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Fuel Focus

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

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National Overview

Canadian Retail Gasoline Prices Unchanged at \$1.02 per Litre from Last Week

Compared to the previous week, average Canadian retail gasoline prices remained unchanged at \$1.02 per litre for the week ending July 13, 2010. Prices are 38 cents per litre lower than when they peaked to their record high of \$1.40 two years ago on July 15, 2008.

Reflecting a similar pattern in wholesale gasoline and crude prices, retail pump prices continue to fluctuate moderately, compared to previous years.

For the week ending July 13, 2010, diesel fuel prices declined by almost 1 cent per litre to 98 cents per litre. This is an increase of nearly 8 cents per litre compared to the same period last year.

Recent Developments

- **Tax Changes Effective July 1, 2010:** Ontario and British Columbia introduced a harmonized sales tax (HST) at a rate of 13% and 12%, respectively. In B.C., only the federal portion of the HST (5%) applies to gasoline, diesel, and furnace oil. B.C. also increased its carbon tax on all petroleum products. Nova Scotia increased its HST to 15%.
- **East Montreal Refinery Temporary Court Injunction:** On July 8, 2010, a Quebec court issued an order for a temporary halt to any dismantling work being done at Shell Canada's East Montreal refinery for conversion to a fuel-distribution terminal. The Shell Canada refinery's union, affiliated with the Quebec Federation of Labour, claimed the company had contravened the *Oil Product Act* which requires permission from Quebec's Minister of Natural Resources before any dismantling work on a refinery or other petroleum products plant can go ahead. The injunction will be valid for 10 days, but can be renewed. (Source: Montreal Gazette)
- **Oil and Natural Gas Markets Still Uncertain:** On June 23, 2010, the International Oil Agency (IEA) release its *Medium-Term Oil and Gas Markets 2010* report which indicates that though oil and gas markets are starting to show signs of recovery, the impact of the recession differs across regions, and the outlook remains very uncertain. The report notes a dichotomy between non-OECD and OECD markets with strong growth in China, India and the Middle East compared to weaker or flat demand elsewhere, especially in the fragile European economy. (Source: IEA, http://www.iea.org/press/pressdetail.asp?PRESS_REL_ID=394)

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

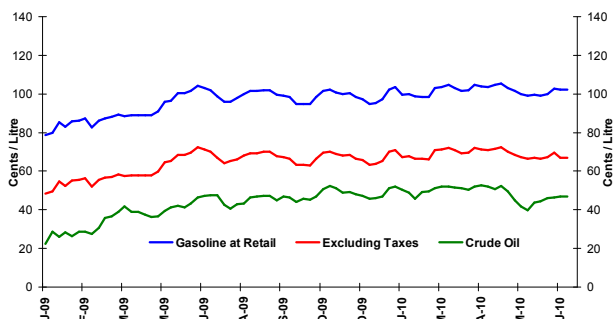
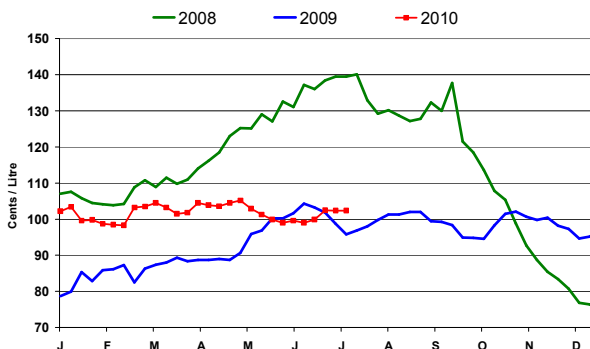


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-07-13	Previous Week	Last Year
Gasoline	102.4	0.0	+6.6
Diesel	97.6	-0.6	+7.6
Furnace Oil	87.8	-0.4	+10.8

