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Fuel Focus

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

Volume 5, Issue 1

January 29, 2010

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ISSN 1918-3321

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



National Overview

Canadian Retail Gasoline Prices Hovers at Slightly Below \$1 per Litre

For the week ending January 26, 2010, the Canada average retail gasoline price was just under \$1 per litre, up 0.2 cent per litre from the previous week. This represents a 2 cent per litre decrease since the beginning of the year. However, prices are above last year's level at this time, when retail gasoline prices dropped to 83 cents per litre following the significant decline in crude oil prices.

Diesel fuel prices dropped by 2 cents per litre to 99 cents per litre compared to the previous week. This is an increase of 7 cents per litre from the same period last year. Furnace oil prices were down by less than 1 cent per litre from the previous week to an average of 90 cents per litre.

The slight increase in retail gasoline prices reflects the narrow range in wholesale gasoline prices (low volatility) which, in turn, is due to relatively stable world crude oil prices.

Recent Developments

- **Shell Canada Refinery Closure:** On January 7, 2010, Shell Canada Products Ltd. announced the closure of its 130,000-barrel-a-day Montreal East refinery. The company's decision stems from the global recession and new fuel-efficiency regulations which have brought a sudden decline in demand for transportation fuels and created extraordinarily tight and, over the past year often negative, refining margins. The refinery provided about 7% of Canada's 1.8 million barrels of daily refining capacity. (Shell Canada, <http://www.shell.ca/>)
- **New Motor Vehicle Sales:** Total new motor vehicle sales in Canada increased 1.4% to 124,764 vehicles in November 2009 compared to the same period in 2008. Sales of passenger cars increased nearly 4% to 63,170 vehicles in November 2009, while sales of trucks, vans and buses fell 1% to 61,594 vehicles. Sales of new motor vehicles declined the most in Saskatchewan and Alberta by 12% and 17%, respectively. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/100115/dq100115b-eng.htm>)
- **Canadian Crude Oil Production:** Production of crude oil and equivalent hydrocarbons decreased 4% to 13 million cubic metres in October 2009, compared to the same period in 2008. Exports declined 3% to 8.9 million cubic metres. About 68% of Canada's total domestic production went to the export market, the same as a year earlier. Imports decreased 24% to 3.6 million cubic metres. (Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/100108/t100108c1-eng.htm>)

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

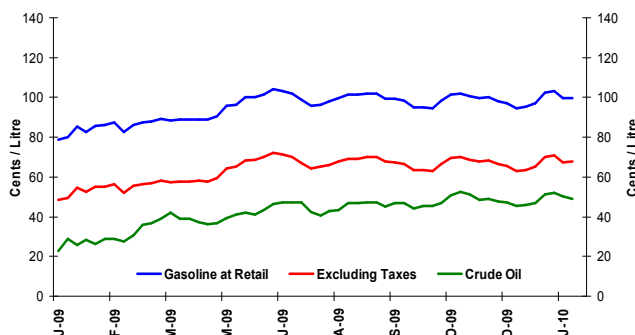
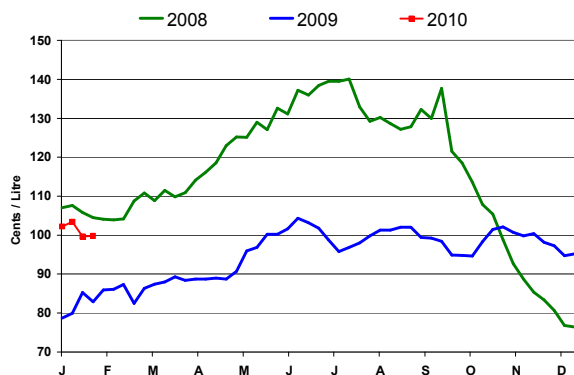


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2010-01-26	Previous Week	Last Year
Gasoline	99.8	+0.2	+16.9
Diesel	98.5	-1.9	+7.4
Furnace Oil	90.2	-0.4	+9.9

