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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 Decline for the Fourth Straight Week

For the week ending June 28, 2011, Canadian average retail gasoline prices decreased by 2.1 cents per litre to \$1.25 per litre—this represents a decline of more than 5 cents per litre from four weeks ago. Prices are above last year's level by 22 cents per litre.

The price of diesel fuel fell by almost 3 cents per litre, to end the week at \$1.23 per litre. Furnace oil prices decreased by 1 cent per litre, ending at \$1.11 per litre. Compared to a year ago, prices for diesel and furnace oil are 26 and 24 cents per litre higher, respectively.

Retail pump prices were pushed downward in part by lower North American wholesale gasoline prices which reflected the weakness in the underlying price for world crude oil.

Recent Developments

- **Parliamentary Hearing on Gasoline Prices:** On June 22, 2011, the House of Commons Standing Committee on Industry, Science and Technology held a parliamentary hearing on gasoline prices in Canada. Presentations were made by industry association representatives and Natural Resources Canada officials, which addressed various aspects of Canadian gasoline markets and the economic drivers influencing prices.

- **New Motor Vehicle Sales:** The number of new motor vehicles sold declined 1.1% in April to 134,529 units. Higher sales in Quebec, Ontario and British Columbia (including the territories) were more than offset by declines in the other provinces. Preliminary industry data indicate that the number of new motor vehicles sold in May decreased 6%. (Source: Statistics Canada, The Daily), <http://www.statcan.gc.ca/daily-quotidien/110614/dq110614b-eng.htm>

- **Economy & the Environment:** Canada's natural wealth, defined as the dollar value of selected natural resource stocks and land, stood at roughly \$3 trillion in 2009. Natural wealth comprises land, timber, and known reserves of energy and mineral resources. Energy resources include natural gas, crude oil, crude bitumen and coal. In 1990, natural wealth amounted to \$33,000 for every Canadian. By 2009 this amount had increased to about \$89,000, largely as a result of increased prices. (Source: Statistics Canada, The Daily), <http://www.statcan.gc.ca/daily-quotidien/110628/dq110628a-eng.htm>

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

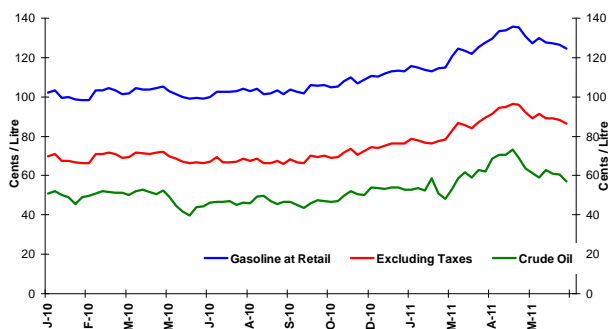
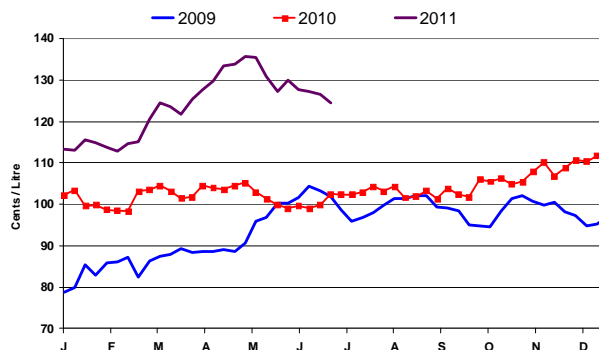


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-06-28	Previous Week	Last Year
Gasoline	124.5	-2.1	+22.0
Diesel	122.8	-2.5	+26.0
Furnace Oil	111.4	-1.3	+24.4

