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Fuel Focus

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

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National Overview

Retail Gasoline Prices Almost Unchanged at \$1.28 per Litre from Last Week

For the week ending July 26, 2011, the average Canadian retail gasoline price was \$1.28 per litre. Pump prices have been hovering in the range of \$1.25 to \$1.30 per litre for the last two months. For the period ending July 26, 2011, prices have decreased less than 1 cent per litre from the previous week but represent an increase of 24 cents per litre compared to a year ago.

Reflecting a similar pattern in wholesale gasoline and crude oil prices, retail pump prices continue to fluctuate with more volatility compared to the previous year.

Diesel prices rose nearly 1 cent per litre from the previous week at \$1.24 per litre. This represents an increase of 27 cents per litre compared to the same period last year.

Recent Developments

- **Major Oil Firms Divesting U.S. Retail-Fuel Sites:** In recent weeks, at least two major U.S. oil companies have announced intentions to divest more than 400 retail gasoline stations from among their portfolios. On June 13, Canadian convenience store leader, Alimentation Couche-Tard, Inc., announced a deal to acquire 322 retail sites from ExxonMobil Corp., as well as the rights to supply an additional 65 Mobil-branded stores in southern California. Of the 322 sites, 72 are company-operated, and 250 are dealer-operated. (Source: Global Refining & Fuels Report)
- **Decrease in New Motor Vehicle Sales:** The number of new motor vehicles sold declined 6.1% in May to 126,479 units, erasing gains made over the previous four months. Preliminary industry data indicate that the number of new motor vehicles sold increased by 10% in June. In May, passenger car sales decreased by 12.9% to 53,302 units. Sales of trucks (which include minivans, sport-utility vehicles, light and heavy trucks, vans and buses) edged down 0.4% to 73,177 units in May, adding to losses reported a month earlier. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/110718/dq110718b-eng.htm>)
- **EIA Short-Term Energy Outlook:** According to the U.S. Energy Information Administration (EIA), the crude oil price outlook remains uncertain. Among the major uncertainties that could push oil prices above or below the current forecast are: risk of additional supply disruptions in producing regions, such as possible unrest in Sudan; the willingness and ability of key OPEC-member countries to increase and sustain higher production in response to the global increase in oil demand; the rate of global economic growth; and fiscal issues facing national and sub-national governments. (Source: EIA, <http://www.eia.gov/emeu/steo/pub/contents.html>)

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

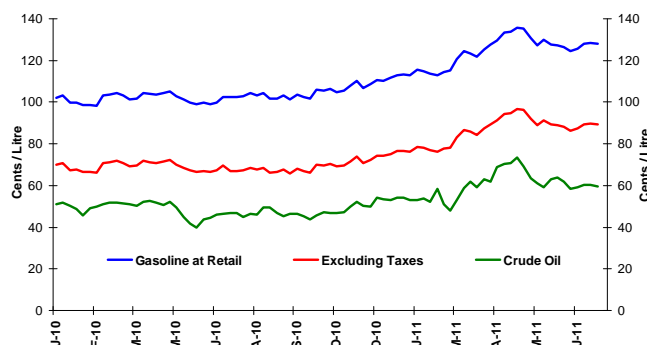
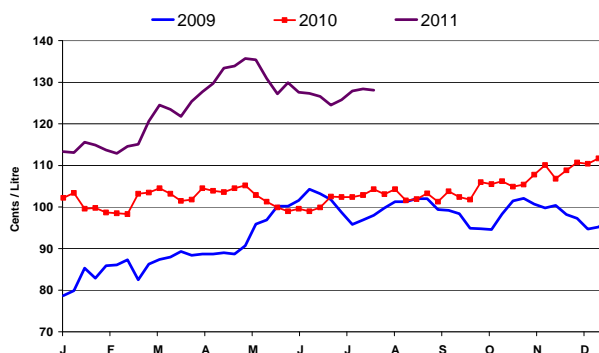


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2011-07-26	Previous Week	Last Year
Gasoline	128.1	-0.2	+23.8
Diesel	124.3	+0.9	+27.0
Furnace Oil	113.1	-1.1	+24.6