Source: NRCan

In this Issue

	page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5





Retail Gasoline Overview

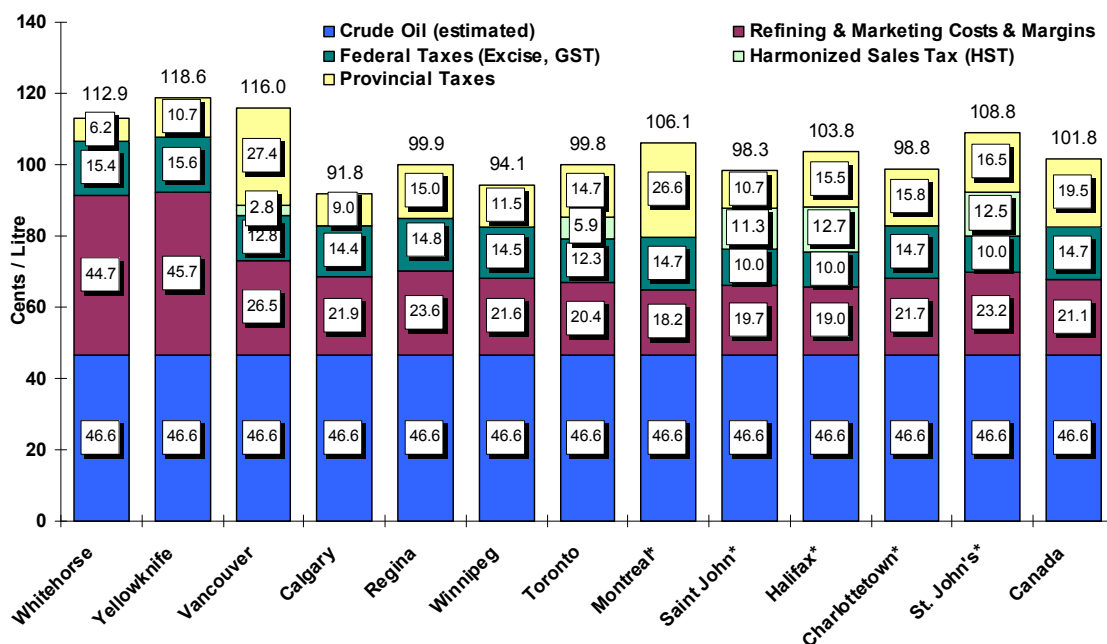
The average Canadian pump price in selected cities for the **four-week average** ending July 13, 2010, was \$1.02 per litre, an increase of less than 2 cents per litre from the last report on July 2, 2010. This increase reflects, in part, the added HST in British Columbia and Ontario on July 1, 2010.

The **four-week average** crude oil price increased by 1 cent per litre to 47 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres (Vancouver to Winnipeg) increased by less than 1 cent per litre when compared to the previous report and ranged from 92 cents per litre to \$1.16 per litre. Prices in Eastern cities (Toronto to St. John's) rose by 1 cent per litre, and ranged from 98 cents per litre to \$1.09 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 1 cent per litre to 21 cents per litre. This represents a decline of 1 cent per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 22 to July 13, 2010)**



Source: NRCan

* Regulated Markets

Where Does Gasoline Come From?

After crude oil is refined into gasoline and other petroleum products, the products must be distributed to consumers. Generally, petroleum products are blended at the refinery and shipped by rail, ship, or pipeline to storage terminals near consuming areas and then loaded into trucks for delivery to individual gas stations.

According to a site census done in 2008, there are 12,684 retail gasoline outlets operating in Canada. To the consumer, a gas station selling a given brand of gasoline may seem to be a straightforward entity. In fact, there exists a myriad of types of dealer-marketer relationships, and a variety of types of brand marketers. Gasoline stations may be selling gasoline produced from different refineries. This mixing of brands occurs because gasoline from different refineries is often combined for shipment by pipeline, and companies owning service stations in the same area may be purchasing gasoline at the same bulk terminal. The only difference between the gasoline at station X and the gasoline at station Y may be the small amount of additives that those companies add to the gasoline before it gets to the pump.

Source: NRCan, U.S. Energy Information Administration, MJ Ervin & Associates.





