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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 Declined to 99 Cents per Litre—a Six-Week Low

Canadian retail pump prices, for the week ending February 9, 2010, decreased by less than 1 cent per litre to 99 cents per litre—a six-week low. This represents a 12 cent per litre increase from last year's level at the same time.

Diesel fuel prices increased by 0.3 cent per litre to 97 cents per litre compared to the previous week. This is an increase of 8 cents per litre from the same period last year. Furnace oil prices declined by 0.1 cent per litre from the previous week to an average of 89 cents per litre.

Retail pump prices declined slightly despite the increase in North American wholesale gasoline and crude oil prices. Over the last four weeks, gasoline prices have remained relatively stable, hovering in the range of \$1.03 per litre to 99 cents per litre.

Recent Developments

- **Gasoline Sales Decline 2% in 2009:** Motor gasoline sales decreased 2% to 40.9 billion litres in 2009 compared to 2008. Diesel fuel oil sales were down 8% to 26 billion litres, while light fuel oil (furnace oil) declined 10% to 3.4 billion litres in the same time period. (Source: Statistics Canada, 45-004)
- **Refining Loss in the Fourth Quarter of 2009:** Major U.S. refiners, such as Valero Energy Corp. and ConocoPhillips, have reported fourth quarter 2009 losses of \$US795 million and \$US204 million, respectively, mainly due to weak demand and lower margins. The refining industry expects 2010 to be another challenging year as refiners close marginal capacity and wait for demand to grow to work down spare capacity. (Global Refining & Fuels Today, January 28, 2010)
- **Strong Chinese Growth Resumes:** According to a recent OECD report, China, helped by massive government stimulus action, is now leading the world economy out of recession. Already the world's second largest economy, China could well overtake the United States to become the leading producer of manufactured goods in the next five to seven years. The report also says, however, public spending in China should be stepped up to support much needed social reforms in areas such as education, welfare assistance, pensions and health. (Source: OECD, <http://www.oecd.org/>)

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

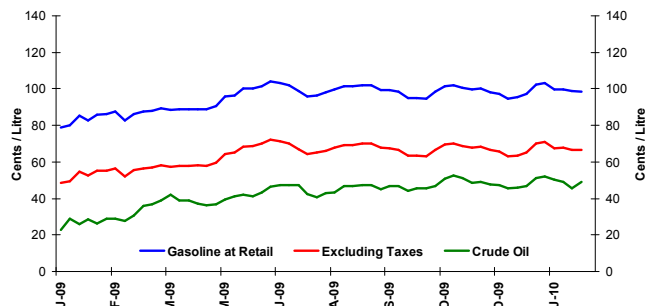
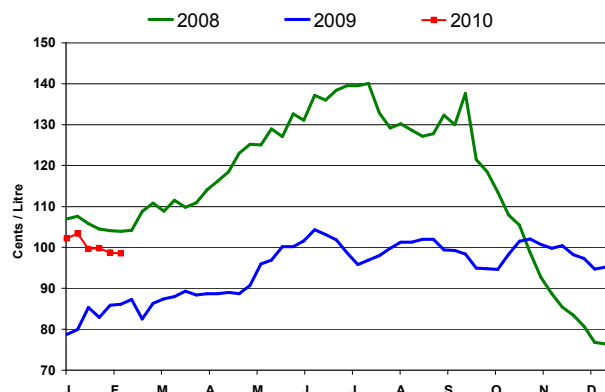


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2010-02-09	Previous Week	Last Year
Gasoline	98.5	-0.2	+12.4
Diesel	96.9	+0.3	+8.3
Furnace Oil	89.3	-0.1	+12.4

