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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 3 Cents per Litre from Last Week

For the week ending August 9, 2011, the average Canadian retail gasoline price was \$1.26 per litre—a five week low. This is a decrease of 3 cents per litre from the previous week and an increase of 21 cents per litre from a year ago.

Overall, prices were driven down by lower wholesale gasoline prices across North America which, in turn are falling partly due to world crude oil prices. In addition, large U.S. gasoline and crude oil inventories continue to put downward pressure on prices.

Diesel fuel prices are down 1 cent per litre from the previous week. This is an increase of 24 cents per litre from the same period last year. Furnace oil prices are up by 1 cent per litre compared to last week and 24 cents per litre from this time last year.

Recent Developments

- **Crude Oil Prices Fall:** The abrupt drop of the New York and London stock exchanges on August 4, 2011, caused world crude oil prices to plummet. Crude oil prices fell as investors grew concerned that prolonged economic uncertainties could reduce global oil demand.
- **Motor Vehicle Fuel Sales:** Gross sales of gasoline in Canada rose 2.1% from 2009 to 41.9 billion litres in 2010. The driving force behind this gain was increased fuel consumption in Ontario, British Columbia, Quebec and Alberta. The country's two most populous provinces, Ontario and Quebec, combined for 59% of the total gasoline consumption in Canada in 2010. Ontario represented 38.6% of the total with 16.2 billion litres, while Quebec accounted for 20.4% with 8.6 billion litres. Nationally, gasoline sales peaked during July and August, the result of a busy summer driving season in which motorists typically drive longer distances. (The Daily, <http://www.statcan.gc.ca/daily-quotidien/110727/dq110727b-eng.htm>)
- **Hurricane Season Above Normal:** The U.S. National Oceanic and Atmospheric Administration (NOAA) is expecting an above-normal hurricane season this year in the Atlantic basin. NOAA is predicting the following ranges this year: 12 to 18 named storms (winds of 39 mph or higher), of which: 6 to 10 could become hurricanes (winds of 74 mph or higher), including: 3 to 6 major hurricanes (Category 3, 4 or 5; winds of 111 mph or higher). Each of these ranges has a 70 percent likelihood, and indicate that activity will exceed the seasonal average of 11 named storms, six hurricanes and two major hurricanes. (Source: NOAA, http://www.noaanews.noaa.gov/stories2011/20110519_atlantichurricaneoutlook.html)

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

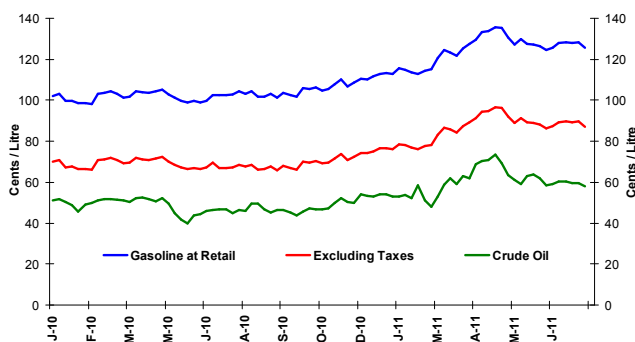
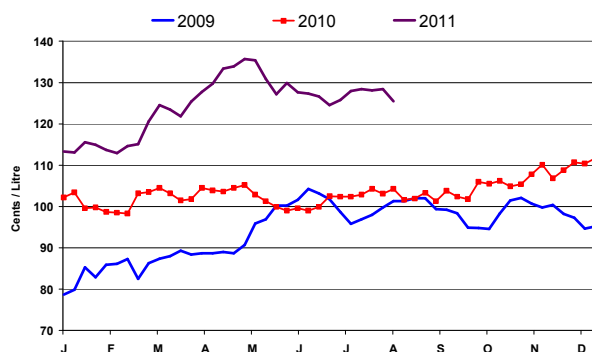


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-08-09	Previous Week	Last Year
Gasoline	125.5	-2.9	+21.2
Diesel	122.8	-1.2	+24.1
Furnace Oil	112.1	+1.3	+23.7