Source: NRCan

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Retail Gasoline Overview

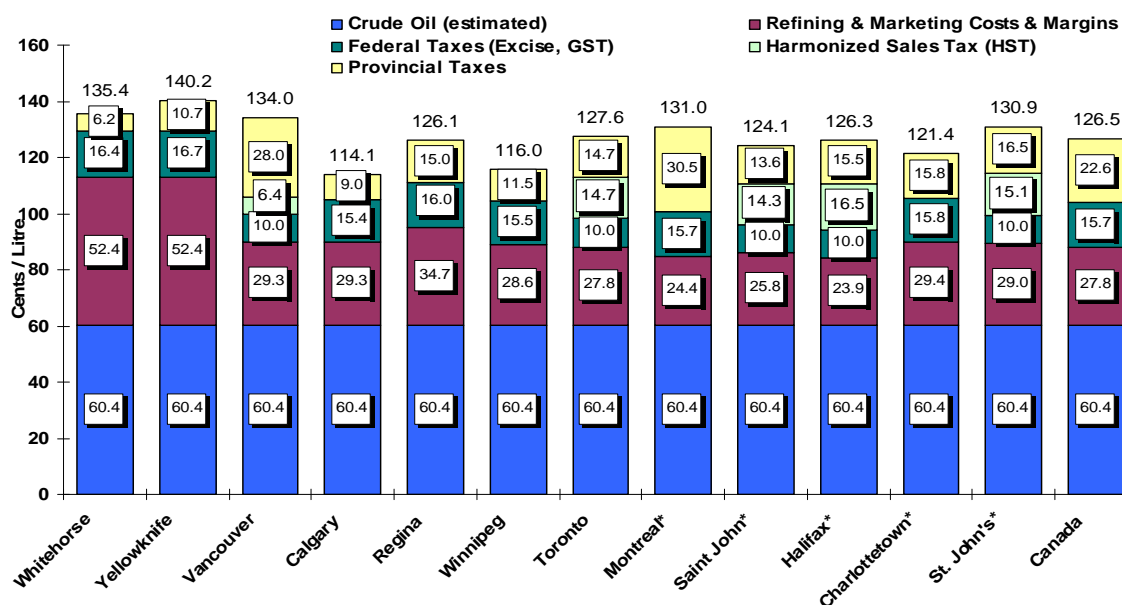
The **four-week average** Canadian pump price in selected cities across Canada for the period ending June 28, 2011, was \$1.27 per litre—a decrease of 2 cents per litre from the last report on June 17, 2011. This represents a 26 cent-per-litre increase compared to the same period in 2010.

Overall, compared to two weeks ago, the **four-week average** crude oil price fell by almost 1 cent per litre to land at just over 60 cents per litre. This is 15 cents per litre higher than during the same period in 2010.

Retail gasoline prices in Eastern centres ranged from \$1.21 per litre to \$1.31 per litre. Compared to the last report two weeks ago, prices decreased on average by 0.7 cents per litre. Prices in Western centres are, on average, down almost 3 cents per litre, and ranged from \$1.14 to \$1.40 per litre.

Compared to two weeks ago, refining and marketing costs at the national level fell by less than 1 cent per litre, to average 28 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (June 7 to 28, 2011)



Source: NRCan

* Regulated Markets

IEA Releases New Report: Medium-Term Oil and Gas Markets 2011

According to the International Energy Agency's (IEA) Medium-Term Oil and Gas Markets 2011 report, annual growth in oil demand could average 1.2 million barrels per day (mb/d) between now and 2016, while natural gas demand could grow by around 500 billion cubic meters during the same time. The report seeks to make sense of the increased divergence in oil and gas markets by providing a comprehensive outlook for fundamentals through 2016.

For oil, the projections are based on prevailing futures prices, which form an assumption as opposed to a price forecast. The crude price assumption used in the outlook averages \$103 per barrel, or around \$20 more than in last year's report. Based on this assumption, the report projects the following outcome in oil markets:

Growth in oil supply capacity through 2016 averages 1.1 mb/d annually, as higher prices unlock new supplies. Iraq, UAE and Angola lead growth prospects from OPEC, while Brazil, Canada, Kazakhstan and Columbia drive non-OPEC increases. Conventional crude oil accounts for less than 40% of the increase, while natural gas liquids, biofuels and unconventional oil from onshore the United States account for the lion's share of new supplies. (Source: IEA, http://www.iea.org/press/pressdetail.asp?PRESS_REL_ID=417)





