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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 Jump 4 Cents per Litre from Last Week

For the week ending October 6, 2010, average Canadian retail gasoline prices increased by 4 cents to \$1.06 per litre. This is 11 cents per litre higher compared to a year ago and the highest price since October 14, 2008.

Diesel fuel prices rose by 2 cents to \$1.03 per litre, up 13 cents from the same period last year. Similarly, furnace oil prices increased by 3 cents ending at 92 cents per litre, an increase of almost 14 cents from a year ago.

World crude prices continue to increase. However, the price differential between Edmonton Par and WTI continues to widen and now stands at more than US\$8 per barrel.

Overall, the increase in retail prices reflects the higher world crude oil prices and North American wholesale prices.

Recent Developments

- In its June 2010 report *Supply and Disposition of Refined Petroleum Products*, Statistics Canada reported that January to June sales of petroleum products in 2010 were up 10.1% compared to the same six-month period in 2009. In June, motor gasoline sales totaled 4.2 million cubic metres, 16.3% higher than in June 2009 and diesel fuel oil sales totaled 2.7 million cubic metres, 24.8% higher than in June 2009. Regular unleaded gasoline accounted for 90.4% of retail sales, 16.6% higher than in June 2009. Source: Statistics Canada <http://www.statcan.gc.ca/pub/45-004-x/2010006/part-partie1-eng.htm>
- In a separate analysis, Statistics Canada also reported that domestic production of crude oil and equivalent hydrocarbons totaled 14.4 million cubic metres in July, up 3.1% from June and 3.7% higher compared to July 2009. Crude oil and equivalent exports were down 0.5% in July compared to the same month in 2009. Approximately 70% of Canada's total domestic production went to the export market. Source: The Daily <http://www.statcan.gc.ca/daily-quotidien/101001/dq101001a-eng.htm>

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

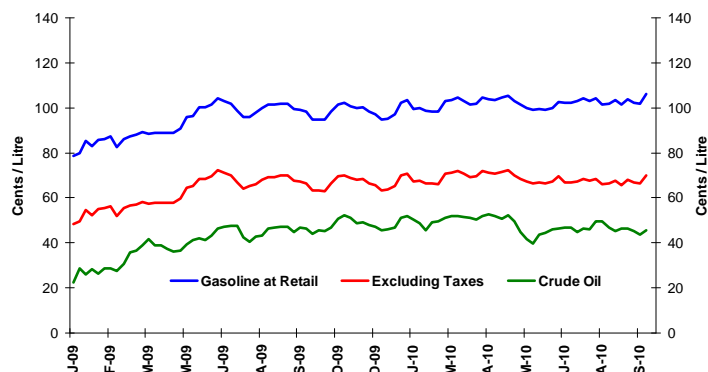
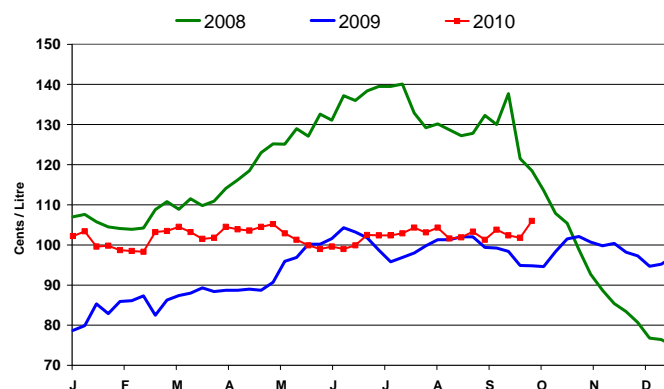


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2010-10-05	Previous Week	Last Year
Gasoline	106.0	+4.2	+11.2
Diesel	103.0	+2.2	+13.3
Furnace Oil	91.8	+2.6	+13.8

Source: NRCan

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Retail Gasoline Overview

For the period ending October 5, 2010, the **four-week average** regular gasoline pump price in selected cities across Canada was \$1.04 per litre, an increase of less than 1 cent per litre compared to the price in the previous report of September 24, 2010. Compared to the same period in 2009, the average Canadian pump price is 7 cents per litre higher.

