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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 Up 1 Cent per Litre from Last Week

For the week ending July 27, 2010, the average Canadian retail gasoline price was \$1.04 per litre. This is an increase of more than 1 cent per litre from the previous week and an increase of more than 6 cents per litre from a year ago.

Diesel and furnace oil prices remain almost unchanged from the previous week at 97 and 89 cents per litre respectively. Diesel fuel prices are up 9 cents per litre from the same period last year while furnace oil prices have increased by close to 13 cents per litre.

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

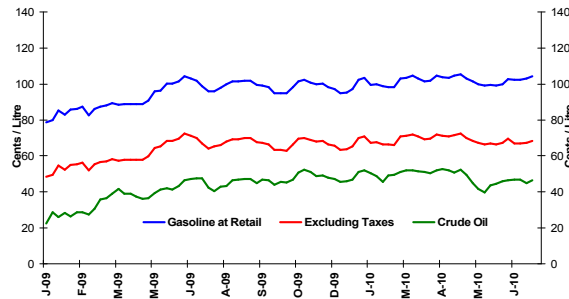
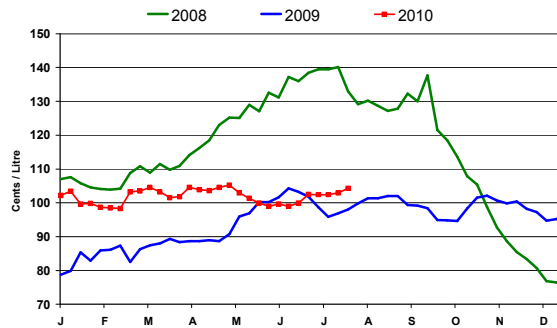


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- Consumer Prices Rise 1%:** Consumer prices rose 1.0% in the 12 months to June, following a 1.4% increase in May. Energy prices rose 1.3% between June 2009 and June 2010, after increasing 6.2% over the 12 months ending in May. The price of gasoline decreased 2.9% in June compared with the same month a year earlier, after rising 6.9% in May. (Source: Statistics Canada, <http://www.statcan.gc.ca/daily-quotidien/100723/dq100723a-eng.htm>)
- Gasoline Sales Increase 4%:** Motor gasoline sales increased nearly 4% to 18 billion litres in the first five months of 2010 compared to the same period in 2009. Diesel fuel oil sales rose nearly 7% to 11 billion litres, while light fuel oil (furnace oil) declined 10% to 1.6 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- G7 Trade Sluggish in First Quarter 2010:** Merchandise trade volumes for the G7 countries as a whole continued to grow in the first quarter of 2010, but at a slower pace than in the fourth quarter of 2009. G7 merchandise export and import volumes both grew by 3.2% in the first quarter of 2010 compared to 4.7% and 3.7%, respectively, in the fourth quarter of 2009. The highest increases were registered in Germany and Japan, where export volumes rose by 4.3% and 6.5%, respectively. Export volumes grew more slowly in Canada (0.4%), the United Kingdom (1.4%) and the United States (1.6%), where growth was also down from the fourth quarter of 2009. (Source: OECD, http://www.oecd.org/document/47/0,3343,en_2649_34235_45685103_1_1_1_1,00.html)

Changes in Fuel Prices

| ¢/L | Week of: | Change from: | |
|-------------|------------|---------------|-----------|
| | 2010-07-27 | Previous Week | Last Year |
| Gasoline | 104.3 | +1.4 | +6.3 |
| Diesel | 97.3 | +0.1 | +9.3 |
| Furnace Oil | 88.5 | +0.1 | +12.9 |

Source: NRCan

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Retail Gasoline Overview

The **four-week average** Canadian pump price in selected cities across Canada was \$1.03 per litre for the period ending July 27, 2010. This is an increase of more than 1 cent per litre from the last report on July 13, 2010, and almost 6 cents per litre higher compared to the same period in 2009.