Wholesale Gasoline Prices

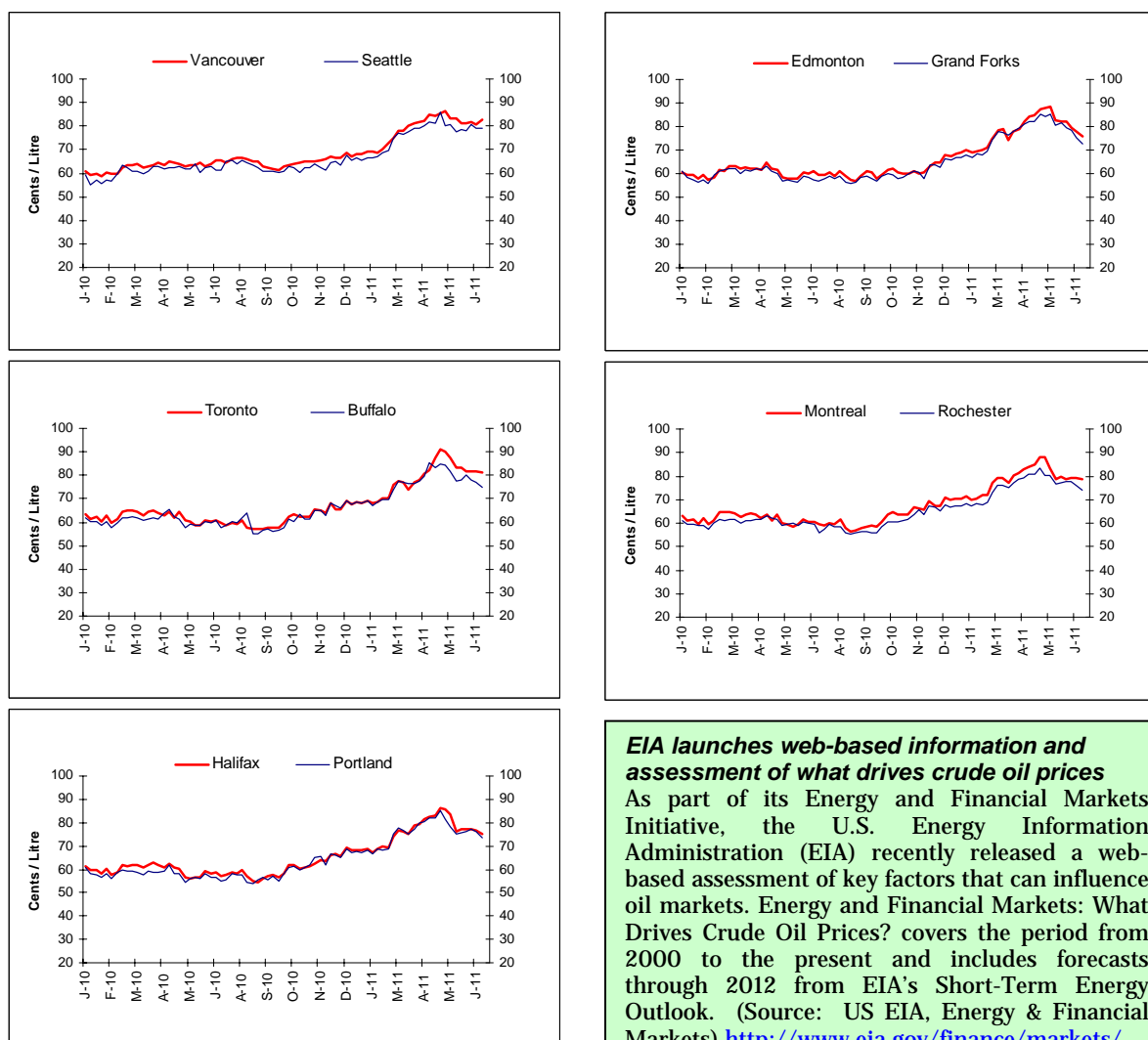
Wholesale gasoline prices decreased in eight of ten selected centres for the week ending **June 23, 2011**. Overall, price changes ranged from a decline of almost 3 cents per litre to an increase of just over 2 cents per litre.

Compared to the previous week, Eastern markets in Canada and the United States all registered wholesale gasoline price decreases. Prices decreased ranged from less than 1 cent per litre to almost 3 cents per litre. Prices ended the period in the 73 to 81 cent per litre range.

Unlike the Eastern markets, Western markets registered both price increases and price decreases for the week ending June 23, 2011. Compared to the previous week, price changes ranged from an increase of 2 cents per litre (Vancouver) to a decrease of almost 3 cents per litre (Grand Forks). Prices ended the period in the range of 73 to 83 cents per litre.

