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Fuel Focus

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

Volume 4, Issue 6

April 14, 2009

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*



National Overview

Canadian Pump Prices Decline Nearly 1 Cent per Litre from Two Weeks Ago

Canadian retail gasoline prices declined by 1 cent per litre to 89 cents per litre compared to two weeks ago. However, prices rose marginally by 0.3 cent per litre for the week of April 7, 2009, compared to the previous week.

Retail gasoline prices rose slightly despite the decrease in North American wholesale and world crude oil prices. Over the last four weeks, gasoline prices remained relatively stable hovering in the range of 87 to 89 cents per litre.

Diesel fuel increased 0.4 cent per litre from last week to 87 cents per litre while furnace oil prices declined 1 cent per litre and averaged 76 cents per litre.

Recent Developments

- **Ontario Sales Tax Reform:** Starting July 1, 2010, Ontario will move to a single, value-added sales tax that will be federally administered. The single sales tax will have a combined rate of 13 per cent. The provincial portion will be eight per cent and the federal portion will be five per cent. The introduction of a value-added sales tax will result in higher retail pump, heating oil, and other petroleum product prices. Currently, the eight per cent provincial sales tax is not levied on any petroleum products, although there are provincial consumption taxes on certain products, such as a 14.7 and 14.3 cents per litre on gasoline and diesel, respectively. (Ontario Budget 2009, http://www.fin.gov.on.ca/english/budget/ontariobudgets/2009/bk_tax.html)
- **Canadian Crude Oil Production:** Production of crude oil and equivalent hydrocarbons increased 2.7% to 13.5 million cubic metres in January 2009, compared to the same period last year. Exports rose 0.6% to 8.9 million cubic metres. In January 2009, 66.3% of Canada's total production went to the export market. Imports increased 2.9% to reach 4.6 million cubic metres. (Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/090331/dq090331d-eng.htm>)
- **Proposed U.S. Climate Change Legislation:** On March 31, 2009, the U.S. House of Representatives unveiled draft climate change legislation to slash the country's greenhouse gas emissions by 20 per cent by 2020, which could have potentially major consequences for Canada's energy industry. The legislation would also impose low-carbon standards for gasoline and other transportation fuels.

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

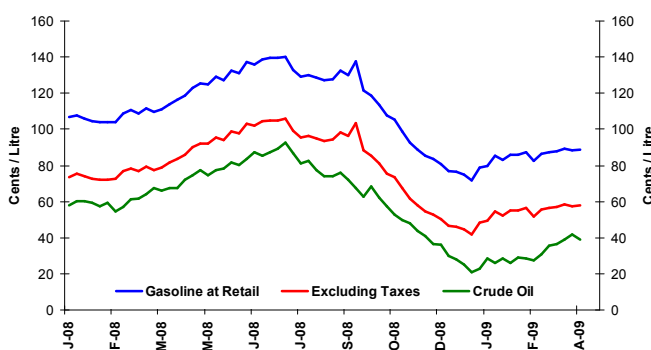
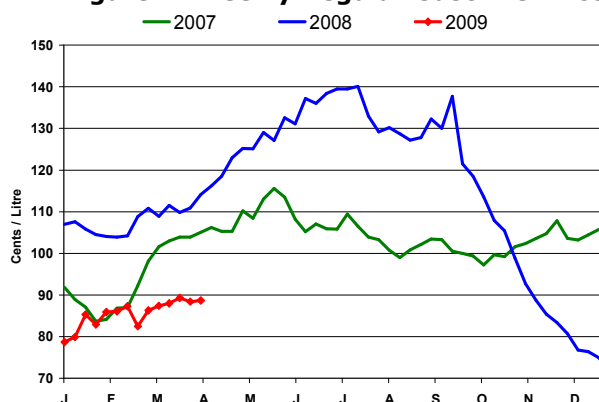


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2009-04-07	Previous Week	Last Year
Gasoline	88.7	+0.3	-27.5
Diesel	87.3	+0.4	-39.5
Furnace Oil	76.1	-0.8	-40.5