Source: NRCan

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Retail Gasoline Overview

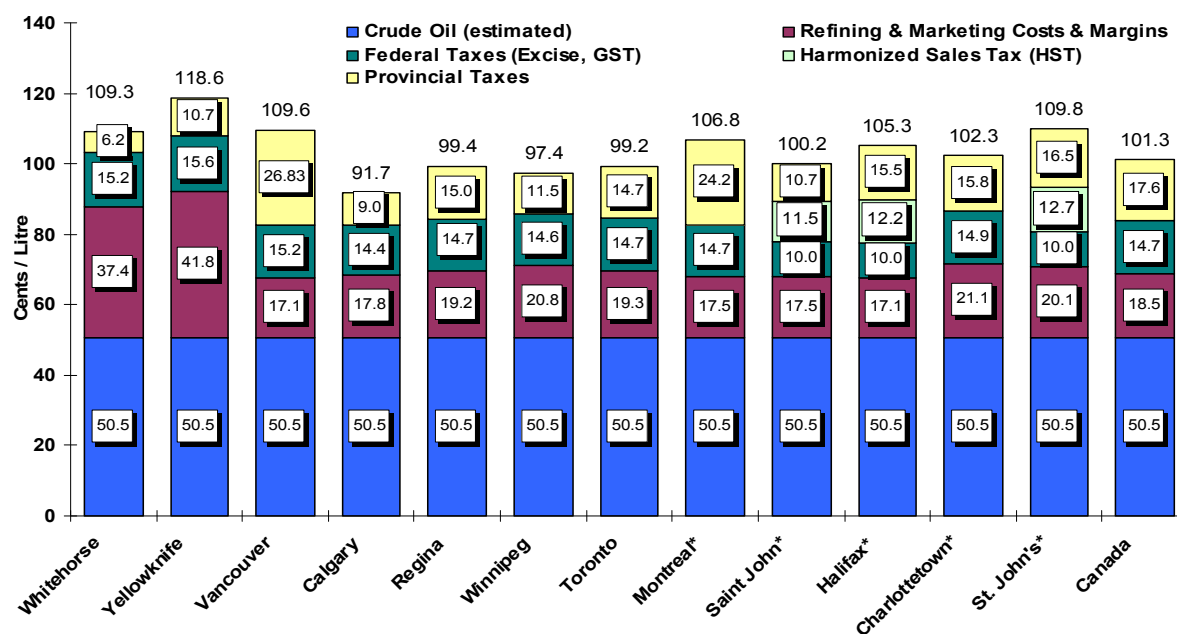
The **four-week average** Canadian pump price in selected cities across Canada was \$1.01 per litre for the period ending January 26, 2010. This represents a 17 cent per litre increase compared to the same period in 2009.

For the period ending January 26, 2010, the overall **four-week average** crude oil prices increased by 4 cents per litre to 51 cents per litre.

Retail gasoline prices in most Western centres increased in the range of 2 to 5 cents per litre while prices increased in Eastern centres in the range of 2 to 8 cents per litre.

Refining and marketing costs and margins increased overall by less than 1 cent per litre from two weeks ago, and are 9 cents per litre lower than last year at the same time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 5 to 26, 2010)**



Source: NRCan

* Regulated Markets

Inflation Rose 0.3% in 2009

Statistics Canada's Consumer Price Index (CPI), released on January 20, 2010, indicates that consumer prices rose by 0.3% for 2009 as a whole, a significantly smaller increase than the 2.3% rise posted in 2008. The increase in 2009 was the smallest since the annual increase of 0.1% in 1994. Energy prices exerted the most significant downward pressure on the CPI in 2009. Overall, prices for energy were 13.5% lower in 2009, contrasting with the 9.9% increase in 2008. Gasoline prices fell 17.5% in 2009, while prices for natural gas and fuel oil and other fuels were down 20.1% and 29.9%, respectively.

Consumer prices rose 1.3% in December 2009, compared to the same period in 2008. December's increase was the largest since February 2009. In December, gasoline prices were 25.6% higher than they were in December 2008. This follows a 14.1% rise in November. December's increase was the largest since September 2008.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/100120/dq100120a-eng.htm>





Wholesale Gasoline Prices

Wholesale gasoline prices ranged from 57 to 62 cents per litre in selected centres for the **week of January 21, 2010**. Overall, compared to the previous week, Canadian and American centres recorded price changes from a decrease of less than 1 cent per litre to an increase of more than 2 cents per litre.

