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Fuel Focus

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

Volume 5, Issue 22

November 19, 2010

Canada

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ISSN 1918-3321

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



National Overview

Canadian Retail Gasoline Prices Increased 2 Cents per Litre from Last Week

For the week ending November 16, 2010, Canadian average retail gasoline prices increased from the previous week by 2 cents per litre to \$1.10 per litre—the highest level in the last 25 months, with the WTI reaching US\$87 per barrel. Overall, retail gasoline prices increased due to higher North American wholesale prices. In turn, wholesale prices are pushed by higher world crude oil prices. Crude oil prices have reached their highest level since May 2010.

Diesel fuel prices are up 2 cents per litre from the previous week. This is an increase of 12 cents per litre from the same period last year. Furnace oil prices are up by nearly 1 cent per litre compared to last week, and 7 cents per litre from this time last year.

Recent Developments

- **Renewable Fuels Regulations:** The Renewable Fuels Regulations, published in the Canada Gazette, Part II, require an average renewable fuel content of five per cent in gasoline starting December 15, 2010. The Government of Canada also intends to regulate a two per cent requirement for renewable content in diesel fuel and heating oil by 2011. (Source: Environment Canada, <http://www.ec.gc.ca/energie-energy/default.asp?lang=En&n=0AA71ED2-1>)
- **Energy Supply Forecast:** Canadian consumers can rest assured that energy markets will be well supplied this winter, the National Energy Board (NEB) said in its latest Winter Outlook. Factors that influence energy prices include economic conditions, supply inventories, and weather. Weather is expected to have a significant impact on prices this winter, meaning less demand and corresponding lower prices. Crude oil prices are expected to average between US\$75 and US\$85 per barrel, similar to last winter. (Source: NEB, <http://www.neb.gc.ca/clf-nsi/rthnb/nwsrls/2010/nwsrls21-eng.html>)
- **Accelerate the Transformation of the Global Energy System:** The International Energy Agency's World Energy Report, released on November 9, 2010, said the G20 countries need to cut their estimated US\$312-billion in annual support to the fossil fuel industry. The IEA said reducing the subsidies would have a "dramatic effect" on global demand. The IEA focused primarily on government efforts to shelter their populations from the full market prices of energy through measures that subsidize consumption. However, countries also subsidize production of fossil fuels, with one recent study pegging Canada's support for crude oil production at \$2.8-billion. (Source: IEA, http://www.iea.org/press/pressdetail.asp?PRESS_REL_ID=402)

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

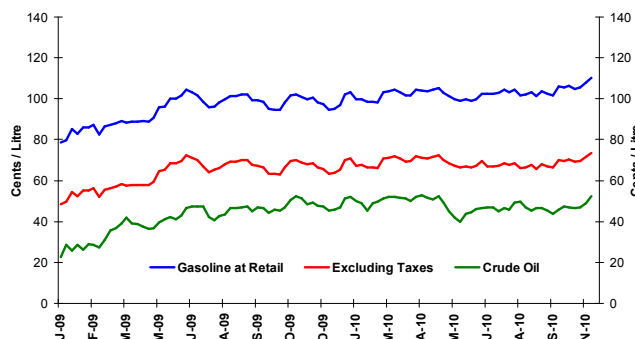
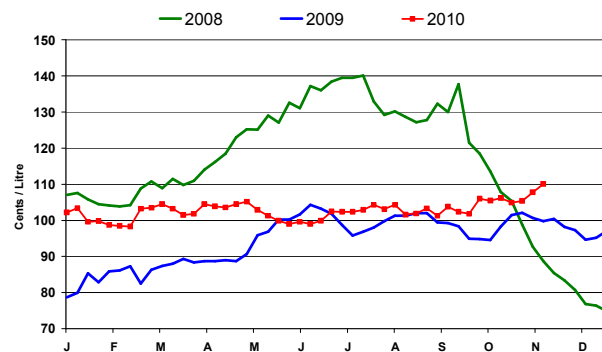


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2010-11-16	Previous Week	Last Year
Gasoline	110.1	+2.4	+10.3
Diesel	109.5	+2.0	+12.0
Furnace Oil	93.5	+0.9	+7.3