Source: NRCan

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Retail Gasoline Overview

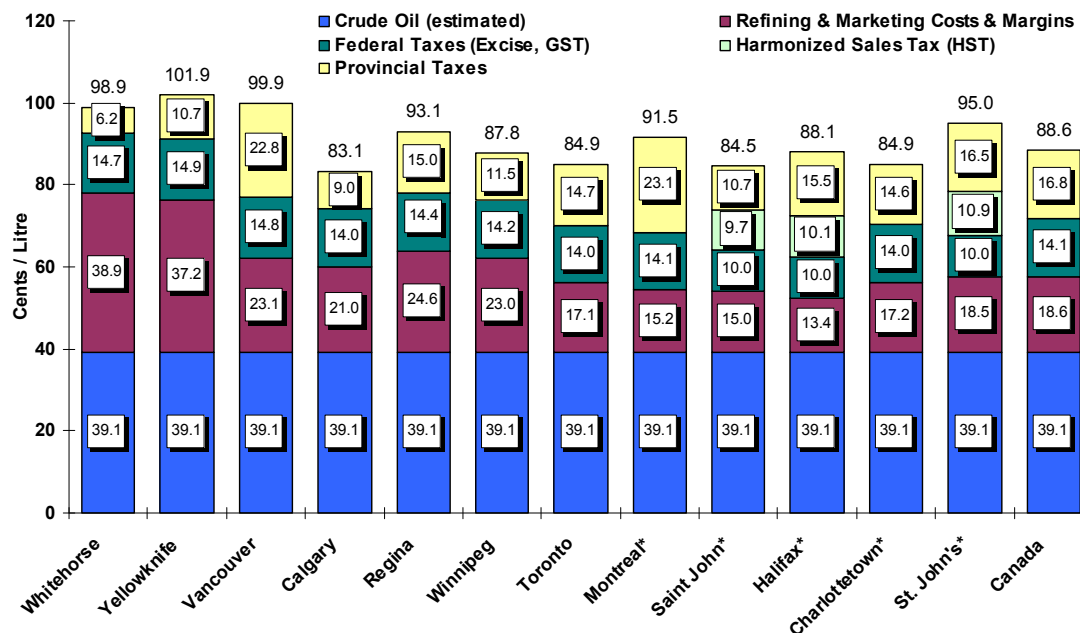
For the period ending **April 7, 2009**, the **four-week average** regular gasoline pump price in selected cities across Canada was 89 cents per litre - an increase of 1 cent per litre since the last report on March 27, 2009. However, prices are 24 cents per litre lower compared to the same period last year.

The **four-week average** crude oil price component of gasoline registered 39 cents per litre, up 4 cents from two weeks ago, and is 28 cents per litre below the same period in 2008. The cost component of crude oil represents 44% of the retail price compared to 60% a year ago.

Retail gasoline prices in most Western centres (Winnipeg to Vancouver), which ranged from 88 cents per litre to \$1 per litre, increased on average 2 cents per litre when compared to the previous report. Prices in Eastern centres (Toronto to St. John's) rose on average 1 cent per litre and ranged from 85 to 95 cents per litre.

Overall, the refining and marketing costs and margins component declined 3 cents per litre compared to two weeks ago, and are 5 cents per litre higher than at the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 17 to April 7, 2009)**



Source: NRCan

* Regulated Markets

Poor Refining Margins Outlook for 2009

The National Petrochemical and Refiners Association (NPR) annual conference held on March 23, 2009, in San Antonio, Texas, focused on the poor refining margin outlook for 2009 with the possibility of refinery shutdowns.

Refiners, analysts and market traders have been predicting a difficult year for 2009 because of the worsening economy, weaker product demand, refining margin squeeze and an increase in refining capacity in India and China. One topic discussed among participants on the sidelines of the event was the possibility of some refinery shutdowns in the U.S., Europe and Asia as a result of the deteriorating margins. In the past several weeks, some refiners in the U.S. have taken down units at their refineries for unplanned maintenance.

Unlike the U.S., some European and Asian refineries have already implemented voluntary crude run cuts. The pending emergence of Indian products from Reliance's new 580,000-b/d Jamnagar refinery should add to unfavourable refinery business conditions in the global markets.

Source: OPIS, <http://www.opisnet.com/fmu/headlines.html>





Wholesale Gasoline Prices

Wholesale gasoline prices decreased in all centres for the **week of April 2, 2009**, compared to the previous week.

Changes in wholesale gasoline prices in the Eastern markets of both Canada and the United States, compared to the previous week, ranged from a decline of 1 cent to 3 cents per litre, ending the period in the 44 to 53 cents per litre range.