Wholesale Gasoline Prices

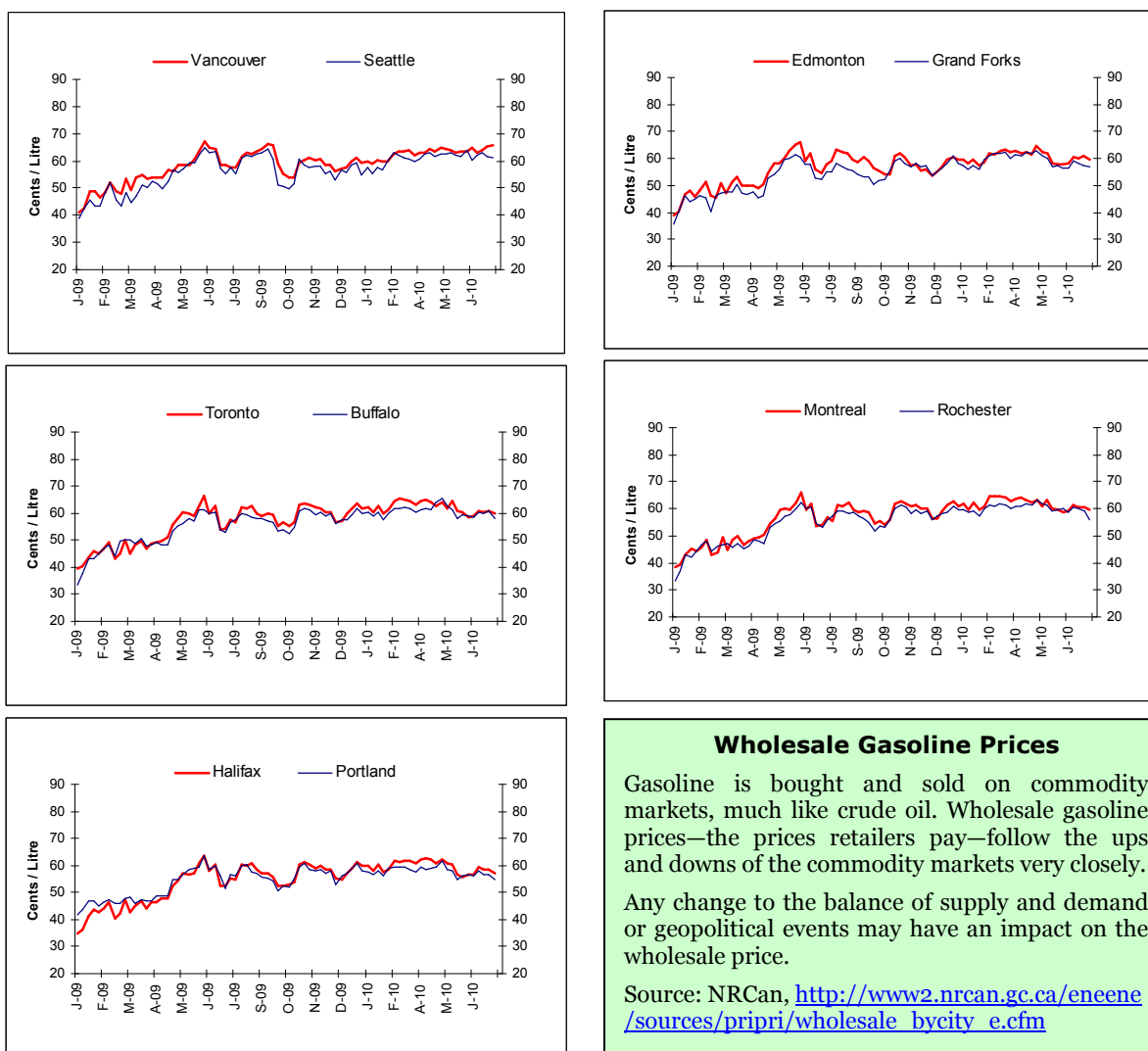
For the **week ending July 8, 2010**, wholesale gasoline prices decreased in most selected centres compared to the previous week. Overall, price changes ranged from less than 1 to 3 cents per litre.

In both Canadian and comparable U.S. markets, prices, compared to two weeks ago, declined in the range of 1 to 4 cents per litre, with the exception of Vancouver still holding a gap with Seattle. Compared to four weeks

ago, wholesale prices have increased by 1 cent per litre in both Seattle and Vancouver, while prices in other centres hovered between a decrease of 3 cents per litre to an increase of more than 1 cent per litre.