Source: NRCan

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Retail Gasoline Overview

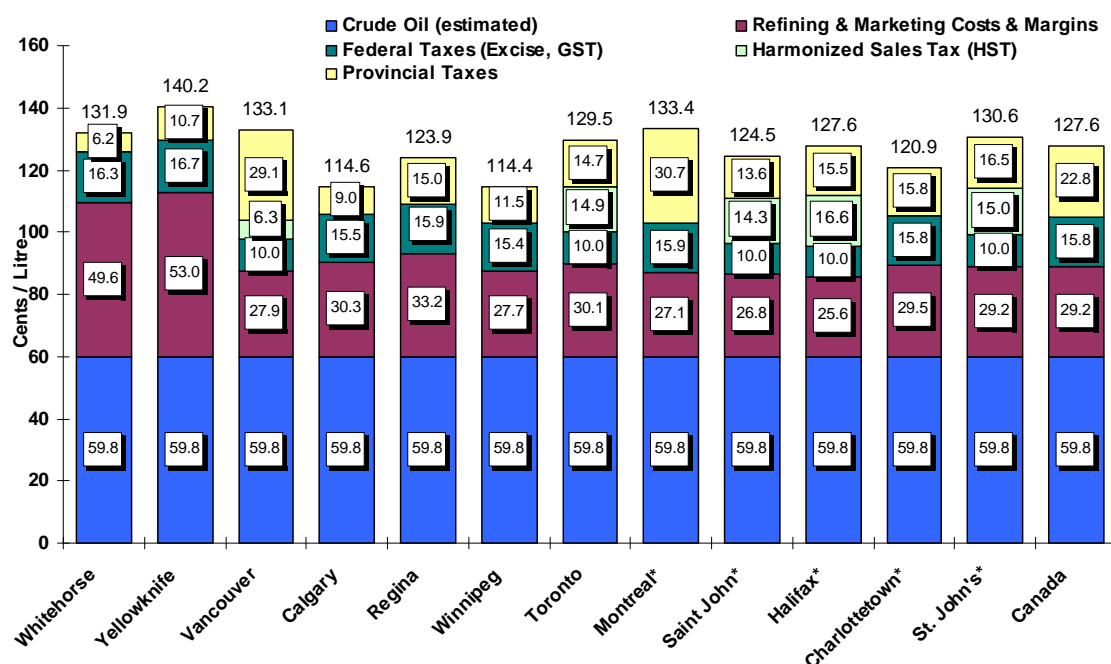
The **four-week average** Canadian pump price in selected cities across Canada was \$1.28 per litre for the period ending July 26, 2011. This is an increase of 1 cent per litre from the last report on July 15, 2011, and 25 cents per litre higher compared to the same period in 2010.

For the period ending July 26, 2011, the **four-week average** crude oil price component of gasoline rose to nearly 60 cents per litre. This represents a 14 cent-per-litre increase compared to the same period in 2010.

Retail prices in Eastern centres increased, on average, by 2 cents per litre and ranged from \$1.21 to \$1.33 per litre. Prices in Western centres increased, on average, by less than 1 cent per litre and ranged from \$1.14 to \$1.33 per litre.

At the national level, refining and marketing costs remained almost unchanged at 29 cents per litre from the last report two weeks ago. This is 6 cents per litre higher from this time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 5 to 26, 2011)



Source: NRCan

* Regulated Markets

Petroleum Product Movements in Canada

The logistics network required to supply petroleum products from the refineries to the end users is a complex system of pipelines, ships, railways and trucks. The Canadian downstream petroleum industry can be broken down into three distinct regions—Western Canada, Ontario, and Quebec/Atlantic Canada.

The industry is often divided this way because of the differences in the feedstock available to the refiners in each of these areas. In Atlantic Canada and Quebec, refiners rely almost exclusively on foreign crude to meet their requirements. On the other hand, Western Canada is dependent on domestic production to satisfy its crude requirements. Most of Western Canada is landlocked, and, as such, has very limited access to supplies from other regions. Ontario refiners have access to both foreign and domestically produced crude oils. Many of the same factors that influence the availability of different crude oil supplies in each of these regions have also shaped the development of the petroleum product distribution network.

The availability of both crude oil and petroleum product imports in every region hinges on geographic constraints. Some regions are better suited than others to import products. Because of their connection via major waterways, Atlantic Canada and Quebec have good access to supplies from the northeastern United States and Europe.