Source: NRCan

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Retail Gasoline Overview

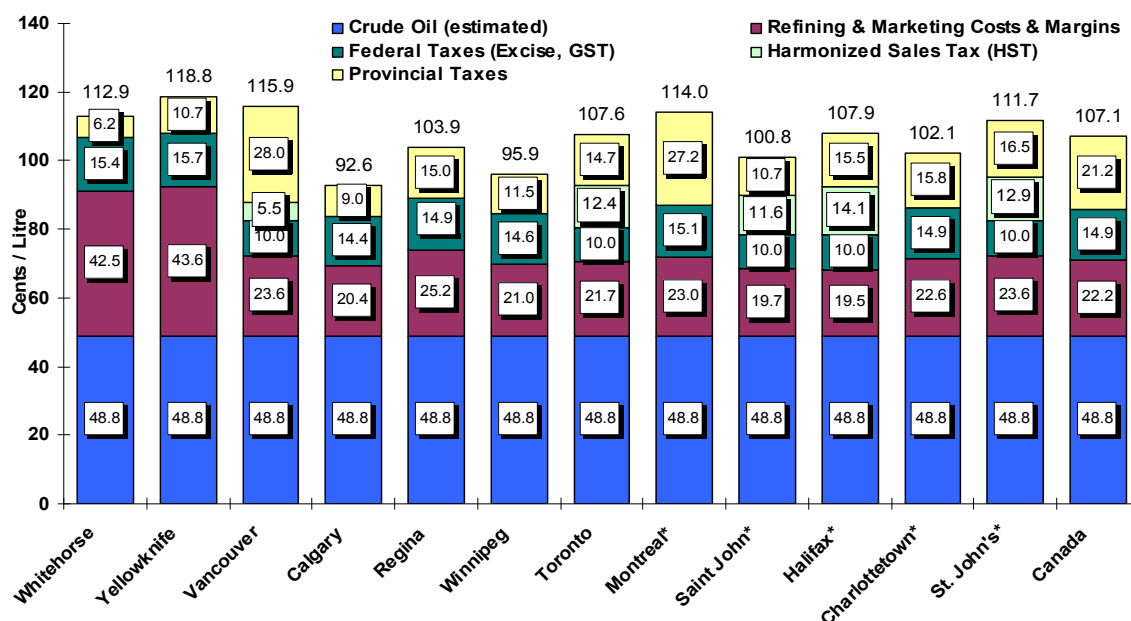
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.07 per litre for the period ending November 16, 2010. This is an increase of about 2 cents per litre from the last report on November 5, 2010.

The **four-week average** crude oil price component of gasoline is up by 2 cents per litre from two weeks ago and registered at close to 49 cents per litre. This is a 2 cent per litre decrease from the same period in 2009.

Retail gasoline prices in Eastern centres increased on average by more than 1 cent per litre compared to the report 2 weeks ago. Prices ranged from \$1.02 per litre to \$1.12 per litre. Prices in Western centres, on average, decreased by less than 1 cent per litre and ranged from 93 cents per litre to \$1.16 per litre.

At the national level, refining and marketing costs declined by less than 1 cent per litre from the previous report at 22 cents per litre, but are up 4 cents per litre compared to the same period a year ago.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (October 26 to November 16, 2010)**



Source: NRCan

* Regulated Markets

Factors Affecting Petroleum Product Prices

The price of crude oil is established in the international market based on supply and demand considerations. Canadian crude oil producers are "price takers," as the price obtained for their product is based on the price of market reference crude oils such as West Texas Intermediate oil.

Canadian refiners are also "price takers" and have very little influence on the price they pay for crude oil. Refineries buy crude oil at the world price, regardless of its source. In Canada, the cost of crude oil is the most important component of the price of refined products like gasoline. Higher international oil prices usually lead to higher costs for refineries, and they, in turn, have to charge Canadian consumers higher prices for refined petroleum products such as motor gasoline. Refining and marketing costs are also important elements of the price set by refineries for their products. Cost pressures are also felt from increasingly stringent fuel specifications and the need for capital spending to increase refining capacity in North America.