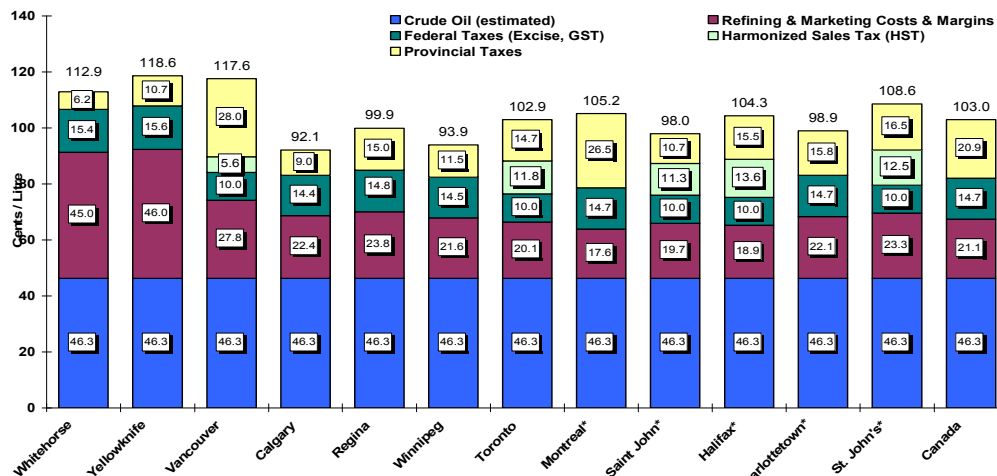
For the period ending July 27, 2010, the **four-week average** crude oil price component of gasoline remained almost unchanged at 46 cents per litre. However, this is a 3 cents per litre increase from the same period in 2009.

Retail prices in Eastern centres fluctuated slightly with Toronto increasing by 3 cents per litre. Prices ranged from a low of 98 cents per litre in Saint John, to almost \$1.09 in St. John's. Prices in Western centres also increased, on average, by less than 1 cent per litre and ranged from 92 cents per litre in Calgary to almost \$1.18 per litre in Vancouver.

At the national level, refining and marketing costs remained almost unchanged from the previous report, but are down more than 1 cent per litre from this time last year. Provincial taxes are up 4 cents per litre compared to a year ago largely due to the introduction and increases of the HST in some provinces.

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**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 6 to 27, 2010)**



Source: NRCan

* Regulated Markets

2009 International Fuel Price Report

According to a 2009 International Fuel Price report on trends and issues in 2007 and 2008 of the retail prices of gasoline and diesel in more than 170 countries, these years were characterized by high price volatility raising concerns over energy security and the role of fossil fuels linked to global development and climate change. The report notes that beyond the need for the readjustment of fuel policies, the questions of reliability of supply, sustainability and efficiency are gaining attention. Since 95% of the transportation sector depends on fossil fuels, is therefore overly exposed to fuel price shocks and supply constraints. As such, the transportation sector must continue to focus on the reduction of travel needs, increase public transportation, and improve the efficiency of existing public and private transportation.

The report comments that taxation of fossil fuels remains a powerful instrument to generate revenues for road infrastructure and maintenance. However, fuel price increases, or the removal of subsidies, can have negative impacts on the poor. The report reiterates the four basic principles of fuel pricing: 1) Fuel prices should cover production and distribution costs; 2) fuel taxes should help finance the transportation sector; 3) fuel taxes should help internalize external costs and incentivise energy efficiency in the transportation sector and; 4) fuel taxes should contribute to general revenues, e.g. the normal VAT shall be levied.