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

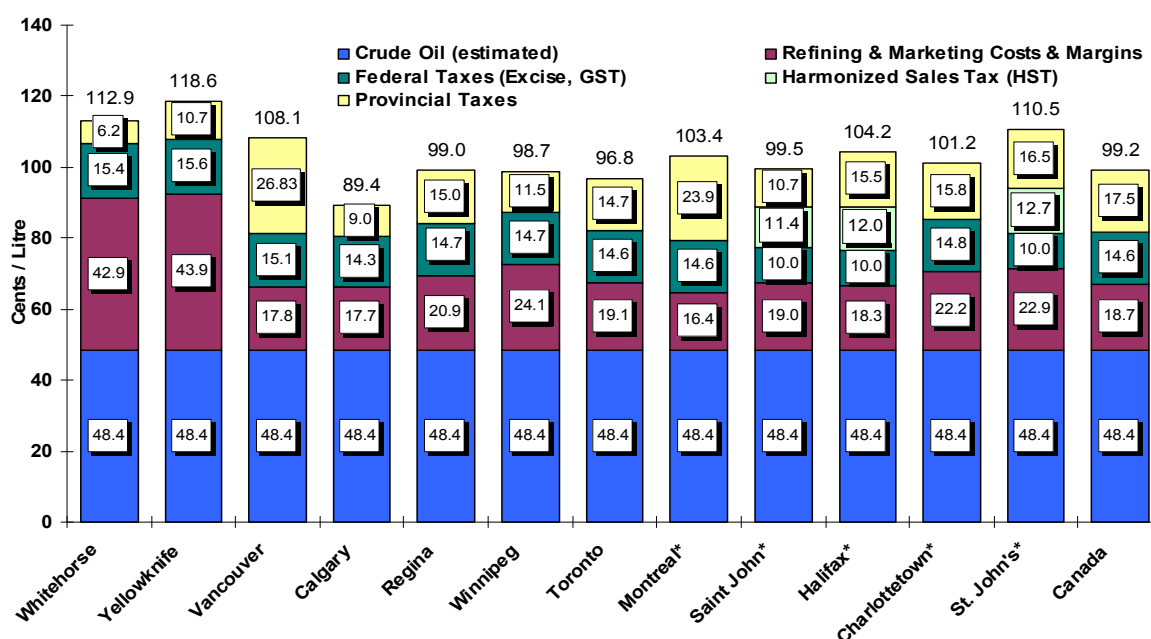
The **four-week average** regular gasoline pump price in selected cities across Canada was nearly \$1 per litre for the period ending **February 9, 2010**. This is a decrease of 2 cents per litre since the last report on January 29, 2010. Average four-week retail pump prices are 15 cents per litre higher than those recorded at the same time last year.

The **four-week average** crude oil price component of gasoline registered 48 cents per litre, down by 2 cents per litre from two weeks ago. Compared to the same period in 2009, the crude oil price component of gasoline is 21 cents per litre higher.

Retail gasoline prices in most Western centres decreased, on average, 1 cent per litre when compared to the previous report and ranged from 89 cents per litre to \$1.08 per litre. Prices in Eastern cities also declined, on average, by 1 cent per litre and ranged from 97 cents per litre to \$1.11 per litre.

At the national level, refining and marketing costs and margins rose marginally by 0.2 cent per litre from the last report. However, this represents a decrease of 8 cents per litre compared to the same period last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (January 19 to February 9, 2010)**



Source: NRCan

* Regulated Markets

Refining Industry Anticipates Slow Economic Recovery

Although the economy appears to be slowly recovering, demand for gasoline, diesel, and other refined fuels has nonetheless declined considerably since the summer of 2008. The price of crude oil—refiners' principal feedstock—has climbed steadily to almost US\$80 per barrel. Meanwhile, U.S. refined product inventories have reached record levels and refinery utilization rates are averaging at 75% to 80%. While some integrated oil companies can offset their refining losses with profits from their upstream operations; that may not be the case with independent refiners.

A number of oil and gas companies have announced large refinery losses in the third and fourth quarter of 2009—Sunoco reporting a US\$312 million loss in the third quarter of 2009, compared with a \$549 million profit in the year-earlier period and Exxon Mobil reporting refinery losses of US\$287 million in the fourth quarter. Other companies also struggled as their refineries were unable to pass along the higher oil costs to consumers. In response to these conditions, some refiners such as Chevron, Conoco-Philips, and Valero (parent company to Canada's Ultramar) are planning to wind down parts of their downstream business to cut losses.