Source: NRCan

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Retail Gasoline Overview

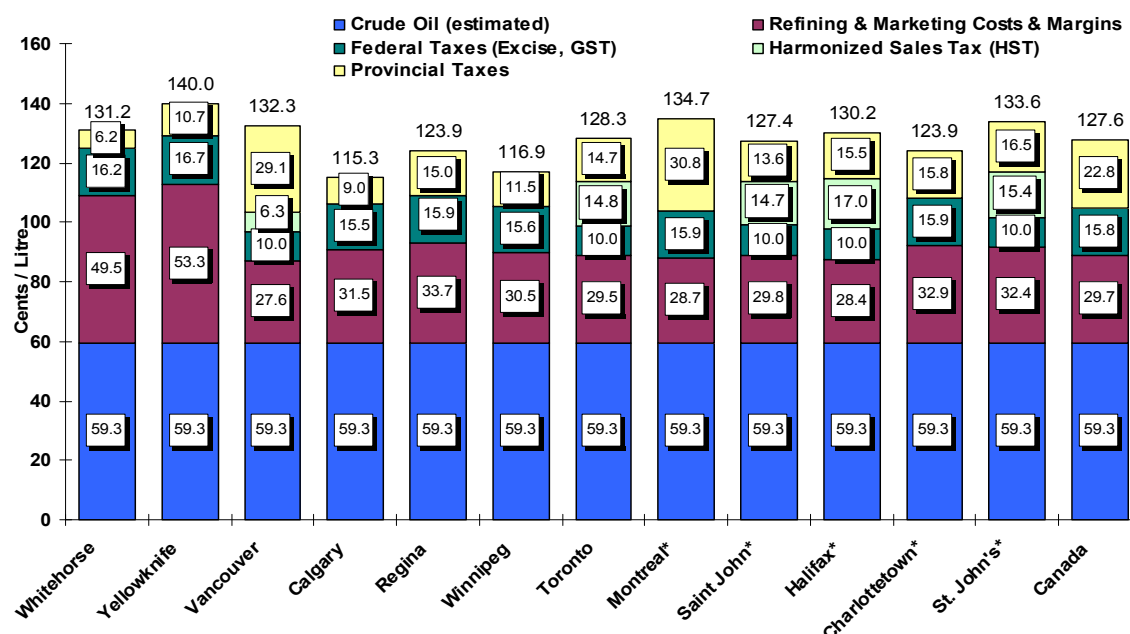
The average Canadian gasoline pump price in selected cities for the **four-week average** ending August 9, 2011 was \$1.28 per litre, unchanged from two weeks ago. Compared to the same period last year, prices are 24 cents per litre higher.

Compared to two weeks ago, the four-week average crude oil component decreased by less than 1 cent per litre while the refining and marketing costs component increased by about 1 cent per litre.

The crude oil component of gasoline is 13 cents per litre higher than last year at this time, and makes up the largest component of the pump price at 47 percent.

Federal and provincial taxes on gasoline account for 30% of the pump price compared to 34% at the same time last year despite much higher crude oil prices.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 19 to August 9, 2011)**



Source: NRCan

* Regulated Markets

How Do Diesel Markets Differ From Gasoline Markets?

The nature of the retail diesel market is a contributing factor during times of limited supply, and increasing demand. The retail diesel market is a very small component of the total sales volume, accounting for only about 15% of diesel sales. By contrast, nearly 85% of gasoline is sold at retail. This means that retail diesel sales have a lower priority than the higher volume commercial customers. Suppliers will sometimes raise the price for retail customers in an effort to curb demand. This ensures that there is enough supply for their large industrial customers (trucks, trains, and marine use).

Furthermore, the retail diesel market is less competitive than the gasoline market. Fewer stations sell diesel and they are competing for lower volumes so potential gains from price wars is more limited. The structure of the diesel market allows retailers to better maintain or preserve their margins, potentially resulting in higher prices.

Source: Natural Resources Canada, Fuel Focus





Wholesale Gasoline Prices

Wholesale gasoline prices declined in all selected centres in the range of 1 to 5 cents per litre for the **week of August 4, 2011**. Overall, compared to the previous week, recorded prices in the Canadian and American centres ended the period in the 73 to 81 cent-per-litre range.

Decreases in wholesale gasoline prices in Eastern markets in both Canada and the United States, when compared to the previous week, ranged from 1 to almost 5 cents per litre and ended the period in the 73 to 81 cent-per-litre range. The gap between Toronto and Buffalo, which has persisted in the last few months

