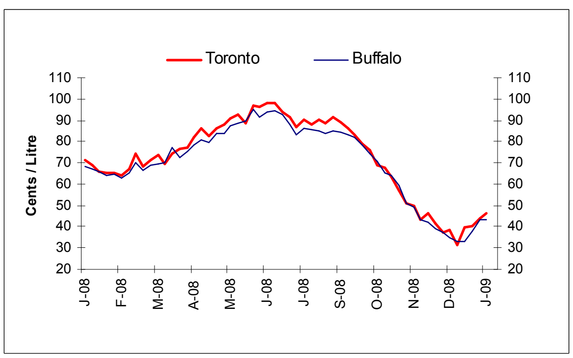
Figure 4: Wholesale Gasoline Prices

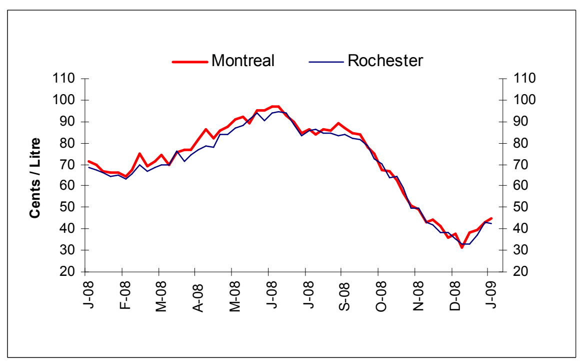
Rack Terminals Prices for Selected Canadian and American Cities Ending January 22, 2009

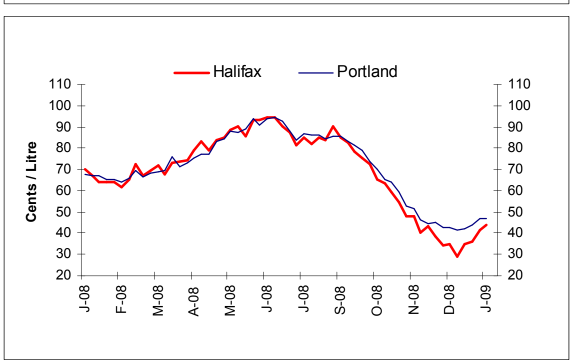
(Can ¢/L)











Sources: NRCan, Bloomberg Oil Buyers Guide

Fuel Focus New Looks

Natural Resources Canada's Energy Sector website has undergone its own extreme make over. The latest energy information will be featured at the following website: http://www.nrcan.gc.ca/eneene/index-eng.php .

In addition, we will continue to provide you with clear, transparent and timely information on fuel prices, oil and gasoline markets and ways to manage energy costs under the familiar Fuel Focus logo

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 January 27, 2009.

These refining margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner. Refining margins have currently reached 18 cents per litre from a low of 6 cents per litre in November 2008. However, margins have been declining for most of last year despite record high crude oil prices in the first half of 2008.

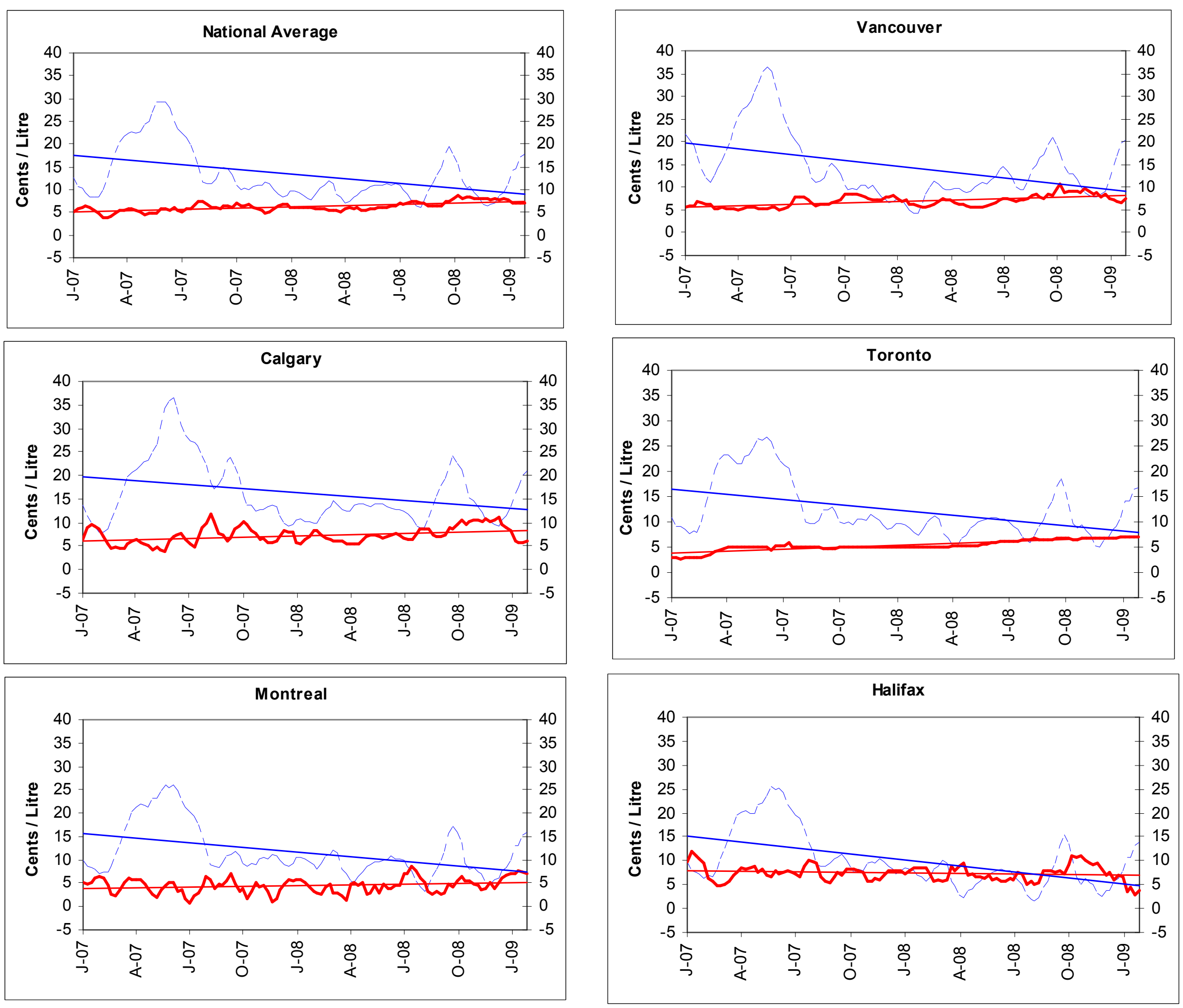
Nationally, the marketing margins, defined as the pump price, excluding all taxes, minus the wholesale or rack price, rose to 7 cents per litre, comparable to the same period last year. Marketing margins for the five centres registered between 4 and nearly 8 cents per litre.

Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region.

Figure 5: Refining and Marketing Margins

Four-Week Rolling Average Ending January 27, 2009

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



Source: NRCan

Crude Oil Overview

Crude Oil Prices in a Holding Pattern

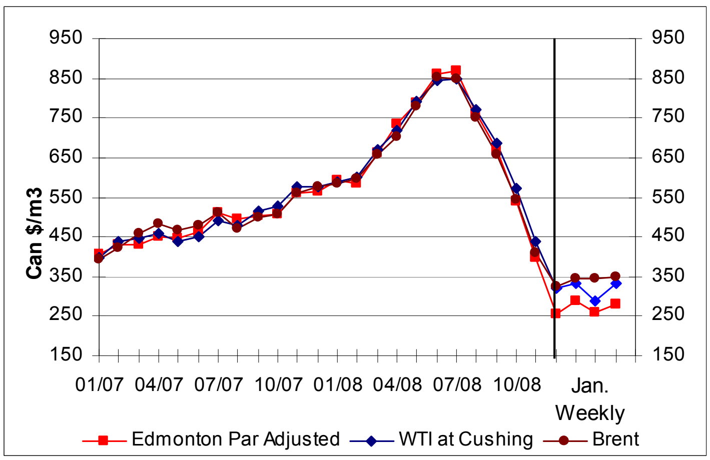
For the week ending January 26, 2009, crude oil prices averaged between $278/m³ and $349/m³ ($US35 to $US44 per barrel), with Edmonton Par continuing to trade at a significant discount to both Brent and WTI.

While prices seem to have stabilized over the past month or so, Edmonton Par has been consistently trading at a significant discount to other crude types. This could be caused by a number of contributing factors. Of particular note is Petro-Canada's recent conversion of its Edmonton refinery to take on 100% oil sands feedstock, pushing about 80,000 barrels per day of light crude back onto the market. This along with increased production of oil sands derived crude has meant that Canadian Par crude is having trouble finding a market and must be shipped farther, and has led to heavy discounts.

U.S. crude oil inventories continue to build and are well above the 5-year average range as world demand has slowed. This indicates that world crude oil supply is still more than adequate to meet demand.

Geopolitical events no longer seem to have the impact on prices that they did only six months ago. The recent conflict in Gaza would likely have had a significant effect on prices last year when it seemed that any international event would cause an increase in prices. Currently, the reduction in global demand for oil seems to be the major driver in the decline in crude oil prices with little impact from geopolitical causes.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

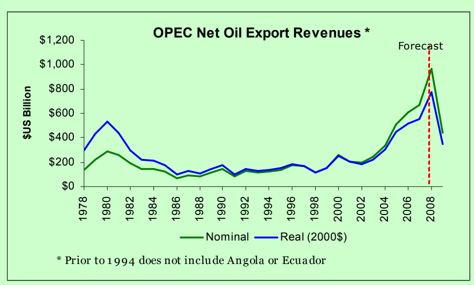
Crude Oil Types	Week Ending: 2009-01-23		Change From:			
			Previous Week		Last Year	
	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl	$Can/m^3	$US/bbl
Edmonton Par	278.33	35.29	19.50	2.04	-299.97	-56.09
WTI	332.83	42.18	45.55	5.27	-241.58	-47.39
Brent	348.77	44.20	4.75	0.01	-219.28	-44.40

Source: NRCan

OPEC Oil Export Revenues

Based on projections from the Energy Information Administration's (EIA) January 2009 Short Term Energy Outlook, members of the Organization of the Petroleum Exporting Countries (OPEC) could earn $387 billion of net oil export revenues in 2009 and $526 billion in 2010.

Last year, OPEC earned $972 billion in net oil export revenues, a 42 percent increase from 2007. Saudi Arabia earned the largest share of these earnings—$288 billion—representing 30 percent of total OPEC revenues. On a per-capita basis, OPEC's net oil export earnings reached $2,691—a 40 percent increase from 2007.



Source: EIA, Short-Term Energy Outlook
http://www.eia.doe.gov/emeu/cabs/OPEC_Revenues/Factsheet.html