Sources: Global Refining & Fuels Today; canadaeast.com <http://www.canadaeast.com/rss/article/939600>





Wholesale Gasoline Prices

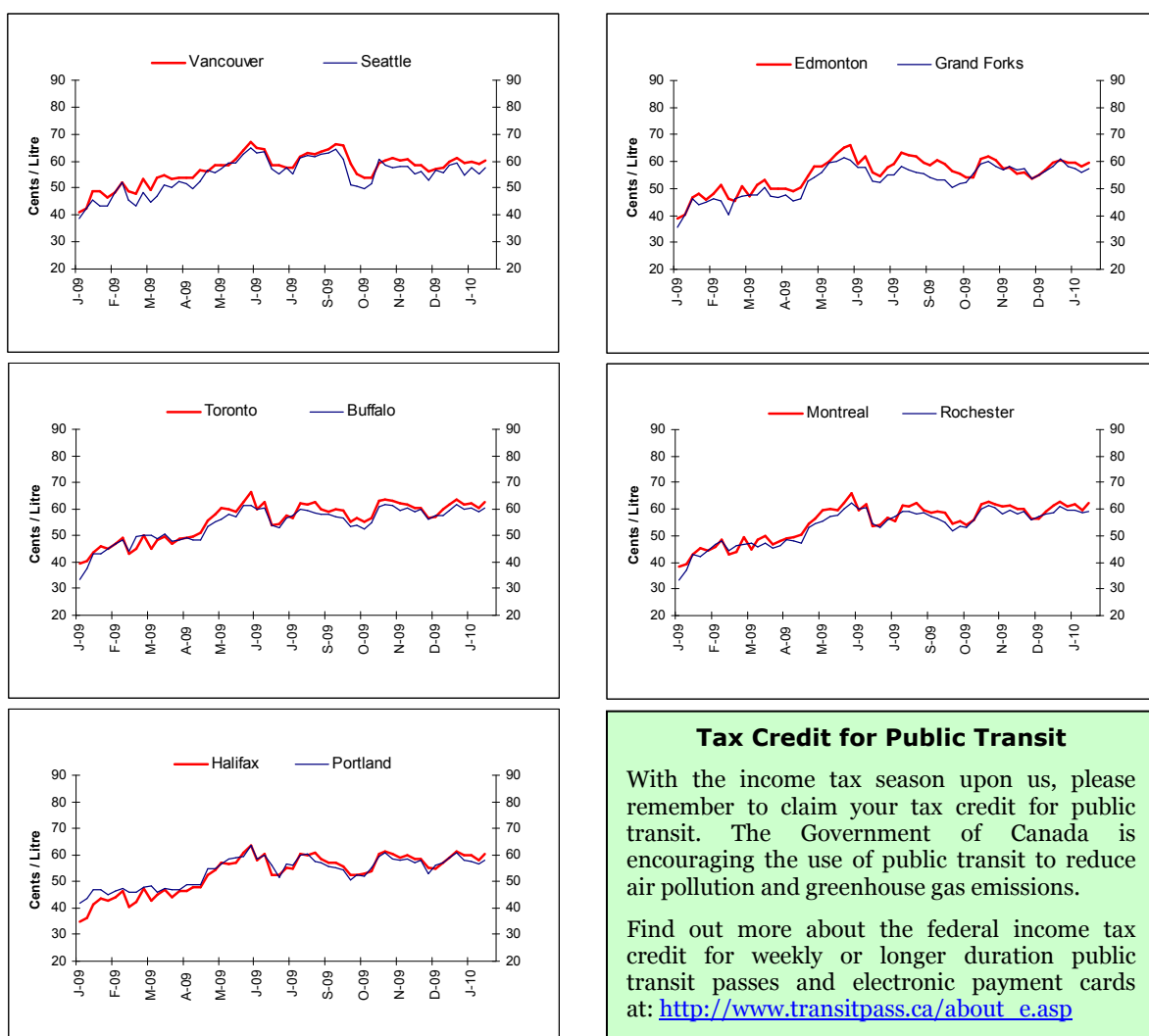
For the week **ending February 4, 2010**, wholesale gasoline prices only moved slightly compared to the previous week.

On average, prices increased in both Canadian and American centres by less than 1 cent a litre to more than 2 cents per litre, ending the period in the 57 to 63 cent per litre range. Compared to the same time last year, prices in the American and Canadian centres are, on average, 12 and 14 cents per litre higher, respectively.

Wholesale gasoline prices in the Western centres increased with prices ranging between 1 and less than 2 cents per litre while prices in the Eastern centres were up between 1 and more than 2 cents per litre.