Overall, wholesale prices in most selected centres remained between 1 and 7 cents per litre higher than they were at this time last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 8, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

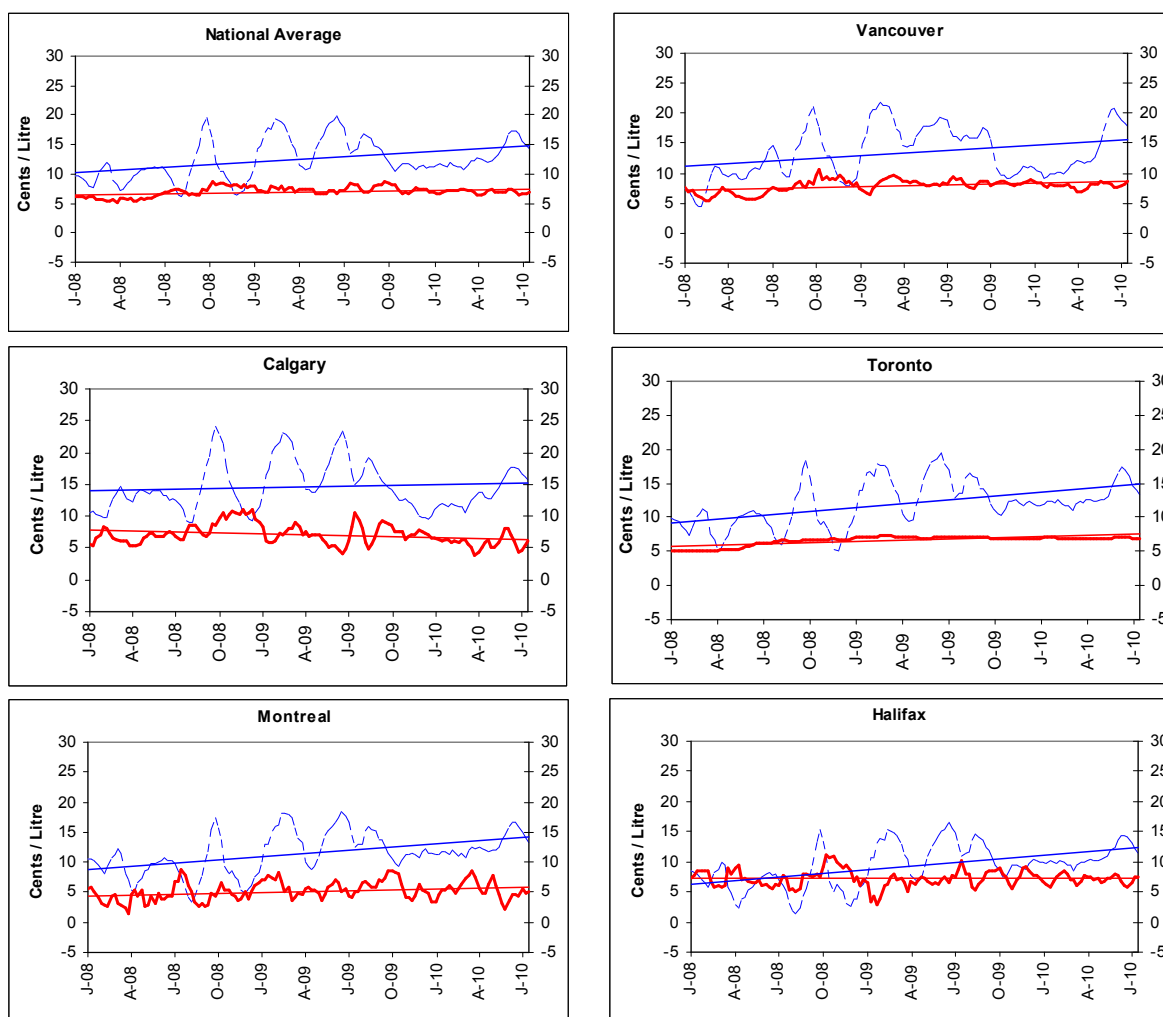
Four-week rolling averages are used for gasoline refining and marketing margins.