In the case of gasoline, in Canada, federal and provincial taxes are the second largest price component. Canadian gasoline taxes are higher than similar taxes levied by the United States, but are much lower than those levied by countries in the European Union. In Canada, gasoline taxes help to fund government priorities such as funding for transportation and community infrastructure.

Source: Natural Resources Canada, <http://nrcan.gc.ca/eneene/sources/pripri/aboapr-eng.php#pipelines>





Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week ending **November 11, 2010** increased in all of the selected Canadian and American centres.

Overall, wholesale gasoline price changes ranged from an increase of less than 1 cent per litre to 3 cents per litre. Prices finished the period in the 61 to 67 cents per litre range.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the

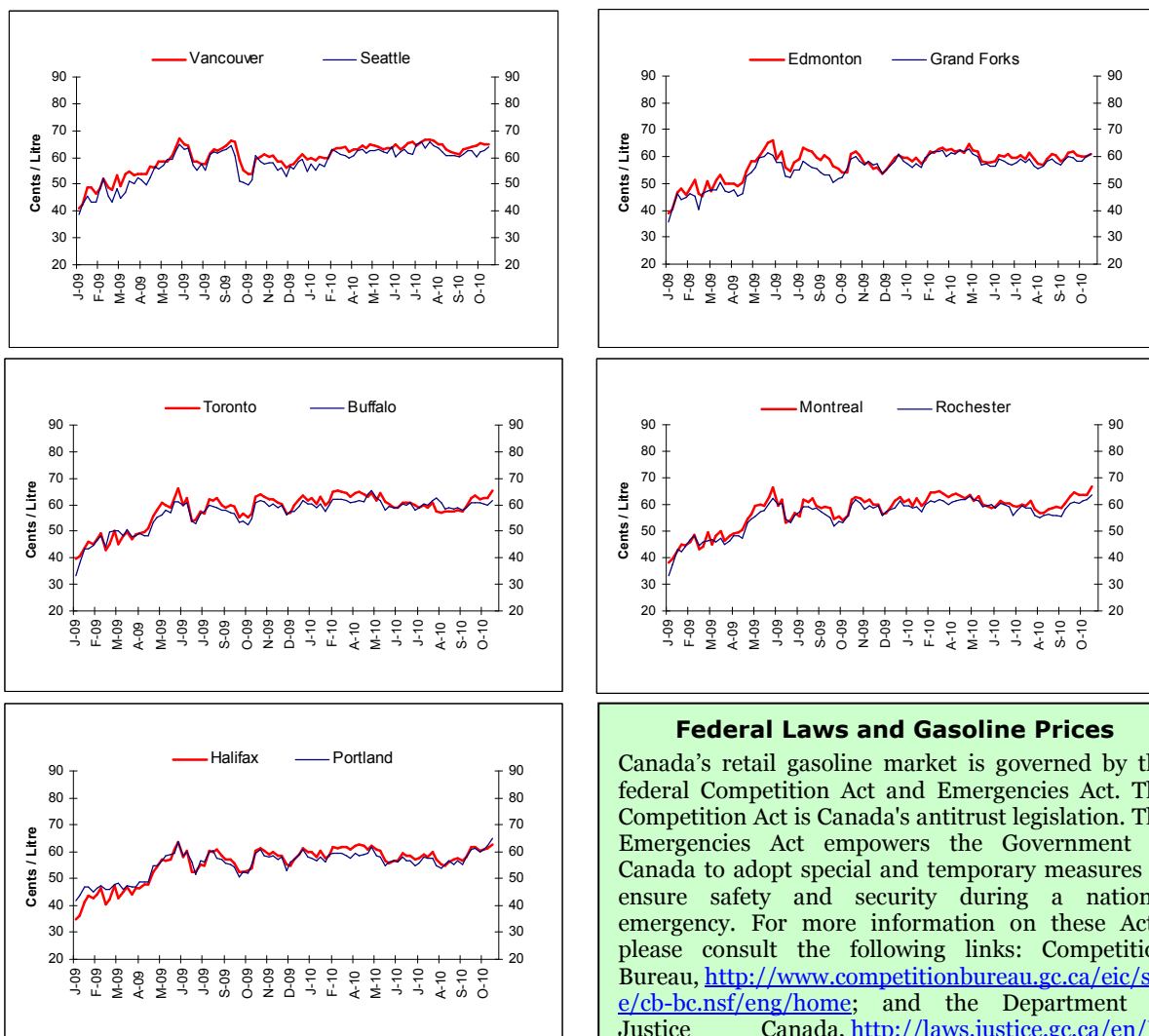
previous week, registered increases ranging from 1 cent per litre to 3 cents per litre. Prices ended the period in the 62 to 67 cents per litre range.