Overall, wholesale gasoline prices are 13 to 21 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 June 23, 2011
(Can \$/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

EIA launches web-based information and assessment of what drives crude oil prices

As part of its Energy and Financial Markets Initiative, the U.S. Energy Information Administration (EIA) recently released a web-based assessment of key factors that can influence oil markets. Energy and Financial Markets: What Drives Crude Oil Prices? covers the period from 2000 to the present and includes forecasts through 2012 from EIA's Short-Term Energy Outlook. (Source: US EIA, Energy & Financial Markets) <http://www.eia.gov/finance/markets/>





Gasoline Refining and Marketing Margins

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

Refining margins are calculated by measuring the difference between the average wholesale regular gasoline price and an average benchmark crude price (e.g. Edmonton Par or Brent). While this analysis is useful for tracking trends in gasoline margins and estimating how much of the pump price is going to the refiner, it does not represent overall refining margins.

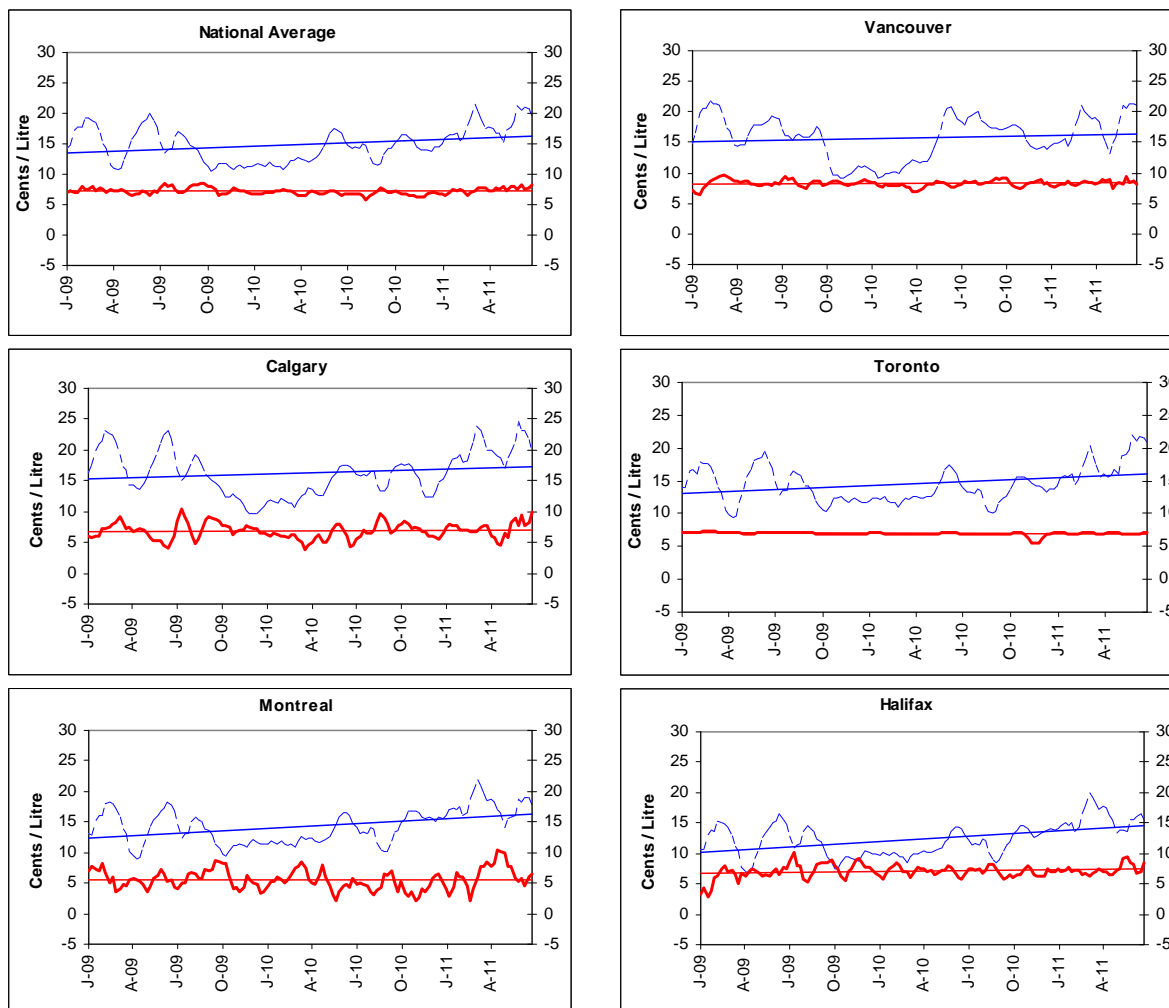
In fact, as one of the higher-valued products, gasoline generates a disproportionate share of refiner revenues. Gasoline margins are offset by much lower margins on other products such as heavy fuel oil and asphalt, which

often sell for less than the cost of the crude oil used to make them.