Source: NRCan, Canadian Refining and Oil Security, <http://nrcan.gc.ca/eneene/sources/petpet/refstrarafsur-eng.php>





Wholesale Gasoline Prices

Compared to the previous week, wholesale gasoline prices for the week **ending July 21, 2011** decreased in most of the selected Canadian and American centres.

Wholesale gasoline price changes ranged from an decrease of less than 1 to more than 2 cents per litre. Prices finished the period in the 76- to 84-cent-per-litre range.

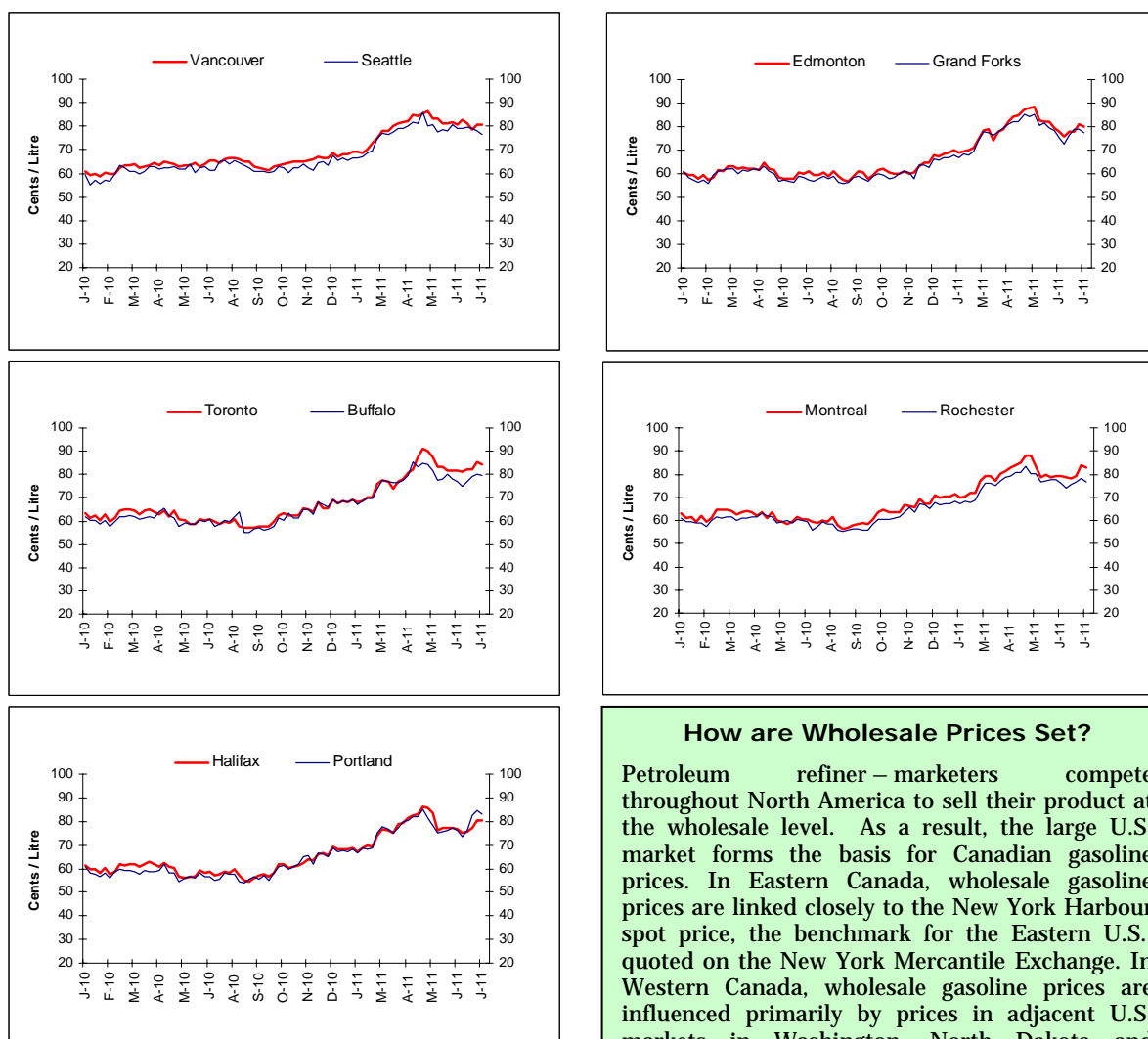
In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered decreases ranging from less

than 1 to 2 cents per litre. Prices for the period ended in the 76- to 83-cent-per-litre range.