Western wholesale gasoline price changes ranged from less than 1 cent per litre to slightly more than 1 cent per litre. Prices ended the period in the 61 to 65 cents per litre range.

Overall, compared to the same time last year, prices ranged from an increase of 3 to 7 cents per litre.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending November 11, 2010
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Federal Laws and Gasoline Prices

Canada's retail gasoline market is governed by the federal Competition Act and Emergencies Act. The Competition Act is Canada's antitrust legislation. The Emergencies Act empowers the Government of Canada to adopt special and temporary measures to ensure safety and security during a national emergency. For more information on these Acts, please consult the following links: Competition Bureau, <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/home>; and the Department of Justice Canada, <http://laws.justice.gc.ca/en/E-4.5/index.html>





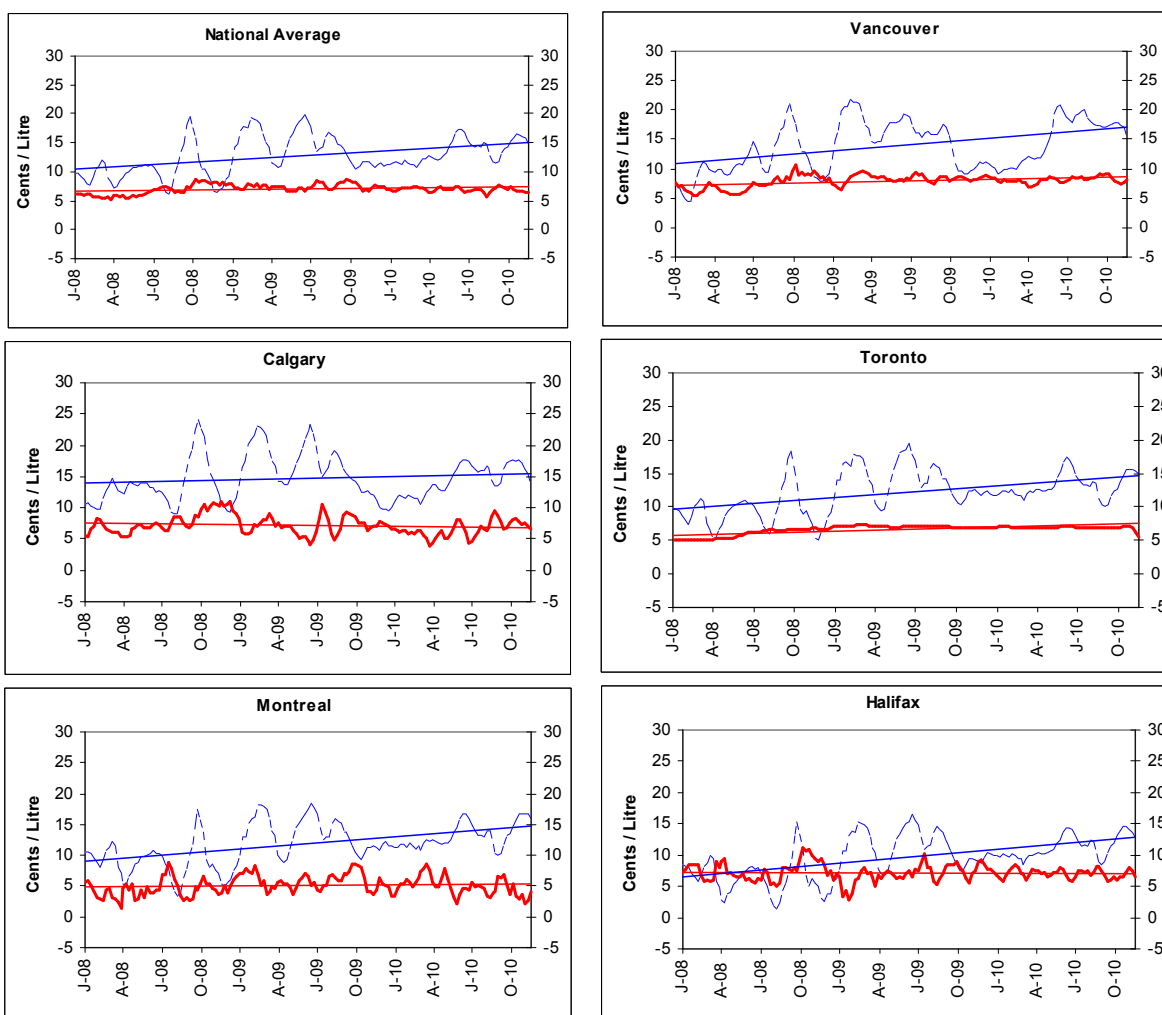
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins. Compared to two weeks ago, refining margins in the selected markets decreased by more than 1 cent per litre but increased by 4 cents per litre compared to the same period last year. Across Canada, refining margins ranged from 13 to 16 cents per litre. The downward movement in refining margins reflects seasonally weaker gasoline demand.