In the Western centres, price changes ranged between a decrease of 1 cent per litre to an increase of 2 cents per litre compared to the previous week, and ended at 57 to 60 cents per litre. The price fluctuation in Eastern centres was of a lesser magnitude with declines in the

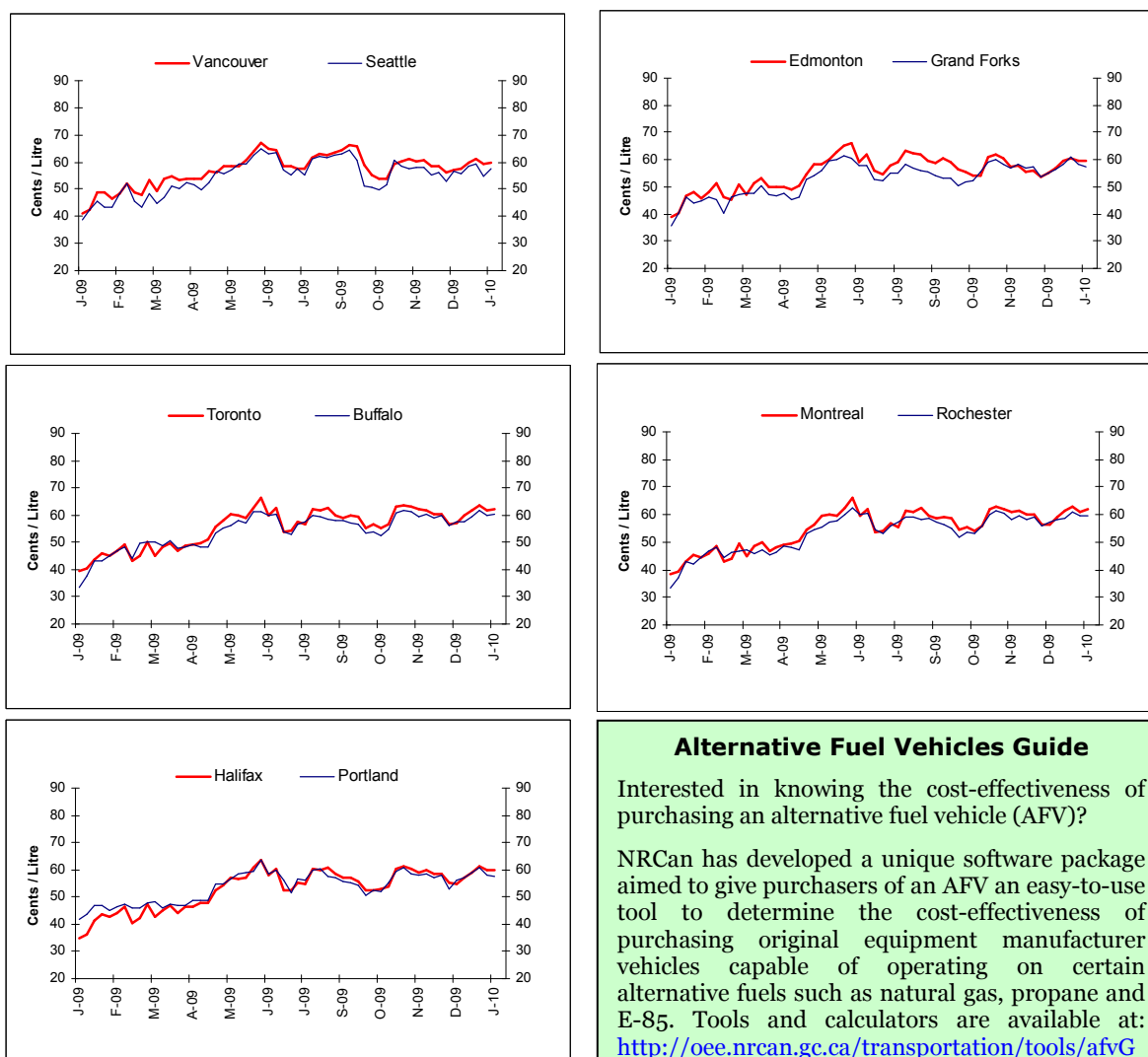
range of less than 1 cent per litre to slightly more than 1 cent per litre and ended at 58 to 62 cents per litre.

In the last four weeks, wholesale prices in all Canadian and American selected centres have increased in the range of less than 1 cent per litre and to nearly 2 cents per litre.