Western wholesale gasoline prices ended in the range of 76 to 80 cents per litre, with prices decreasing in the range of 1 to 2 cents per litre.

Compared to the same time last year, prices in the American and Canadian centres are 21 and 18 cents per litre higher, respectively, compared to the same period in 2010.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 21, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

How are Wholesale Prices Set?

Petroleum refiner – marketers compete throughout North America to sell their product at the wholesale level. As a result, the large U.S. market forms the basis for Canadian gasoline prices. In Eastern Canada, wholesale gasoline prices are linked closely to the New York Harbour spot price, the benchmark for the Eastern U.S., quoted on the New York Mercantile Exchange. In Western Canada, wholesale gasoline prices are influenced primarily by prices in adjacent U.S. markets in Washington, North Dakota and Minnesota.





Gasoline Refining and Marketing Margins

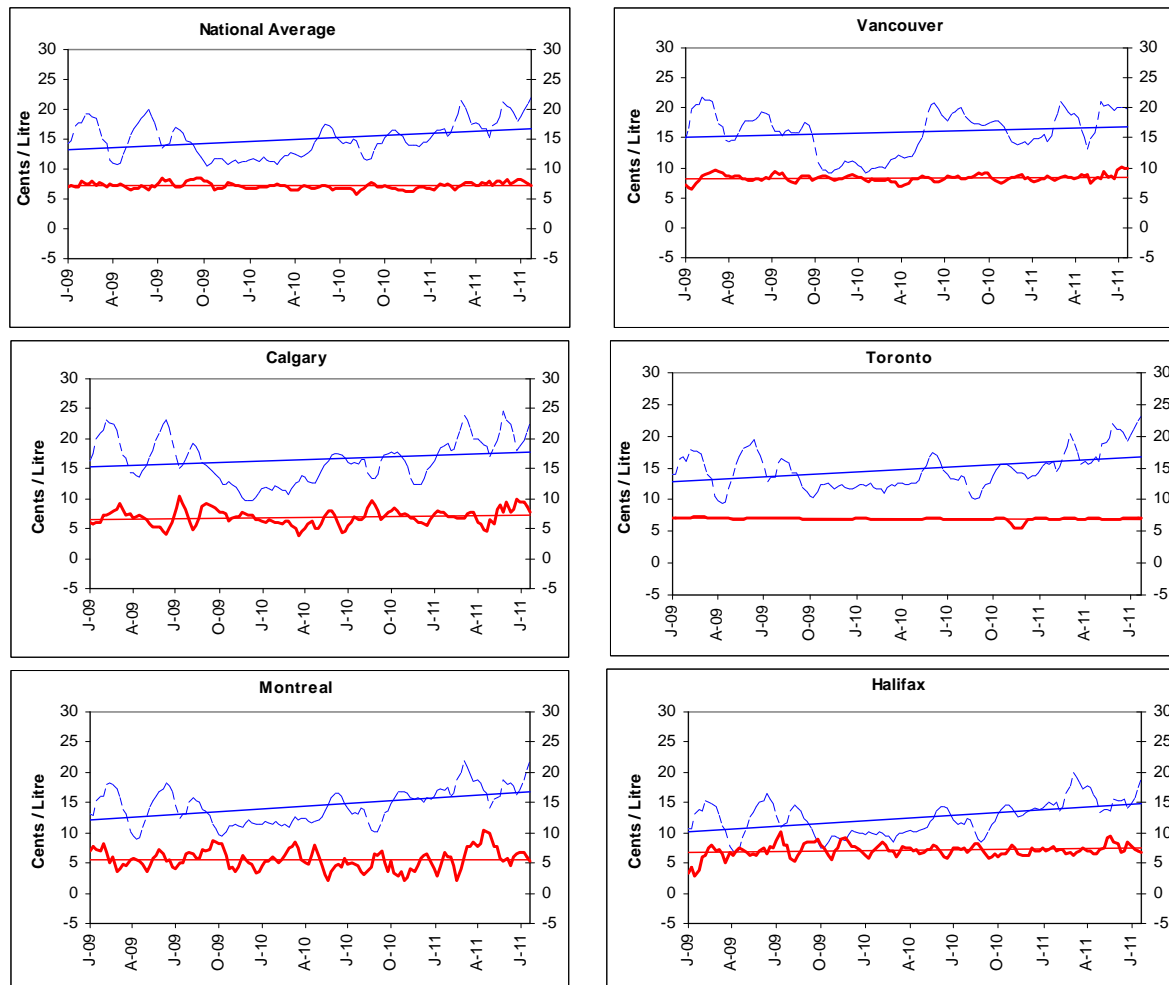
Four-week rolling averages are used for gasoline refining and marketing margins. Overall, both the refining margins, which had been increasing lately, and marketing margins dipped slightly.