Compared to **four weeks** ago, wholesale gasoline prices in all selected centres are, on average, down by less than 1 cent per litre in Canada and lower by more than 2 cents per litre in American centres.

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



Sources: NRCan, Bloomberg Oil Buyers Guide

Tax Credit for Public Transit

With the income tax season upon us, please remember to claim your tax credit for public transit. The Government of Canada is encouraging the use of public transit to reduce air pollution and greenhouse gas emissions.

Find out more about the federal income tax credit for weekly or longer duration public transit passes and electronic payment cards at: http://www.transitpass.ca/about_e.asp





Gasoline Refining and Marketing Margins

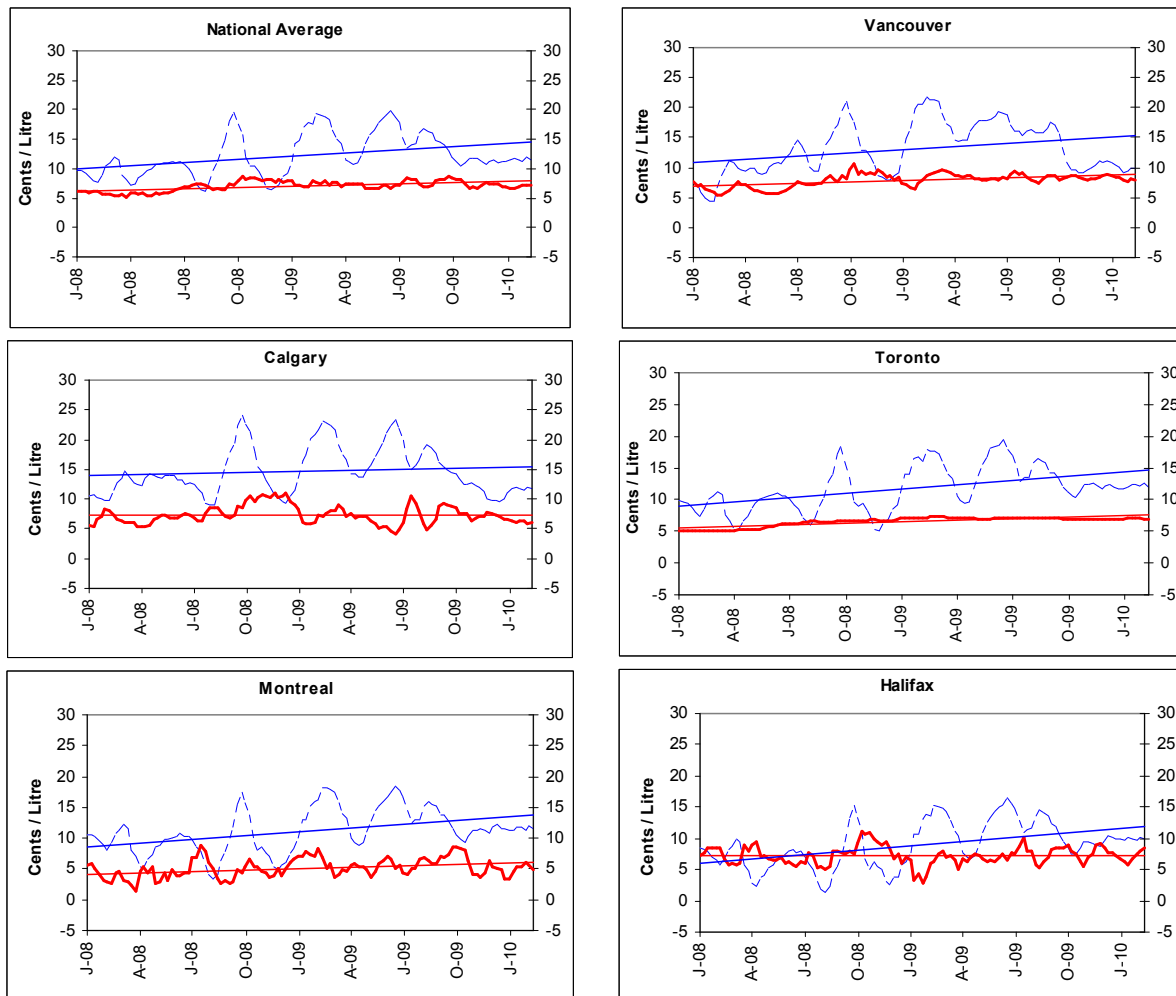
Four-week rolling averages are used for the gasoline refining and marketing margins.

