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# Fuel Focus

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

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## National Overview

### Canadian Retail Pump Prices Increased 1 Cent per Litre from Last Week

Compared to the previous week, overall Canadian gasoline prices for the week of May 19, 2009, rose—for the third straight week—by 1 cent to a seven-month high of 97 cents a litre. Canadian retail gasoline prices reflected the upward pressure from North American wholesale prices. In the last two weeks, retail pump prices rose 6 cents per litre.

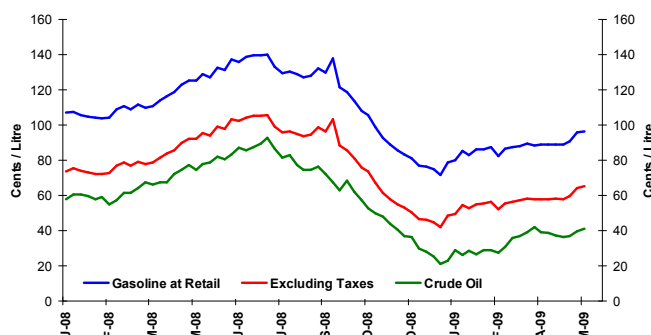
Crude oil prices continue to rise despite the record high U.S. inventories of crude oil that are well above seasonal average. Various reports of impending global economic recovery seem to buoy prices yet demand still lags behind supply.

Diesel fuel prices increased marginally by less than 1 cent per litre to 82 cents per litre compared to the previous week. This represents a decrease of 56 cents per litre from the same period last year. Furnace oil prices were up by 1 cent per litre from the previous week to an average of 74 cents per litre.

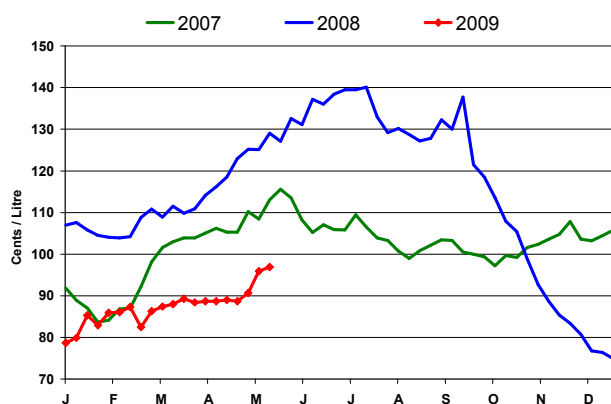
## Recent Developments

- **New U.S. Fuel Economy Guide:** The U.S. Federal Trade Commission (FTC) has proposed amendments to its fuel economy guide for the first time since its adoption in 1975. The guide, which the FTC developed to prevent deceptive advertizing and to facilitate the use of fuel economy information, would be amended to reflect technology improvements over the past 34 years and changes in the U.S. Environmental Protection Agency's fuel economy labeling rules for new cars. (Oil and Gas Journal)
- **Crude Oil Stored at Sea:** Oil companies are storing a record volume of oil at sea in giant tankers—100 million barrels of crude and about 25 million barrels of refined products—as world crude supply outstrips demand. The volume of oil stored at sea has risen to record levels. This is because the price of oil for use now is well below the value of oil for future delivery. In the long run, these stored supplies may contribute to keeping prices lower. (Source: Nickels' Daily Oil Bulletin, May 1, 2009)
- **Ontario a Net Importer of Petroleum Products:** Ontario is a substantial net importer of petroleum products from other provinces. According to a Ministry of Energy and Infrastructure analysis of Statistics Canada data, this position increased substantially with the closure of the Petro-Canada refinery in Oakville in 2005. (Ontario Ministry of Energy and Infrastructure)

**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	2009-05-19	Previous Week	Last Year
Gasoline	96.7	+1.0	-30.2
Diesel	82.3	+0.5	-56.4
Furnace Oil	74.4	+1.2	-54.8