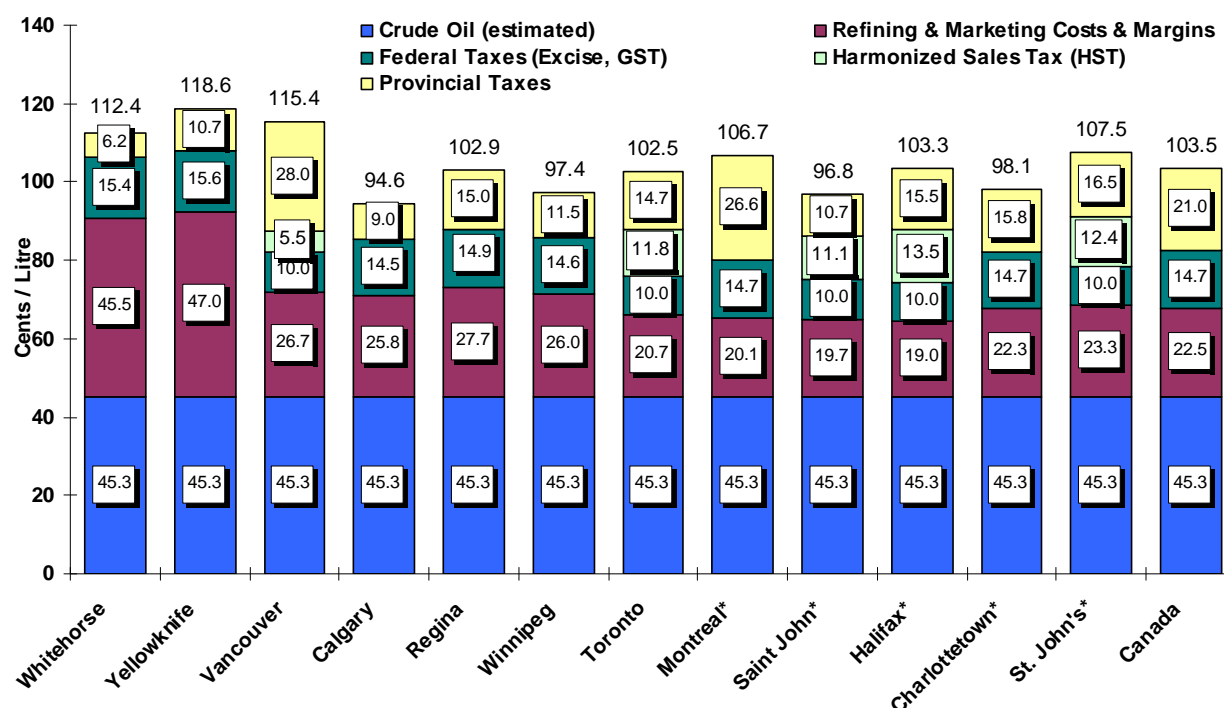
The **four-week average** crude component (based on the Edmonton Par crude) was 45 cents per litre, a dip of less than 1 cent compared to two weeks ago.

The federal and provincial tax components averaged 36 cents per litre, making up about 35% of the pump price. Compared to last year at this time, this represents an increase of 4 cents per litre.

At the national level, refining and marketing costs and margins increased by less than 1 cent to 23 cents per litre, an increase of 3 cents per litre compared to a year ago.

Figure 3: Regular Gasoline Pump Prices in Selected Cities

Four-Week Average (September 14 to October 5, 2010)



Source: NRCan

* Regulated Markets

Inflation Rose 1.7% in August

Statistics Canada's Consumer Price Index (CPI) report released on September 21, 2010, indicates that prices rose 1.7% in the 12 months to August, following a 1.8% increase in July. Overall, energy prices rose 5.0% between August 2009 and August 2010, following a 7.9% increase during the 12-month period to July.

Shelter costs rose 2.4% in August compared to the same month last year. In addition to paying higher prices for electricity and homeowner's replacement costs, consumers also paid more for rent and natural gas.

Transportation costs went up 2.0% in the 12 months to August after rising 2.7% in July. As well as paying higher prices for passenger vehicle insurance premiums, consumers paid 2.2% more for the purchase of passenger vehicles in August. Gasoline prices rose 1.9% during the 12-month period to August, after posting a 4.8% increase in July.

Source: Statistics Canada, The Daily, <http://www.statcan.gc.ca/subjects-sujets/cpi-ipc/cpi-ipc-eng.htm>





Wholesale Gasoline Prices

For the week **ending September 30, 2010**, wholesale gasoline prices increased in all the selected Canadian and American centres compared to the previous week.