Marketing margins ranged from 4 to 8 cents per litre. Changes range from a decrease of 1.5 cents per litre to an increase of 2 cents per litre compared to two weeks ago.

The Canadian national average marketing margin has fallen by less than 1 cent per litre compared to two weeks ago.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending November 16, 2010
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Crude Oil Prices Continue to Firm Up on Expected Increase in Demand

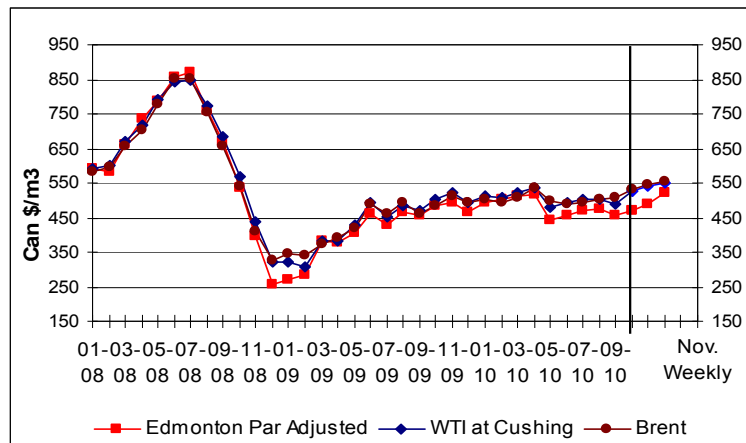
For the week ending November 12, 2010, prices for the three marker crudes averaged between \$522/m³ and \$554/m³ (US\$83 to US\$88 per barrel). This is an increase of \$7 to 31/m³ (US\$1 to US\$5 per barrel) compared to the previous week. Crude oil prices have also increased from this time last year. Price increases have ranged from \$30 to \$45/m³ (US\$9 to US\$11 per barrel).

World crude oil prices continue to move upward partly driven by the NYMEX reactions to the drop in U.S. crude oil supply. Overall, crude oil continues to trade

within a narrow range, partly according to the movement of the dollar and inventory reports.

In addition, forecasts from various organizations projecting escalating growth within industrialized countries and revised world oil demand growth also help support the upward movement in prices. The International Energy Agency and the Organization of Petroleum Exporting Countries world consumption forecast indicate an improvement in oil and fuel demand for 2011.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2010-11-12		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	521.80	82.71	+30.87	+5.21	+33.03	+8.89
WTI	547.94	86.86	+7.03	+1.48	+30.12	+8.65
Brent	553.86	87.80	+6.86	+1.46	+45.47	+11.01

Source: NRCan