Overall, compared to the same period last year, wholesale prices in all selected centres are well above last year's level with increases ranging from 11 to 17 cents per litre.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending January 21, 2010
(Can ¢/L)



Sources: NRCAN, Bloomberg Oil Buyers Guide

Alternative Fuel Vehicles Guide

Interested in knowing the cost-effectiveness of purchasing an alternative fuel vehicle (AFV)?

NRCAN has developed a unique software package aimed to give purchasers of an AFV an easy-to-use tool to determine the cost-effectiveness of purchasing original equipment manufacturer vehicles capable of operating on certain alternative fuels such as natural gas, propane and E-85. Tools and calculators are available at: <http://oee.nrcan.gc.ca/transportation/tools/afvGuide/index.cfm?attr=16>





Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

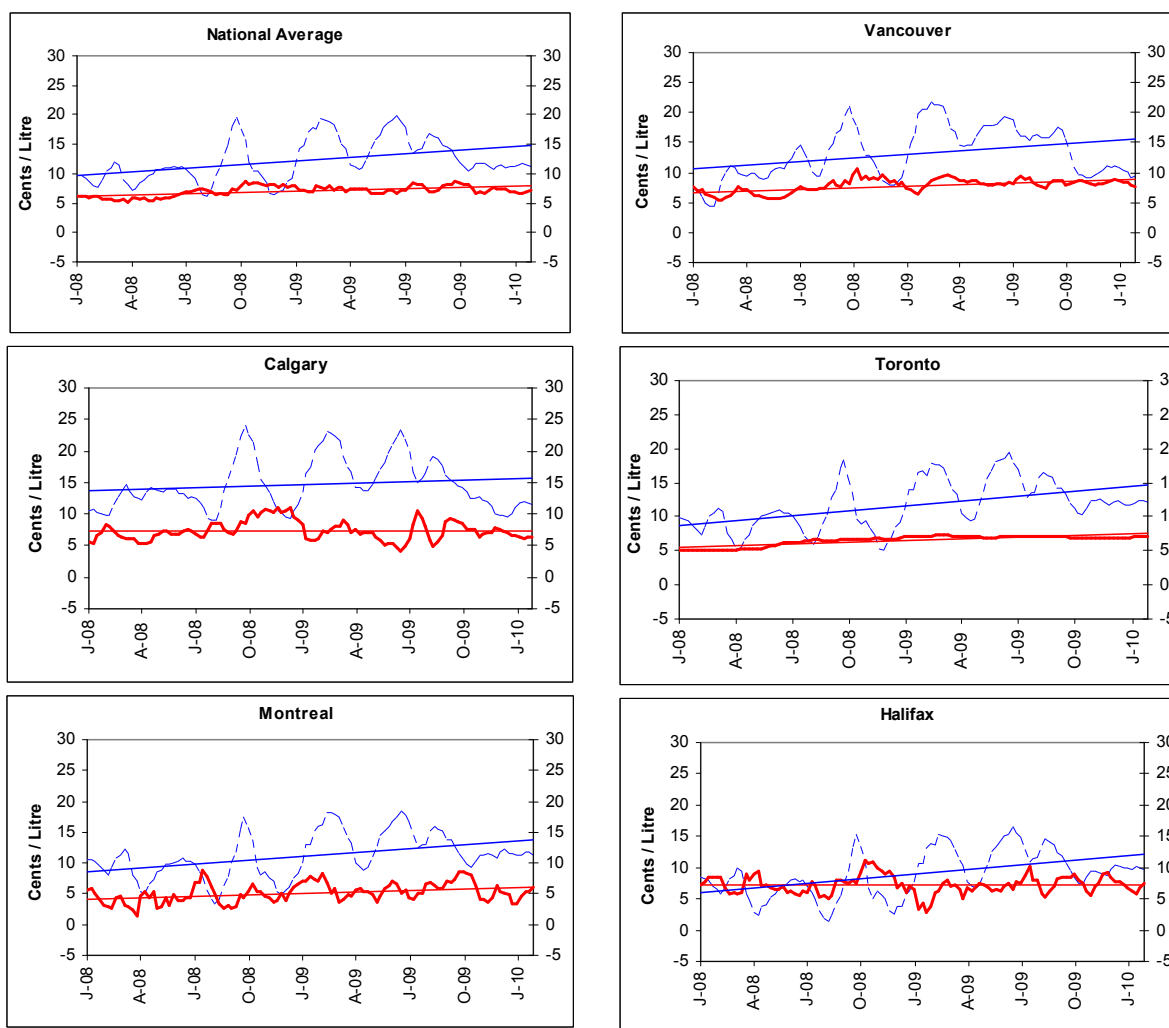
Overall, refining margins have declined by less than 1 cent per litre to 11 cents per litre compared to two weeks ago. Declining refining margins reflect the decrease in North American demand for gasoline and a well-supplied market. Refining margins have been remarkably stable and hovering around 11 to 12 cents per litre in the last four months.