Refining margins trended upward in the last few weeks indicating that wholesale prices have been increasing faster than crude oil prices. These margins are the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. However, the refining margins below are based on the Edmonton Par crude oil. Refiners relying on more expensive crude oil supplies for finished gasoline

products would experience diminished margins, depending on the region in which they operate. At the national level, the refining margin was around 22 cents per litre—about 2 cents higher than two weeks ago.

Overall, marketing margins remain much less volatile than refining margins and fluctuate over a much narrower range. While Vancouver registered the highest marketing margin at 10 cents per litre, Montreal showed the lowest margin at about 5 cents per litre for the period ending June 26, 2011. Nationally, marketing margins hovered at around 7 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 26, 2011
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Crude Oil Prices Almost Unchanged from the Previous Week

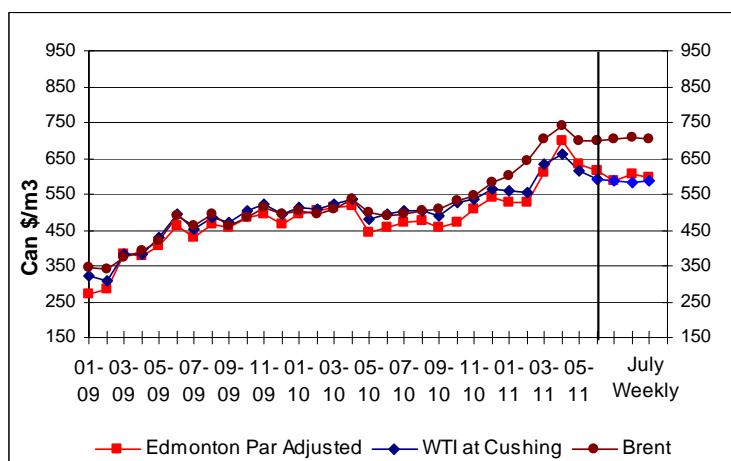
For the week ending July 22, 2011, prices for the three marker crudes averaged between \$587/m³ and \$703/m³, (US\$98 to US\$118 per barrel). This is an increase for WTI of \$2/m³ (US\$1 per barrel) while Edmonton Par and Brent decreased by \$7 and \$5/m³ (less than US\$1 per barrel), respectively, compared to the previous week.

World crude oil prices remained almost unchanged as uncertainties continue to dominate the economic news. Concerns over Europe's debt crisis and whether the White House and Congressional Republicans can raise the debt ceiling by the August 2 deadline were all factors moderating the rise in crude oil prices.

Forecasts from the International Energy Agency indicate that global oil demand in 2012 is expected to rise by 1.5 million barrels per day (mb/d) year-on-year to 91 mb/d. Growth is expected to be driven entirely by non-OECD countries, with OECD demand declining slightly.

The global estimate for 2011 demand was raised by 0.2 mb/d to 90 mb/d, an increase of 1.2 mb/d compared to the previous year.

Figure 6: Crude Oil Price Comparisons



Why Can't We Have a Made in Canada Price?

Canada has a market-based approach to petroleum prices. This means that we accept the international crude price as the basis for domestic prices. We continue to consider that prices set in free and competitive markets represent the best signals to producers and consumers with respect to investment and consumption decision. Rising prices send signals to producers to invest in supply development and to consumers to use oil more efficiently and, where possible, to change to other fuels. This helps to ensure that sufficient supplies are available, preventing product shortages.

Source: Natural Resources Canada

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-07-22		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	594.47	99.38	-7.40	-0.22	+130.16	+28.74
WTI	586.67	98.08	+2.21	+1.36	+75.27	+20.28
Brent	703.09	117.53	-4.51	+0.44	+205.08	+41.78

Source: NRCan