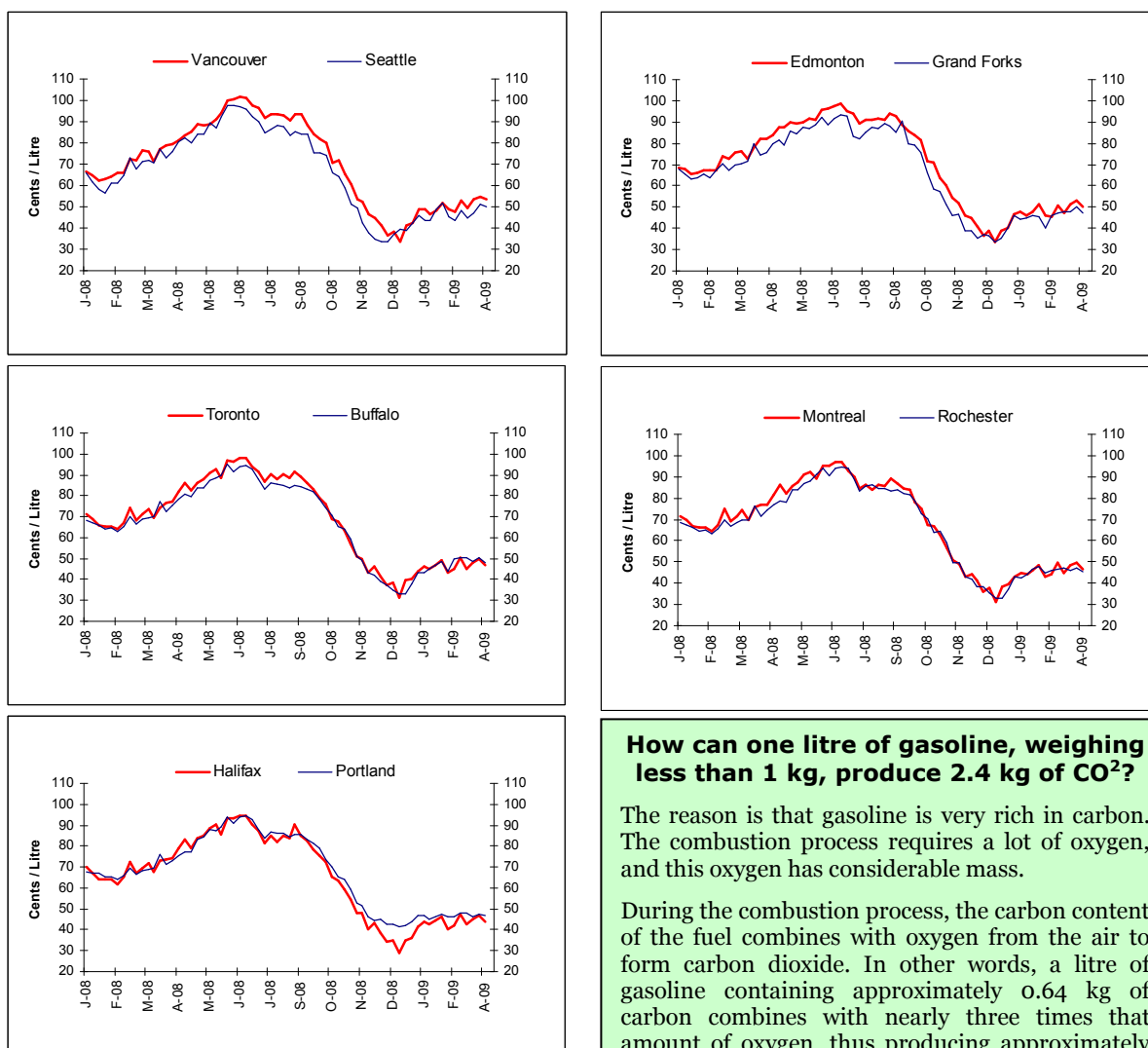
In the Western centres, price declines ranged between 1 and 3 cents per litre ending at 47 to 53 cents per litre.

Prices in Eastern centres also decreased in the range of 1 to 3 cents per litre but ended at 44 to 48 cents per litre.

Compared to four weeks ago, wholesale prices in most Canadian and American selected centres have declined in the range of 1 and 3 cents per litre. The exceptions are Grand Forks, Vancouver and Seattle where price increases ranged from less than 1 to nearly 2 cents per litre.

Please note that the data for Seattle has been revised from January 2009.

Figure 4: Wholesale Gasoline Prices
Rack Terminals Prices for Selected Canadian and American Cities Ending April 2, 2009
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

How can one litre of gasoline, weighing less than 1 kg, produce 2.4 kg of CO₂?