Source: NRCan

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## Retail Gasoline Overview

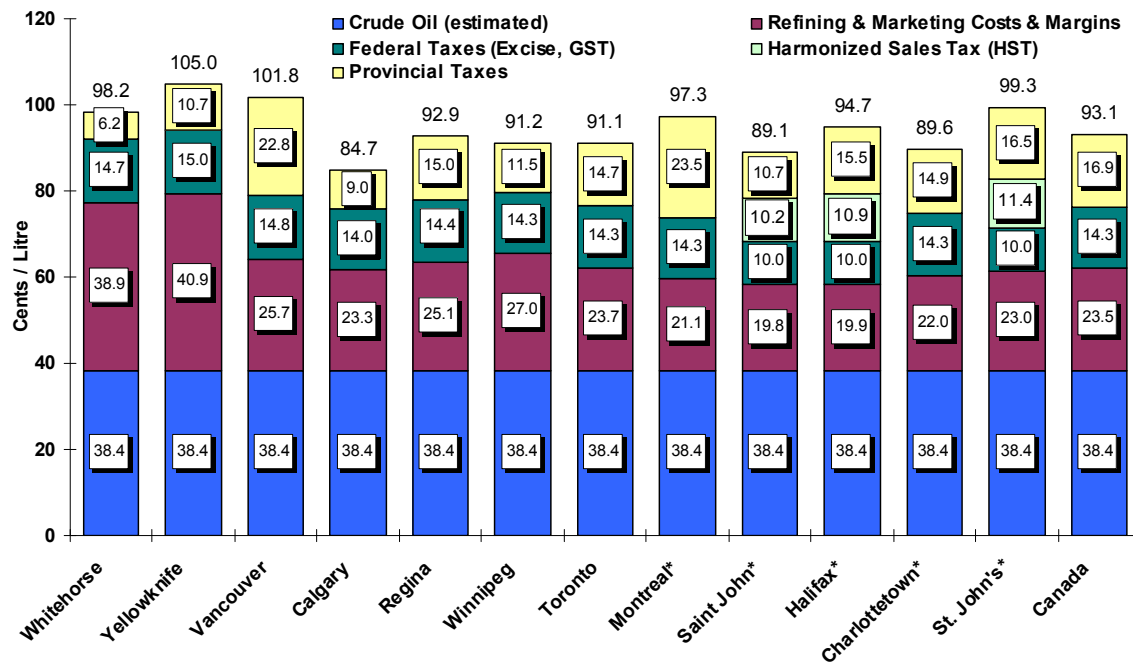
The average Canadian pump price in selected cities for the **four-week average** ending May 19, 2009, was 93 cents per litre—an increase of 4 cents per litre from the last report on May 8, 2009. However, this is 34 cents per litre lower than in the same period in 2008.

Overall, compared to two weeks ago, the **four-week average** crude oil prices rose by 1 cent per litre to 38 cents per litre for the period ending May 19, 2009.

Retail gasoline prices in most provincial and territorial centres, except for Whitehorse, increased on average by 4 cents per litre when compared to the previous report. Retail prices ranged from a low of 85 cents (Calgary) to a high of \$1.05 per litre (Yellowknife).

Refining and marketing costs and margins increased by 2 cents per litre to nearly 24 cents per litre since the last report on May 8, 2009.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (April 28 to May 19, 2009)**



Source: NRCan

\* Regulated Markets

### Who Controls Prices at Gasoline Stations?

According to the 2008 National Retail Petroleum Site Census released recently, of the 12,684 retail gasoline outlets operating in Canada, only 16 percent come under the price control of one of the three "major" oil companies, such as Petro-Canada, Esso, or Shell. Twenty-eight percent of all gas stations come under the price control of one of the ten refiner-marketers in Canada. The remaining 72 percent of all gas stations in Canada are price-controlled by individual outlet proprietors or non-refiner marketers, a diverse genre of petroleum marketers whose importance and influence is growing, particularly among two sub-types: Regional Distributors and Big Box marketers.

The census identified 67 companies involved in the marketing of gasoline that manage a network of two or more stations. About 6,400 individual outlet operators directly control the price at the pump—in effect they market their own gasoline (through their own control of the pump price) under the banner of their own brand of gas, or under the banner of a third party brand owner and supplier.

Source: MJ Ervin, [http://www.mjervin.com/index\\_StudiesBackgrounders.htm](http://www.mjervin.com/index_StudiesBackgrounders.htm)





## Wholesale Gasoline Prices

Wholesale gasoline prices increased in most centres for the **week of May 14, 2009**, compared to the previous week.

On average, prices in both Canadian and U.S. markets rose in the range of less than 1 to more than 3 cents a litre and ended the period in the 54 to 58 cents per litre range, respectively.