The refining margins shown here are derived numbers based on the difference between the estimated crude oil price and the wholesale price of gasoline at a point in

time. While the analysis presented here is useful to track the trends in gasoline margins and to estimate how much of the price at the pump is going to the refiner, it does not represent overall refining margins.

Gasoline is only one of many products produced from a barrel of crude oil and generally accounts for about 30 to 35% of a refinery's output. As one of the higher valued products, gasoline generates a disproportionate share of the revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt that can often sell for less than the cost of the crude oil used to make them.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending January 26, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Lackluster Petroleum Product Demand Moderates Crude Prices

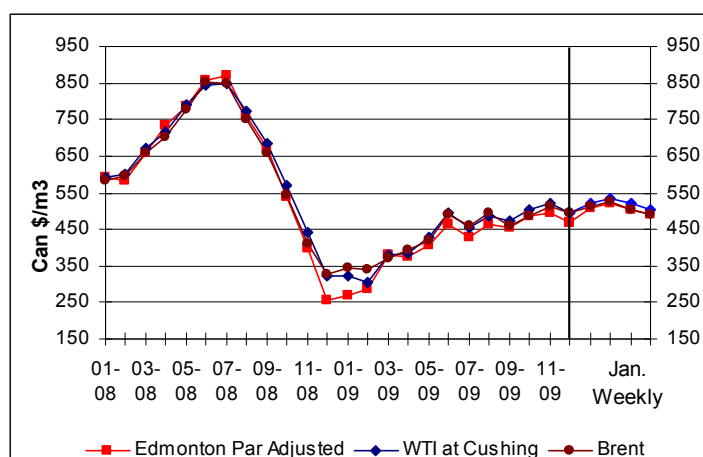
For the week ending January 22, 2010, prices for the three marker crudes averaged between \$490/m³ and \$505/m³, (US\$74 to US\$77 per barrel). This is a decrease of \$15 to \$16/m³ (US\$3 to US\$4 per barrel) compared to the previous week.

World crude oil prices increased to a 15-month high by early January only to fall back upon high U.S. inventories of crude oil, gasoline, and distillates. Overall, U.S. crude oil inventories remain well above the 5-year average range which further contributes to the steadiness in world crude oil price fluctuations.

According to some analysts, crude oil prices are moderated as demand for petroleum products is not high, or sustained enough, at levels to increase refinery utilization and at the same time draw from the floating stocks of oil and distillates stored in tankers.

Further helping to moderate crude oil prices were such factors as the warmer weather which reduced the demand for heating oil, the strength of the U.S. dollar against the euro, and an anemic global demand recovery for petroleum products.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-01-22		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	489.51	74.69	-15.73	-3.20	+230.68	+38.31
WTI	504.52	76.67	-14.87	-3.41	+217.24	+39.75
Brent	489.75	74.42	-15.83	-3.52	+145.73	+30.24

Source: NRCan

EIA Short-Term Energy Outlook

In its *Short-Term Energy Outlook* released on January 12, 2010, the U.S. Energy Information Administration (EIA) anticipates that the world oil market should gradually tighten in 2010 and 2011 as long as the global economic recovery continues as projected. While countries outside of the Organization for Economic Cooperation and Development (OECD) will lead 2010 demand recovery, OECD countries should begin to show significant oil demand growth in 2011 in response to improving economic conditions. Projected economic growth in the OECD is expected to double from 1.2% in 2010 to 2.7% in 2011.

Although compliance with cuts announced by the Organization of the Petroleum Exporting Countries has weakened and global oil inventories and spare production capacity remain very high by historical standards, expectations of a continued global economic turnaround have continued to buttress oil markets. EIA expects that WTI prices, which have been trending upward since February 2009, will continue to increase in 2010 and 2011.