The reason is that gasoline is very rich in carbon. The combustion process requires a lot of oxygen, and this oxygen has considerable mass.

During the combustion process, the carbon content of the fuel combines with oxygen from the air to form carbon dioxide. In other words, a litre of gasoline containing approximately 0.64 kg of carbon combines with nearly three times that amount of oxygen, thus producing approximately 2.4 kg of carbon dioxide (or CO₂).

Source: NRCan, Office of Energy Efficiency





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 April 7, 2009.

Overall, refining margins continue to show a downward movement reflecting the North American economic slowdown. In addition, more than adequate gasoline and crude oil inventories in the U.S. further contribute to the lower refining margins.

Although these factors moderate the rise in retail gasoline prices, they also constrict the refiners' margins.

In turn, adequate margins are necessary for fostering new investments to expand production that could alleviate supply disruptions when supply and demand balances are tight.

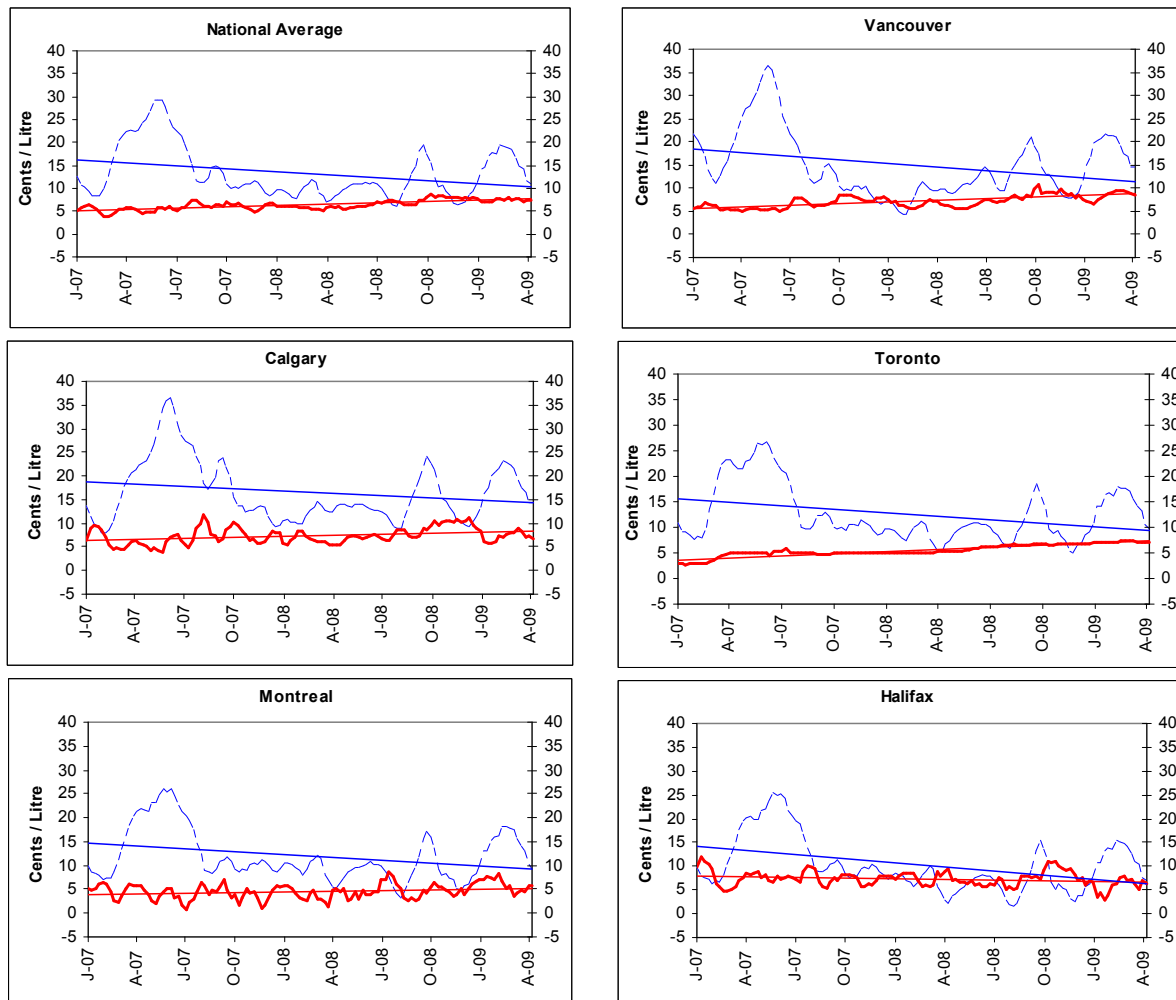
Marketing margins, representing the costs associated with operating an outlet, hovered around 7 cents per litre. Marketing margins for the five centres ranged from a low of 6 cents per litre in Montreal to a high of 9 cents per litre in Vancouver.