Gasoline refining margins in the last two weeks have shown almost no gains and ended the week at 12 cents per litre. This trend reflects the decrease in demand for gasoline and an adequate supply in the distribution system in North America. Strong U.S. gasoline and crude oil inventories have created downward pressure on prices which, in turn, lower refining margins.

Overall, marketing margins also showed no gains and hovered around 7 cents per litre. For the five centres, marketing margins ranged from a low of 5 cents per litre in Montreal to a high of nearly 9 cents per litre in Halifax.

Marketing margins have to cover the costs associated with operating an outlet and generating a profit for the station owner. These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending February 9, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Moderate Fluctuations in More Than Three Months

For the week ending February 5, 2010, prices for the three marker crudes averaged between \$483/m³ and \$500/m³, (US\$72 to US\$75 per barrel). This is an increase of \$10 to \$20/m³ (US\$1 to US\$3 per barrel) compared to the previous week.

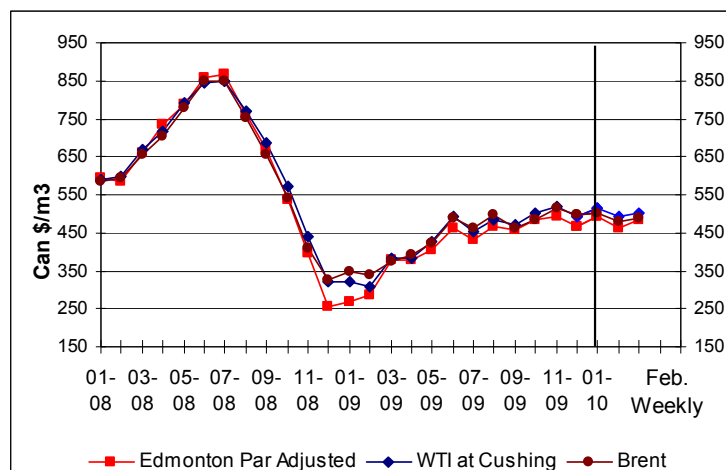
Crude oil prices fluctuated moderately as supply and demand for both crude oil and finished products seems to remain balanced. This means that high inventories and a moderate demand tend to restrain prices.

World crude oil prices fluctuated upward from the previous week upon renewed tensions over Iran's

nuclear program and the expected increase in demand for crude oil as the cold weather sweeps over the U.S. northeast coast. Ironically, the recent snow storms experienced on the U.S. East Coast and the shutdown of many of the transport systems in large urban areas could actually reduce the total demand for petroleum products.

The rise in oil prices is also partly kept in check as the recent strength of the U.S. dollar is putting downward pressure on prices. In addition, U.S. crude oil inventories remain well above the 5-year average range which further contributes to the steadiness in crude oil price fluctuations.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-02-05		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	483.05	72.00	+20.47	+2.80	+214.87	+33.30
WTI	500.35	74.59	+5.87	+0.62	+173.27	+32.08
Brent	490.19	73.08	+9.89	+1.23	+149.70	+28.82

Source: NRCan

Traditional Crude Oil Market Fundamentals

Oil markets can be volatile—as demonstrated in 2008 when oil prices were at an all-time high. Understanding the rapidly changing market can be difficult, particularly as the oil market has become increasingly complex with a variety of factors having an impact on oil prices.

For decades traditional factors played the dominant role in oil prices. These factors include seasonal and severe weather events, world oil supply and demand, OPEC spare capacity levels, the marginal cost of oil production, U.S. commercial crude oil inventory levels, the impact of technological changes on oil prices, and the state of the refinery infrastructure.

All of these factors will have some influence on the direction of oil prices. Other important trends include: the marginal cost of producing a barrel of oil is higher today than it was 10 years ago; the world will continue to be reliant on oil for the foreseeable future, particularly in the transportation sector; demand in emerging economies like China and India will continue to grow—perhaps at a slower rate; and there is sufficient supply to meet demand in the medium term.

Source: NRCan