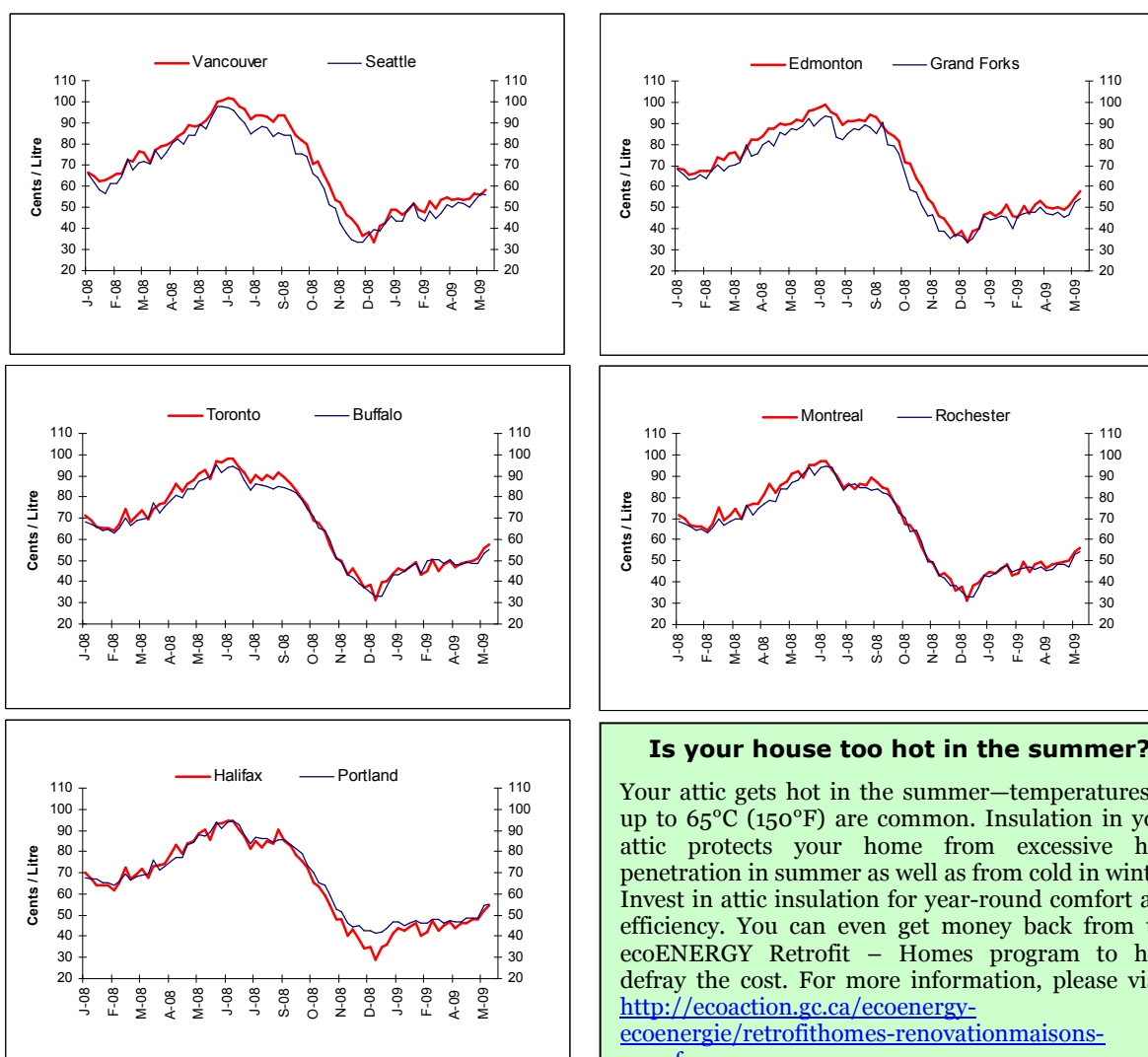
Wholesale gasoline prices in Eastern markets in both Canada and the United States registered increases ranging from less than 1 to 2 cents per litre, compared to the previous week, and ended the period in the 54 to 58 cents per litre range.

Wholesale gasoline price increases in Western centres also ranged from 2 to 3 cents per litre and ended the period between 54 and 58 cents per litre. The exception was Seattle which declined by 1 cent per litre and ended at 56 cents per litre.

In the last four weeks, wholesale prices in most Canadian and American selected centres have increased in the range of 5 to 8 cents per litre.