Global oil demand declined in 2009 for the second consecutive year—the first time since 1983 that this has occurred. The decline bottomed out in the middle of 2009 as the world economy began to recover in the last half of the year. The EIA expects this recovery to continue in 2010 and 2011, resulting in global oil demand growth of 1.1 million barrels per day in 2010 and 1.5 million barrels per day in 2011.

Source: EIA, <http://www.eia.doe.gov/emeu/steo/pub/contents.html>





Historical Gasoline Prices

From the consumers' perspective it often seems that gasoline prices are the highest they have ever been. But these prices do not take into consideration inflation adjustments. This is done by adjusting today's dollars using the Statistics Canada Consumer Price Index (CPI) to compare gasoline prices over time.

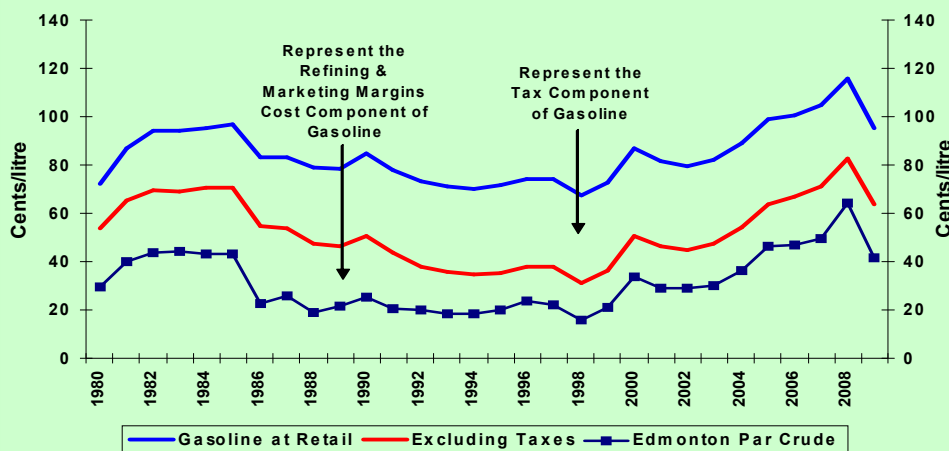
The CPI is an indicator of changes in consumer prices experienced by Canadians. The index is produced by comparing through time, the cost of a fixed basket of commodities purchased by consumers. Since the basket contains commodities of equivalent quantity and quality, the index reflects only pure price change. The CPI is used as a tool for converting "nominal" dollars in a year to "constant" dollars for a specific year. All gasoline prices below, and in the accompanying graph, have been converted to 2009 dollars (\$ 2009). For an explanation of inflation, the CPI, and the use of constant dollar prices, please visit the Bank of Canada website at http://www.bankofcanada.ca/en/rates/inflation_calc.html

In 2009 dollars, average gasoline prices in 2009 were 95 cents per litre, which was 20 cents per litre lower than the all-time peak price of \$1.16 per litre in 2008, and almost 2 cents per litre lower than the 1985 peak of 97 cents per litre. Overall, the average gasoline price for the 2000–2009 period was 93 cents per litre, compared to an average of 86 cents per litre for the 1980s.

In 2009 dollars, and excluding taxes, gasoline prices in 2009 were nearly 7 cents per litre lower than 1984. The tax component of the retail gasoline price, which comprises all provincial and federal taxes, increased gradually over the decades from nearly 18 cents per litre in 1980, peaking at almost 37 cents per litre in 1995, and then declining to nearly 32 cents per litre in 2009.

The constant crude oil price (in 2009 dollars) was relatively high in the early 1980s. In the early 1980s, Canadian consumers were partially shielded from those high prices 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 2009, the average crude oil prices averaged 41 cents per litre (in 2009 dollars). This is 3 cents per litre lower than the 44 cents per litre in 1983.

**Average Price of Regular Gasoline in Canada
(in 2009 \$)**



Average Historical Gasoline Prices

	Nominal ¢/L	Constant ¢/L (2009)
1980s	46.0	86.3
1990s	55.7	73.6
2000 - 2009	86.9	93.3
1980 - 2009	62.9	84.4