Our formula for calculating refining margins uses Edmonton Par as the benchmark price. Refining margins for gasoline are higher of late, in part due to the pronounced decline in Edmonton Par crude prices. As shown in Figure 6, Edmonton Par has dropped more significantly than Brent.

Eastern Canadian refineries typically purchase Canadian crude from east coast offshore production, and Mexican and African crudes, which are closer to Brent prices (e.g. more expensive than Edmonton Par). Therefore, our calculations may overstate refining margins.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 28, 2011
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Price of crude oil falls following IEA and DOE release of reserves

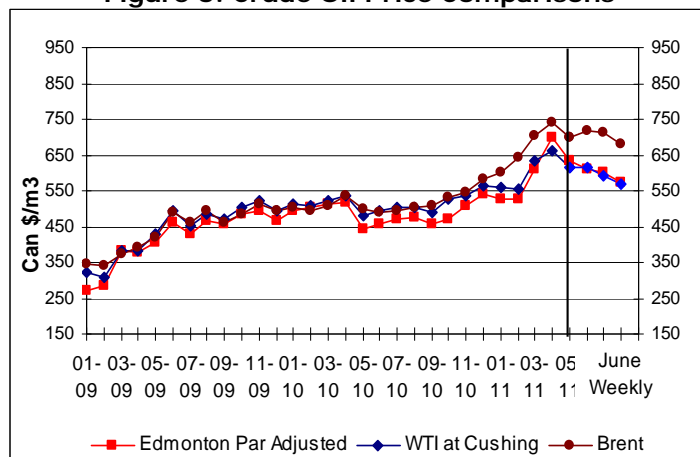
For the week ending **June 24, 2011**, prices for the three marker crudes averaged between \$570/m³ and \$679/m³, (US\$93 to US\$110 per barrel). Compared to the previous week, the price for all three marker crudes decreased. Price declines ranged from \$20/m³ (US\$3 per barrel) to \$34/m³ (US\$6 per barrel).

Crude prices fell following the IEA's announcement that it would make 60 million barrels available over a period of 30 days. On June 28, the IEA stated that crude will account for most of the 60 million barrels, adding that each member country will decide its own breakdown of crude and refined oil products.

However, releasing these reserves may only be a short-term fix to high crude prices, as there is surging demand in China and long-term supply outages in Libya.

Since the last report 2 weeks ago, oil markets have also been affected by concerns over Greece's debt crisis (whether or not Greek lawmakers would approve a \$39.8 billion austerity plan); higher than expected US jobless claims; and forecasts of lower US growth.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-06-24		Change From:			
			Previous Week		Last Year	
	\$Can/ m³	\$US/ bbl	\$Can/ m³	\$US/ bbl	\$Can/ m³	\$US/ bbl
Edmonton Par	571.67	92.97	-30.27	-4.29	+107.36	+21.48
WTI	569.58	92.63	-20.05	-3.26	+69.75	+15.68
Brent	678.88	110.41	-34.15	-5.55	+180.08	+33.62

Source: NRCan

Release of Oil from U.S. Strategic Petroleum Reserves

On June 23, 2011, the U.S. Department of Energy (DOE) and the International Energy Agency (IEA) announced they would release a total of 60 million barrels of oil onto the world market over the next 30 days, to offset the disruption in the oil supply from Libya. As part of this effort, the U.S. will release 30 million barrels of oil from the Strategic Petroleum Reserve (SPR) and other IEA members will release the remaining 30 million barrels.

The announcement comes after the Organization of Petroleum Exporting Countries (OPEC) failed to raise production quotas at a meeting on June 8, 2011, and despite assurances from Saudi Arabia (OPEC's biggest producer) that it would lift supplies unilaterally. Prior to the announcement, falling Organization of Economic Cooperation and Development (OECD) crude oil inventories indicated a tightening in oil markets, that was expected to continue throughout 2011, due to the ongoing disruption of Libyan oil supplies, and an expected rise in seasonal demand. Coordinated IEA stock releases have only occurred twice - during the first Gulf War (August 1990-February 1991), and after Hurricane Katrina (September - December, 2005).

Source: NRCan; U.S. DOE, http://www.fossil.energy.gov/news/techlines/2011/11028-DOE_to_Release_SPR_Oil.html