Overall, wholesale gasoline prices in most markets are 28 to 31 cents per litre below last year's level.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminal Prices for Selected Canadian and American Cities Ending May 14, 2009  
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

### Is your house too hot in the summer?

Your attic gets hot in the summer—temperatures of up to 65°C (150°F) are common. Insulation in your attic protects your home from excessive heat penetration in summer as well as from cold in winter. Invest in attic insulation for year-round comfort and efficiency. You can even get money back from the ecoENERGY Retrofit – Homes program to help defray the cost. For more information, please visit: <http://ecoaction.gc.ca/ecoenergy-ecoenergie/retrofithomes-renovationmaisons-eng.cfm>





## Gasoline Refining and Marketing Margins

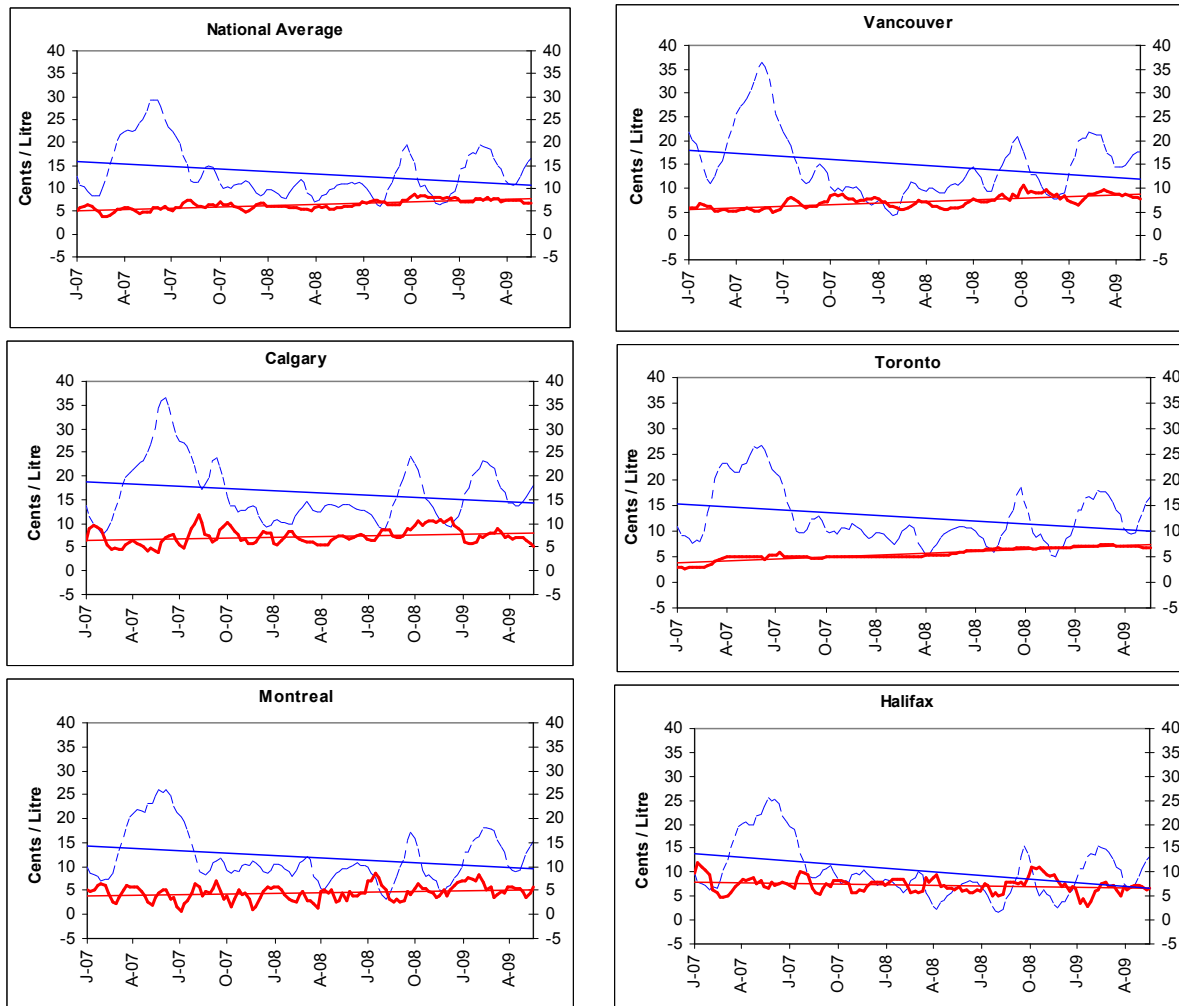
**Four-week rolling averages** are used for the refining and marketing margins for gasoline. See Figure 5 for the period ending May 19, 2009.

Refining margins are one indicator of the health of the refining sector. After many years of rates of return below other manufacturing industries, refining margins improved significantly in 2007. However, as the graphs indicate, refining margins have remained fairly low since then, except for a short spike in October 2008, and again recently.