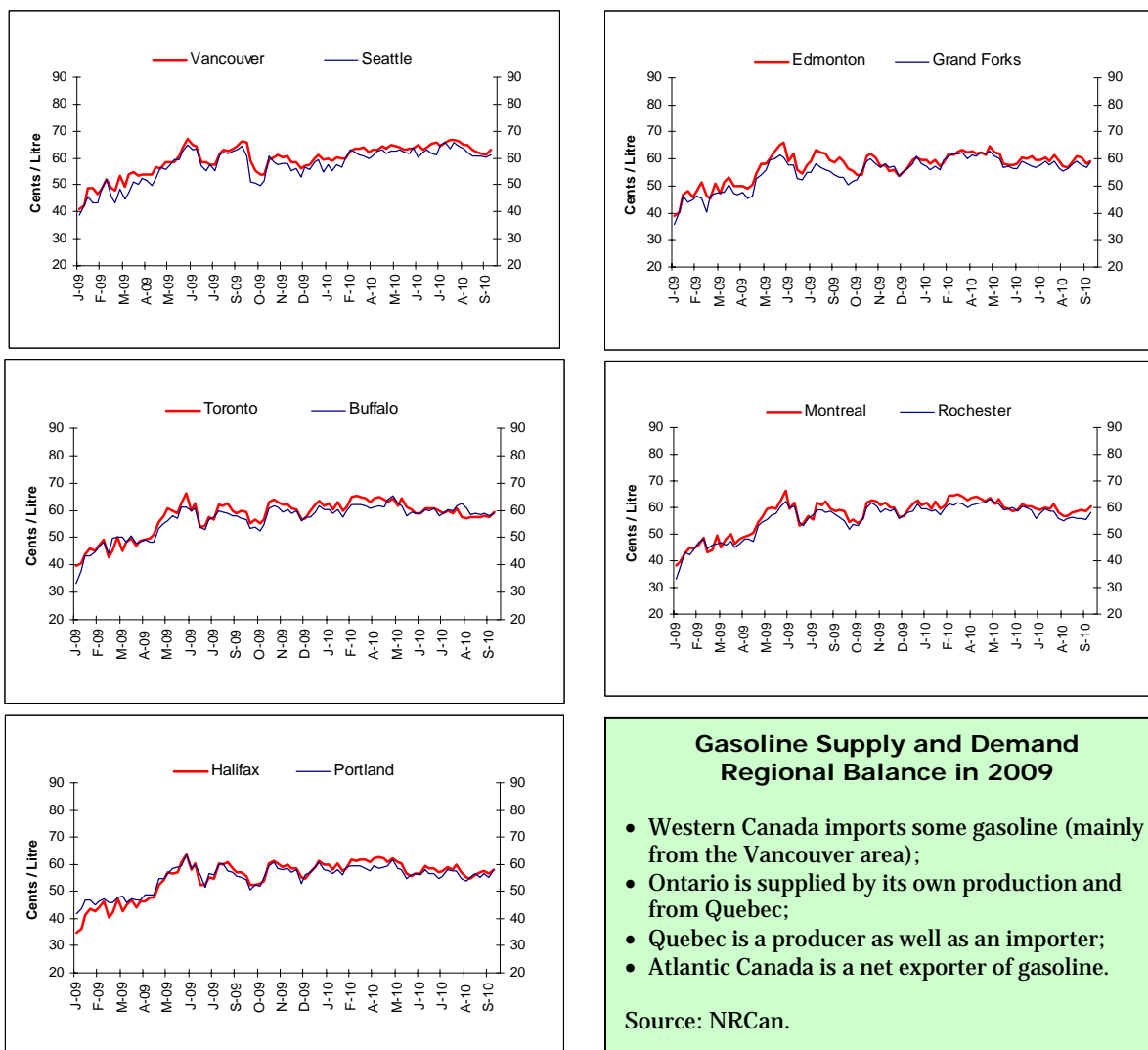
Overall, wholesale prices increased by 1 to 3 cents per litre, with prices increasing by 1 to 2 cents per litre in the Canadian centres and by 1 to 3 cents per litre in the American centres.