Source: German Federal Ministry for Economic Cooperation and Development, <http://www.gtz.de/en/themen/30005.htm>



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Wholesale Gasoline Prices

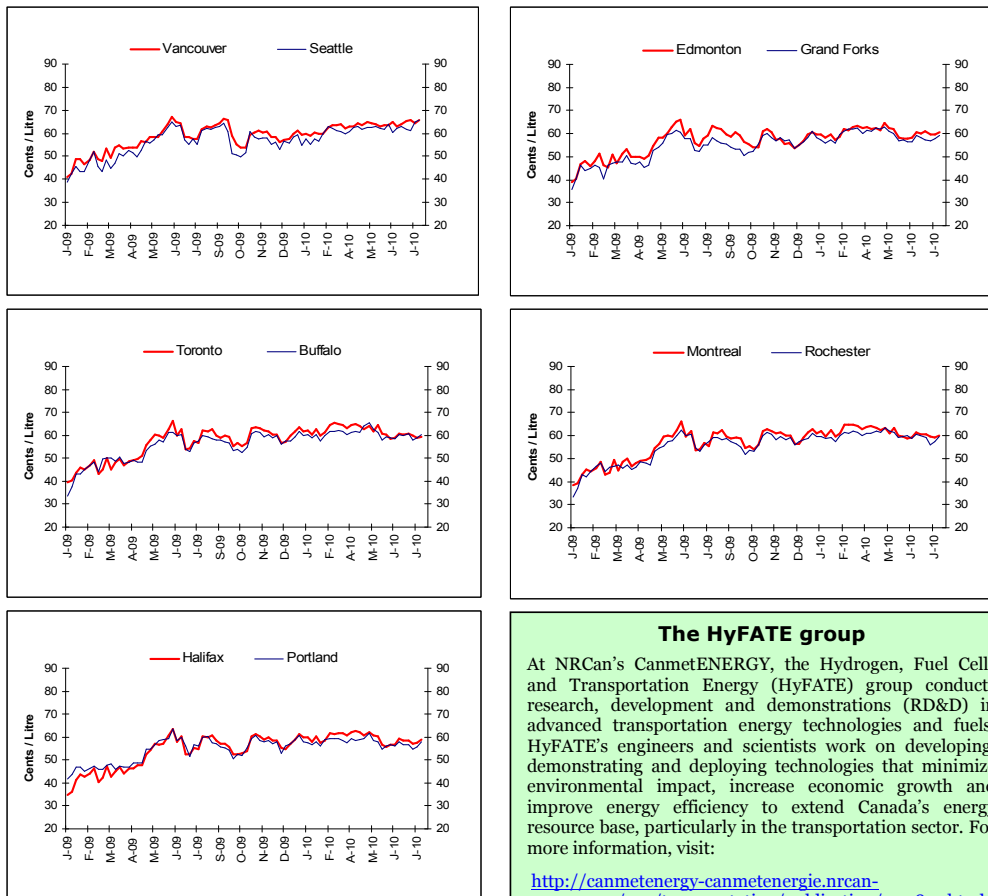
Compared to the previous week, wholesale gasoline prices for the week ending **July 22, 2010** increased in all of the selected Canadian and American centres. Wholesale gasoline price changes ranged from an increase of less than 1 cent per litre to an increase of more than 2 cents per litre. Prices finished the period in the 58 to 66 cents per litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered increases ranging from less than 1 cent per litre to more than 2 cents per litre. The period ended in the 58-to-60 cent per litre range.

Western wholesale gasoline prices ended in the range of 59-to-66 cents per litre, with prices increasing in the range of slightly more than half a cent per litre in Edmonton to more than 1 cent per litre in Vancouver. Also of note, at 66 cents per litre, Vancouver registered its highest wholesale gas price since June 2009.

Compared to the same time last year, prices in the American and Canadian centres are both, on average, 4 cents per litre higher. Nominally, prices in most selected centres are 2 to 8 cents per litre higher than they were in the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 22, 2010
(Can ¢/L)



The HyFATE group

At NRCan's CanmetENERGY, the Hydrogen, Fuel Cells and Transportation Energy (HyFATE) group conducts research, development and demonstrations (RD&D) in advanced transportation energy technologies and fuels. HyFATE's engineers and scientists work on developing, demonstrating and deploying technologies that minimize environmental impact, increase economic growth and improve energy efficiency to extend Canada's energy resource base, particularly in the transportation sector. For more information, visit:

<http://canmetenergy-canmetenergie.nrcan-nrcan.gc.ca/eng/transportation/publication/200851.html>

Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins. Compared to two weeks ago, the refining margins for 4 out of the 5 selected markets remain almost unchanged. The exception is in Vancouver, where refining margins increased by about 2 cents per litre. This increase is a reflection of changes in the wholesale price in that market.