Unstable or unpredictable margins make it difficult for companies to consider new investments to expand production. As long as supply and demand balances remain tight, even small supply disruptions will cause upward price pressure and increase the volatility of margins.

Nationally, the marketing margins rose to nearly 7 cents per litre, an increase of 1 cent per litre from the same period last year. Marketing margins for the five centres ranged from 5 cents per litre in Calgary to 8 cents per litre in Vancouver.

**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending May 19, 2009  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### World Crude Oil Prices Continue to Firm Up

For the week ending May 15, 2009, prices for the three marker crudes averaged between \$410/m<sup>3</sup> and \$430/m<sup>3</sup>, (\$US56 to \$US58 per barrel). This is an increase of \$13 to 19/m<sup>3</sup> (\$US2 to \$US3 per barrel) compared to the previous week.

Crude oil prices continue to rise despite record high U.S. inventories of crude oil that are well above seasonal average. Various reports of impending global economic recovery seem to buoy prices yet demand still lags behind supply. Evidently, market optimism that world economies are on the road to recovery seems to be the driving factor behind the strength of crude oil prices.

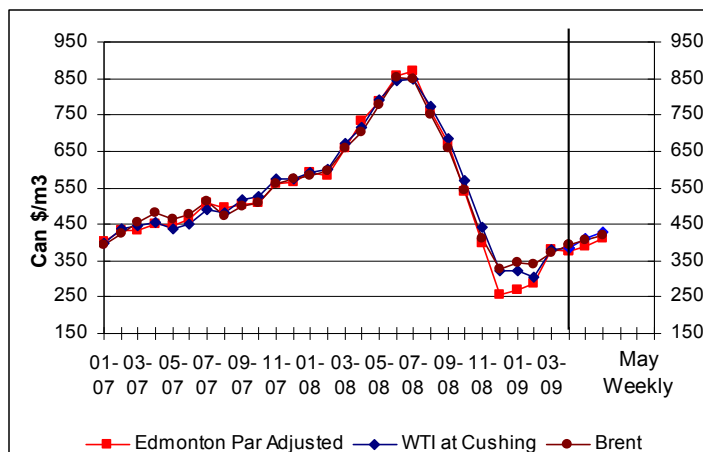
However, while the world's demand for oil increased sharply in recent years, world oil consumption is

expected to fall with the global economic slowdown. A recent International Energy Agency (IEA) forecast trimmed global oil demand for 2009 by another 200,000 barrel per day.

The amount of surplus oil capacity to meet surges in demand or disruptions in supply declined from nearly 6 million barrels per day in 2002 to about 3 million barrels per day in 2008 thus increasing the price volatility in energy markets.

Conversely, there is a potential for OPEC surplus production capacity to increase over the next two years as demand for crude oil falls. According to the IEA, OPEC's surplus capacity was estimated at 6.3 million barrels per day in the first quarter of 2009 — more than twice as high as the five-year average between 2004 and 2008.

**Figure 6: Crude Oil Price Comparisons**



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2009-05-15		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	410.01	55.78	+19.35	+2.75	-375.32	-69.19
WTI	429.91	58.48	+17.40	+2.49	-358.57	-66.80
Brent	421.39	57.32	+13.19	+1.91	-349.19	-65.11

Source: NRCan

### U.S. Energy Forecast Update

Energy prices rose in early May following reports suggesting that the U.S. economy may have reached a turning point in the current recession—at least in some sectors. However, according to the U.S. Short-Term Energy Outlook of May 12, 2009, near-term prices remain somewhat below market prices given that prospects for a global economic turnaround remain highly uncertain. The U.S. forecast is based on a macroeconomic outlook that assumes the U.S. and global economies will begin to stabilize in the coming months and show signs of recovery late in 2009 and into 2010.

During this summer's driving season—April through September—regular gasoline retail prices are projected to average \$2.21 per gallon (58 ¢/L), down about \$1.60 (42 ¢/L) from last summer.

Revised data indicate that OECD commercial inventories at year-end 2008 stood at 2.7 billion barrels. At 57 days of forward cover, OECD commercial inventories were well above average levels for that time of year. EIA estimates that there are also an additional 130 million barrels of crude oil in floating storage which are taken into consideration in the oil market outlook.

Source: U.S. Energy Information Administration, Short-Term Energy Outlook.  
<http://www.eia.doe.gov/emeu/steo/pub/contents.html>