Wholesale gasoline prices in the Eastern centres, for both Canada and the U.S. increased by 1 to 2 cents per litre and ranged between 58 and 60 cents per litre. In the Western centres, price increases were in the range of 1 to 3 cents per litre, closing at 58 to 63 cents per litre.

The recent increases in world crude oil prices are being reflected in the wholesale gasoline prices.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending September 30, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

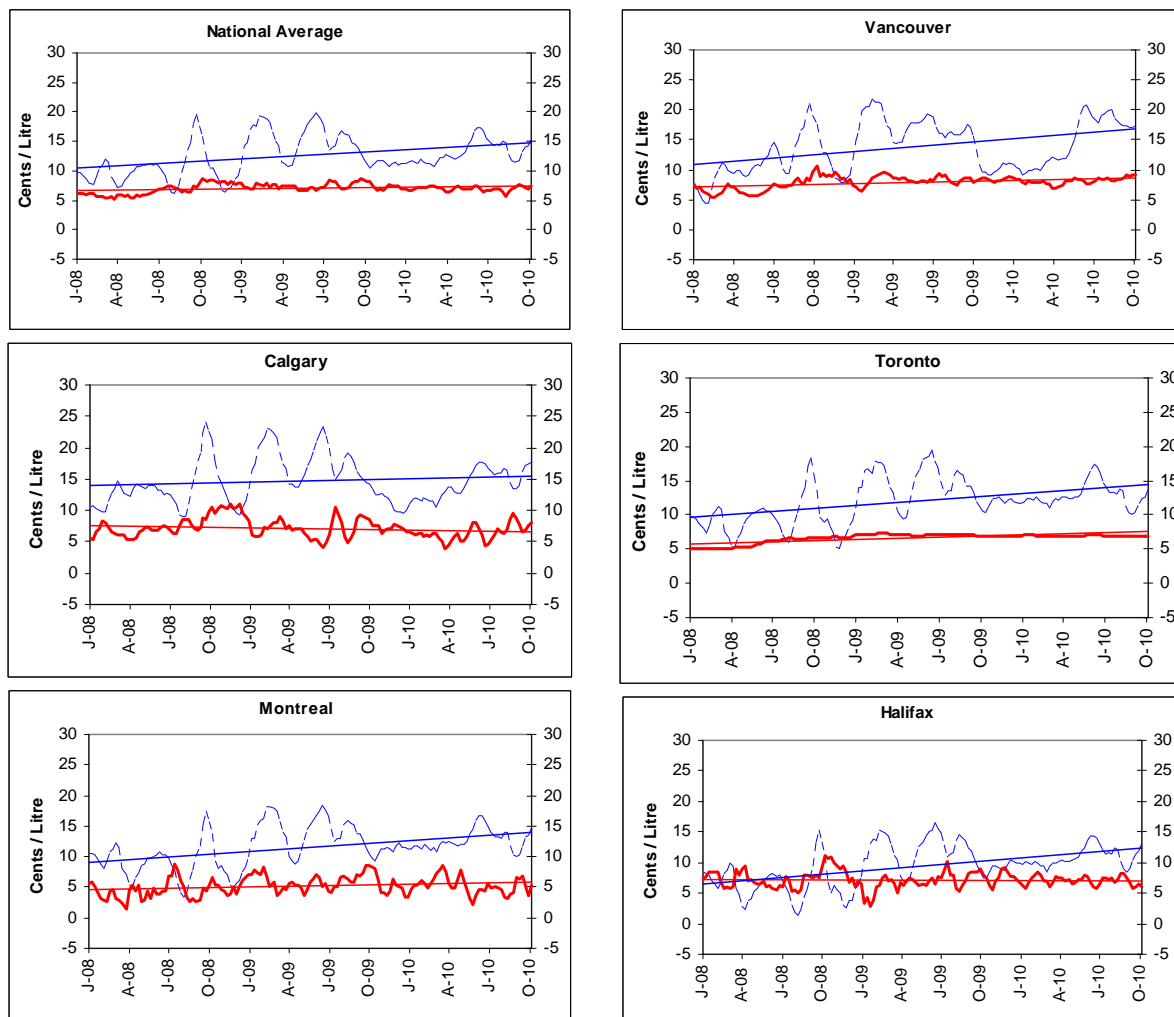
Four-week rolling averages are used for the gasoline refining and marketing margins. As shown in our graphs below, refining margins for gasoline have been moving upward in the past few weeks. This recent trend might be due in part to our methodology used to calculate the refining margins. The refining margin is calculated using the wholesale price minus the crude oil price.