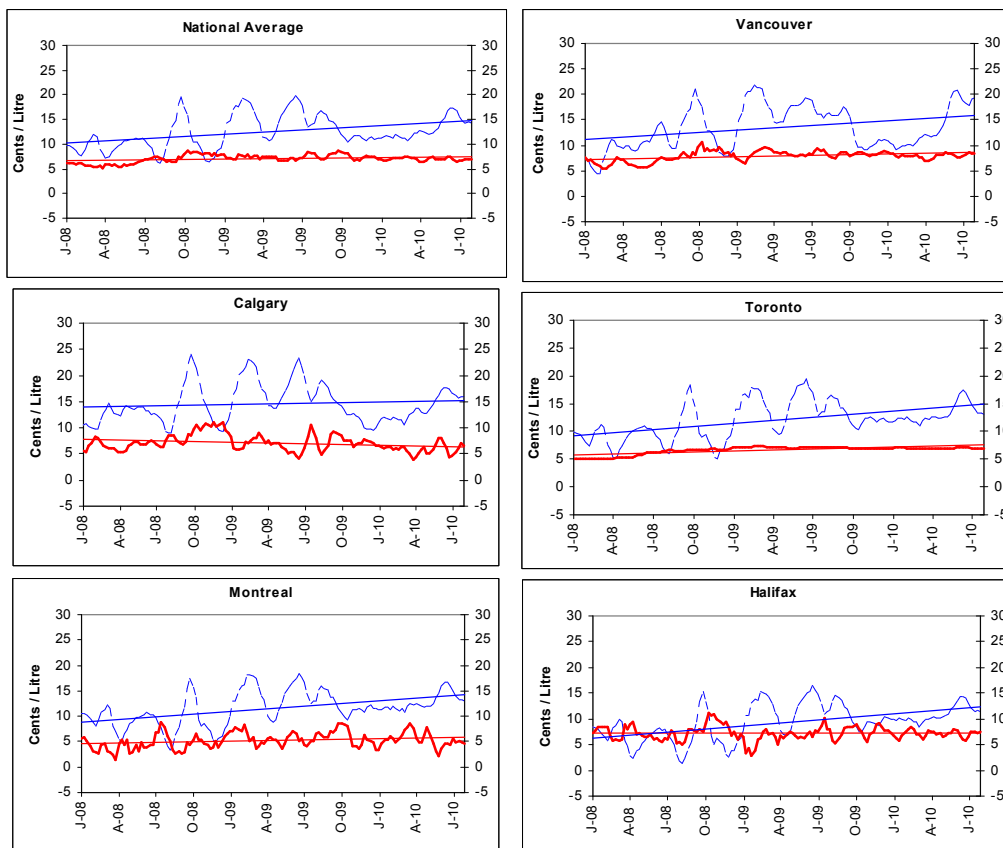
The downward slope in the refining margins corresponds to sufficient gasoline supplies and the relative stability in world crude oil markets. While the summer driving season is fully underway, traditionally a high demand season for gasoline, refiners believe they have enough

gasoline to meet the remaining seasonal demand.

Compared to this time last year, national marketing margins have decreased by more than 1 cent per litre.

Nationally, the four week average marketing margin is hovering around the 7 cents per litre mark. However, marketing margins vary by region, ranging from a low of 5 cents per litre in Montreal to a high of almost 9 cents per litre in Vancouver.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 27, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Tropical Storm Bonnie Impacts Crude Oil Prices