Reflecting lower wholesale gasoline prices and an adequate supply in the North American distribution system, gasoline refining margins continued their downward trend in this reporting period. Margins declined for the fifth straight week to 14 cents per litre from 17 cents per litre.

Nationally, marketing margins hovered around 7 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold, and availability of other product offerings such as convenience stores and car washes.

For the five centres, marketing margins ranged from a low of 5 cents per litre in Montreal to nearly 9 cents per litre in Vancouver.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 13, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Almost Unchanged from the Previous Week

For the week ending July 9, 2010, prices for the three marker crudes averaged between \$482/m³ and \$489/m³, (\$US73 to \$US74 per barrel). This is a decrease of \$7 to 14/m³ (\$US0.3 to \$US1.75 per barrel) compared to the previous week.

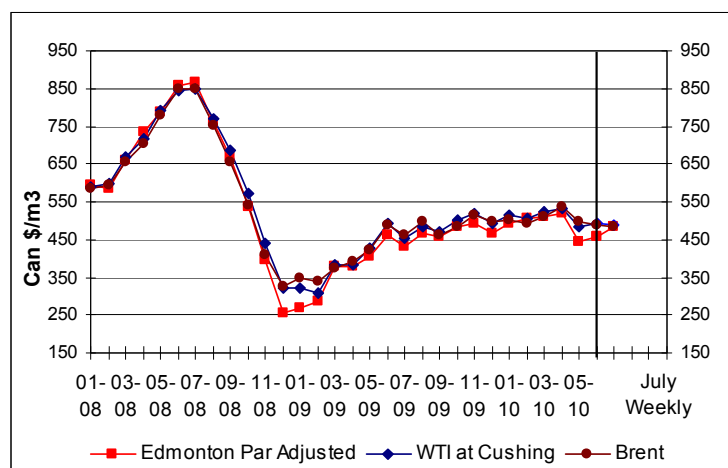
World crude oil prices continue to fluctuate moderately in the midst of uncertainties about the scale of the U.S. economic recovery. U.S. crude oil inventories, although declining, remain above the historical five-year average, while the gasoline inventories continue to stay high. Both of these factors tend to moderate prices.

Two years ago, almost to the day, world crude oil prices were nearly double the current prices at \$US 140 per

barrel (\$894/m³). Since May 2009, average monthly prices hovered between \$450 and \$550/m³.

Meanwhile, the U.S. government and BP continue to struggle with measures to contain the oil spill in the Gulf of Mexico. The U.S. Gulf of Mexico constitutes 30% of U.S. oil production and the offshore share of U.S. oil production is 33%. The U.S. Department of Energy forecast that a moratorium on deepwater drilling would reduce crude production by 31,000 barrels per day in the fourth quarter. This represents less than 1% of the total U.S. production in the Gulf of Mexico. Should the U.S. moratorium be upheld, Canada could easily make-up for the anticipated shortfall in U.S. production.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-07-09		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	482.11	73.02	-14.07	-1.75	+54.75	+14.62
WTI	488.94	74.40	-8.29	-0.59	+39.02	+12.91
Brent	482.69	73.44	-6.51	-0.33	+36.65	+12.49

Source: NRCan

EIA's Short-Term Energy Outlook

The July 7, 2010, Energy Information Administration's (EIA) projections are that regular-grade motor gasoline retail prices will average \$2.80 per gallon during this summer's driving season (the period between April 1 and September 30), up from \$2.44 per gallon last summer. The summer gasoline price forecast is up only slightly (\$0.01) from the previous month's Outlook, but \$0.12 per gallon lower than the EIA had forecasted in April when oil prices were significantly higher.

EIA's view of the world oil market is largely unchanged from recent Outlooks. EIA forecasts that world oil prices will rise slowly as an expected renewal of global economic growth leads to higher world oil demand and members of the Organization of the Petroleum Exporting Countries (OPEC) continue their support of prices near current levels.

The West Texas Intermediate (WTI) crude oil spot prices, which ended June near \$76 per barrel, will average \$79 per barrel over the second half of 2010 and \$83 per barrel in 2011. This forecast is unchanged from their previous month's Outlook.

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