In recent weeks, the price differential of the WTI and Brent marker crudes compared to the Edmonton Par crude has been widening. As our crude price analysis shows (Figure 6), WTI and Brent crudes are trading at US\$8 and US\$10 per barrel higher than the Edmonton

Par crude. Because the Edmonton Par is used to calculate the margins and that wholesale gasoline prices in Canada follow North American markets – where the WTI and Brent have pushed up wholesale prices – refining margins in Canada appear to be in an upward trend.

Marketing margins, which are calculated using the tax-excluded retail price minus the wholesale price, continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, marketing margins remain at approximately 7 cents per litre.

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



Source: NRCan





Crude Oil Overview

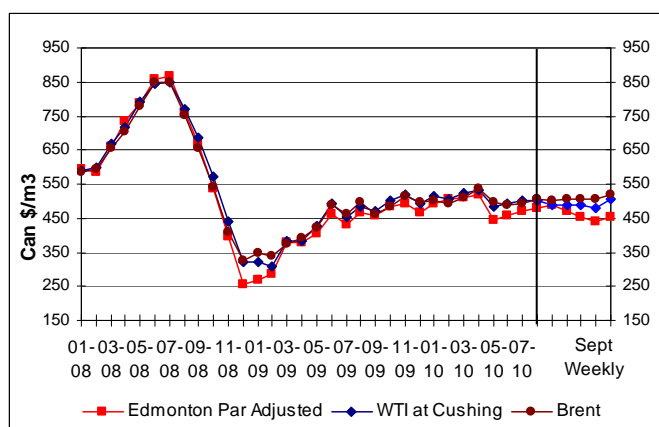
WTI and Edmonton Par Price Differential Widens

For the week ending October 1, 2010, prices for the three marker crudes averaged between \$452/m³ and \$518/m³, (US\$70 to US\$80 per barrel). This is an increase of \$11 to \$26/m³ (US\$2 to US\$4 per barrel) from the previous week.

While all the marker crudes registered increases, prices for WTI and Brent have increased more significantly resulting in a widening of the price differential between Edmonton Par and the two other marker crudes. The price differential between WTI and Edmonton is now US\$8 per barrel due in part to outages on the Enbridge Inc. pipeline system that constrained transportation capacity of Canadian crude oil in the United States Midwest.

According to market analysts, positive consumer spending data in the United States is diminishing fears of a double-dip recession and is pushing crude oil toward \$85 per barrel. Also, the U.S. dollar's recovery vs. the euro, strong economic news in China, political instability in Ecuador – a member of the Organization of the Petroleum Exporting Countries (OPEC) – and a fall in North Sea and West African crude supplies are all exerting upward pressure on prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-10-01		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	452.33	69.99	+12.07	+2.02	-3.52	+2.96
WTI	506.85	78.42	+25.88	+4.18	+37.64	+9.44
Brent	518.21	80.18	+11.22	+1.91	+65.28	+13.59

Source: NRCan

Report of the National Advisory Panel on Sustainable Energy Science and Technology

The report is a call to mobilize a major, long-term Canadian effort in sustainable energy science and technology. Some key recommendations are as follows:

- All stakeholders in the energy economy must increase their S&T funding to realize Canada's energy opportunity.
- Given the federal government's essential role in funding and performing energy S&T beyond the time and risk profiles of private sector investment, it should strive to at least double in real terms its investment in energy research and development within the next 10 years.
- The provinces own Canada's energy resources and therefore they benefit from successful energy innovation. Consequently, the Advisory Panel challenges the provinces to more than double their relatively small current investment in energy R&D over the next 10 years.
- The private sector is the most important funder and beneficiary of energy S&T. It must increase its level of support significantly if Canada is to reap the benefits of value-added, knowledge-based energy products and technologies. To this end, the Advisory Panel recommends that the energy sector double its R&D-to-revenue ratio by an average of 1.5% by 2016, with the long-term objective of matching the Canadian industrial average, which currently stands at 3.8%.

Source: NRCan

<http://nrcan.gc.ca/eneene/science/conall/index-eng.php>