Figure 5: Refining and Marketing Margins

Four-Week Rolling Average Ending April 7, 2009

----- Refining Margin

----- Marketing Margin



Source: NRCan





Crude Oil Overview

First Decline in Crude Oil Prices after Five Weeks of Steady Rise

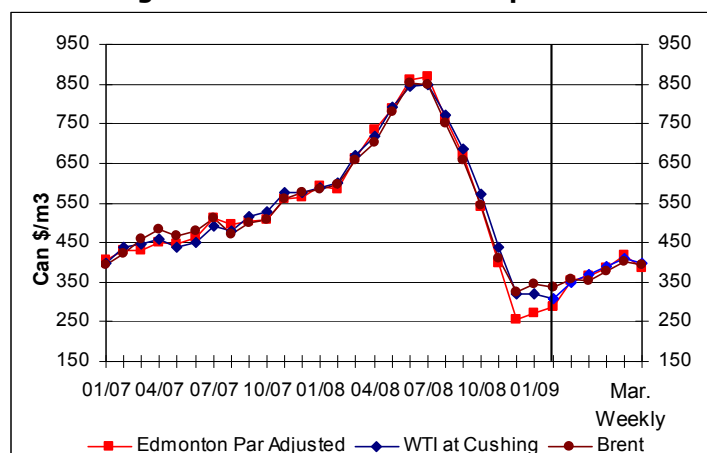
For the week ending April 3, 2009, crude oil prices averaged between \$386/m³ and \$396/m³ (\$US49 to \$US50 per barrel). World crude oil prices are significantly less than their peak level last year. However, recently certain factors maintained the upward momentum.

Production cuts from OPEC are a factor in strengthening crude oil markets. Oil producing countries are attempting to stop the decline in oil prices and cut rising inventories, which had reached a level not seen in the last 9 years with respect to the number of days of supply in countries belonging to the Organisation for Economic Cooperation and Development (OECD).

Conversely, other factors are also contributing to the downward pressure on prices such as the world-wide drop in demand for petroleum products while inventories are at record highs. In April 2009, U.S. crude oil inventories reached nearly 360 million barrels, or approximately 48 million barrels above last year at the same time.

Overall, the reduced demand for refined petroleum products in the largest energy consuming countries keep crude oil prices lower, while the more than adequate inventories of crude oil and gasoline further contribute to the downward pressure on prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-04-03		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	386.16	49.09	-31.70	-4.87	-285.72	-56.99
WTI	395.87	50.32	-15.10	-2.75	-272.04	-53.98
Brent	394.84	50.20	-5.02	-1.44	-265.41	-52.90

Source: NRCan

World Oil Supply and Demand

According to the International Energy Agency World Energy Outlook 2008, over the long-term, world oil supply and demand is projected to grow by 1.0% per year. North American oil supply is projected to rise from 13.8 million barrels per day (MB/D) in 2007 to 17.9 MB/D by 2030 with an average annual growth rate of 1.1% per year

Non-OPEC Oil Supply grows to some 60 MB/D – about one-quarter the growth in OPEC supply

Non OECD countries are the main driver behind demand growth accounting for over 2% per year growth.

World Oil Supply in the Reference Scenario (million barrels per day)

	1980	2000	2007	2015	2030	2007-2030
Non-OPEC	35.5	42.9	46.3	47.6	50.9	0.4%
OPEC	28.1	32.1	35.9	44.4	52.9	1.7%
Processing Gains	1.7	1.7	2.1	2.3	2.6	1.0%
World	65.2	76.8	84.3	94.4	106.4	1.0%

World Oil Demand in the Reference Scenario

	1980	2000	2007	2015	2030	2007-2030
OECD	41.7	46.0	46.5	45.7	43.9	-0.2%
Non-OECD	20.9	27.3	34.9	44.6	57.7	2.2%
Marine Bunkers	2.3	3.0	3.8	4.1	4.7	1.0%
World	64.8	76.3	85.2	94.4	106.4	1.0%

Source: International Energy Agency World Energy Outlook 2008