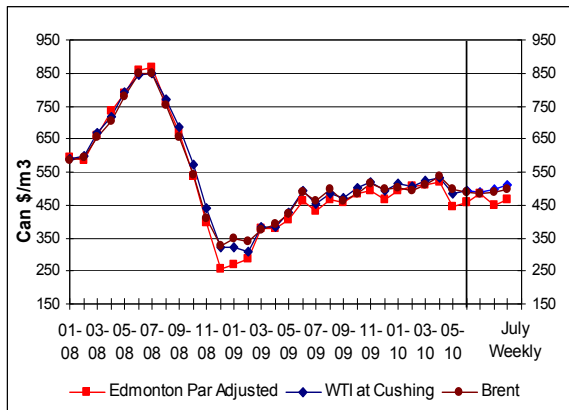
For the week ending July 23, 2010, prices for the three marker crudes averaged between \$464/m³ and \$511/m³, (US\$71 to US\$78 per barrel). This is an increase of \$9 to \$14/m³ (US\$1 to US\$2 per barrel) compared to the previous week. Crude oil prices have also increased from this time last year. Prices increases have ranged from a low of \$35/m³ at Brent, to a high of \$62/m³ at West Texas Intermediate. However, prices remain well below their value at this time 2 years ago.

Several competing factors affected the price of crude for the week ending July 23, 2010. Reports of gains in US crude inventories, an uncertain economic outlook as

forecasted by Federal Reserve Chairman Ben Bernanke, and falling consumer confidence all put downward pressure on the price of crude.

However, putting upward pressure on the price of crude was a real concern about tropical storm Bonnie, which was forecasted to head straight into the main area of crude oil production in the US Gulf of Mexico. Because oil and gas production facilities operating in the area are typically evacuated and shut down as a precautionary measure, some supply is removed from the market causing a temporary increase in crude prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

| Crude Oil Types | Week Ending: 2010-07-23 | | Change From: | | | |
|-----------------|-------------------------|----------|---------------|-------|-----------|--------|
| | \$Can/m ³ | \$US/bbl | Previous Week | | Last Year | |
| Edmonton Par | 464.31 | 70.63 | +14.27 | +1.72 | +40.50 | + 9.18 |
| WTI | 511.40 | 77.79 | +12.82 | +1.44 | +62.36 | +12.69 |
| Brent | 498.01 | 75.76 | + 8.75 | +0.83 | +35.48 | + 8.69 |

Source: NRCan

2010 Canadian Refining Capacities

| Refiners | Location | Capacity (barrels/day) | Capacity ('000 m ³ /d) |
|-------------------------------|---------------------|------------------------|-----------------------------------|
| North Atlantic Refining | Come-By-Chance (NL) | 115 000 | 18.3 |
| Imperial Ltd | Dartmouth (NS) | 89 000 | 14.1 |
| Irving Oil Ltd | Saint-John (NB) | 285 000 | 45.3 |
| Total Atlantic | | 489 000 | 77.7 |
| Suncor Energy Ltd | Montréal (QC) | 130 000 | 20.7 |
| Shell Canada* | Montréal (QC) | 130 000 | 20.7 |
| Ultramar | St-Romuald (QC) | 265 000 | 42.1 |
| Total Quebec | | 525 000 | 83.5 |
| Imperial Oil Ltd | Nanticoke (ON) | 112 000 | 17.8 |
| Imperial Oil Ltd | Sarnia (ON) | 121 000 | 19.2 |
| Shell Canada | Sarnia (ON) | 72 000 | 11.4 |
| Suncor Energy Ltd | Sarnia (ON) | 83 000 | 13.2 |
| Total Ontario | | 388 000 | 61.7 |
| Consumers' Co-op | Regina (SK) | 100 000 | 15.6 |
| Imperial Oil Ltd | Strathcona (AB) | 187 000 | 29.7 |
| Suncor Energy | Edmonton (AB) | 138 000 | 21.9 |
| Shell Canada | Scotford (AB) | 100 000 | 15.9 |
| Total Prairies | | 525 000 | 83.1 |
| Chevron Canada | Burnaby (BC) | 52 000 | 8.3 |
| Husky Energy | Prince George (BC) | 12 000 | 1.9 |
| Total British Columbia | | 64 000 | 10.2 |
| Total Canada | | 1 991 000 | 316.2 |

These refineries produce the full range of refined petroleum products.

*Scheduled to be converted into an import terminal.

Source: NEB, NRCan