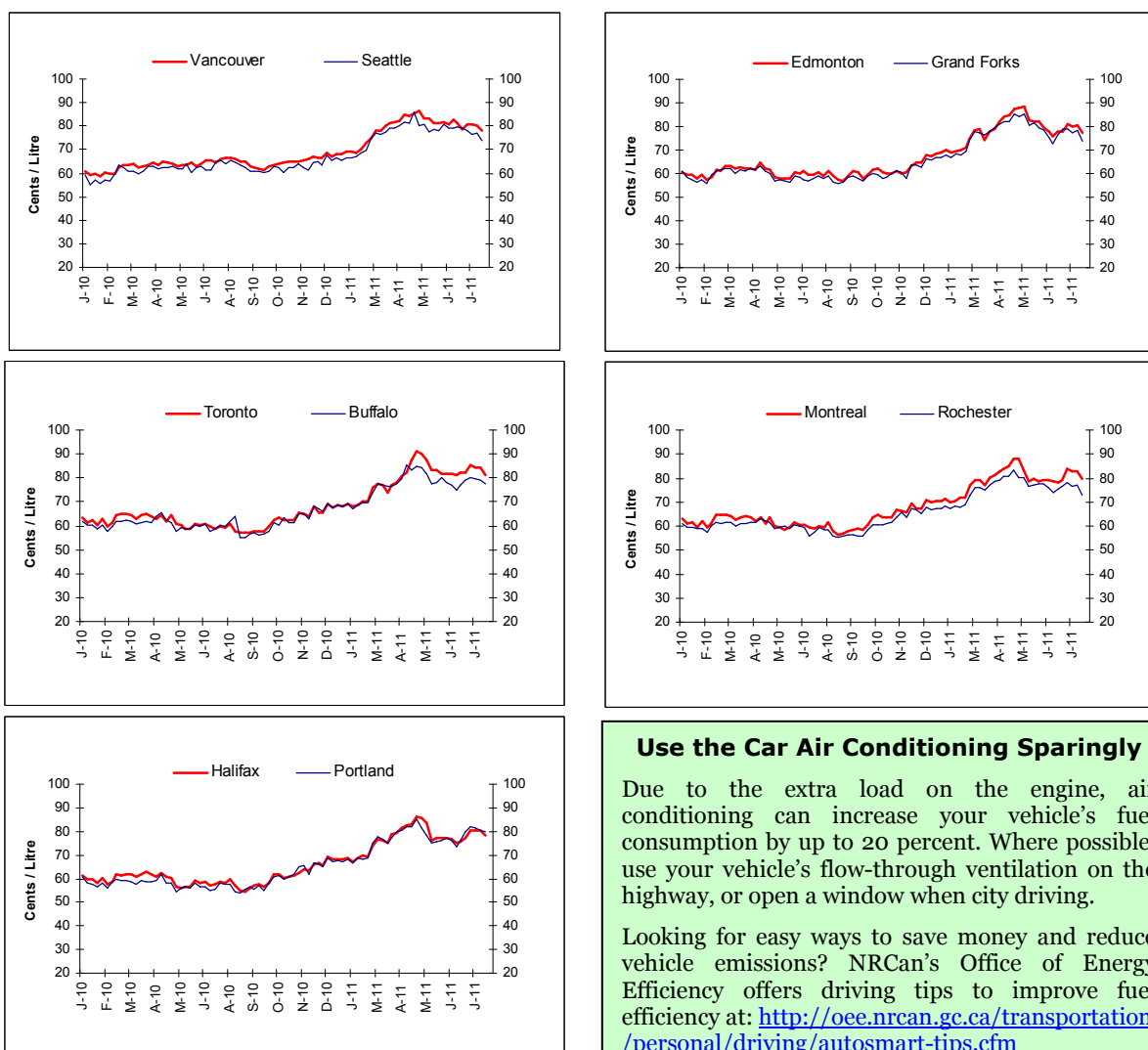
due to refinery maintenance problems in Sarnia, has narrowed as prices dropped 3 and 2 cents per litre, respectively.

Similarly, wholesale gasoline prices in the Western centres also decreased by as much as 2 to 5 cents per litre closing the week at 74 to 78 cents per litre compared to the previous week.

Compared to two weeks ago, wholesale prices in the Canadian and American centres are 1 to 4 cents per litre lower. However, compared to the same time last year prices are 8 to 22 cents per litre higher.

Figure 4: Wholesale Gasoline Prices

Rack Terminal Prices for Selected Canadian and American Cities Ending August 4, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Use the Car Air Conditioning Sparingly

Due to the extra load on the engine, air conditioning can increase your vehicle's fuel consumption by up to 20 percent. Where possible, use your vehicle's flow-through ventilation on the highway, or open a window when city driving.

Looking for easy ways to save money and reduce vehicle emissions? NRCan's Office of Energy Efficiency offers driving tips to improve fuel efficiency at: <http://oee.nrcan.gc.ca/transportation/personal/driving/autosmart-tips.cfm>





Gasoline Refining and Marketing Margins

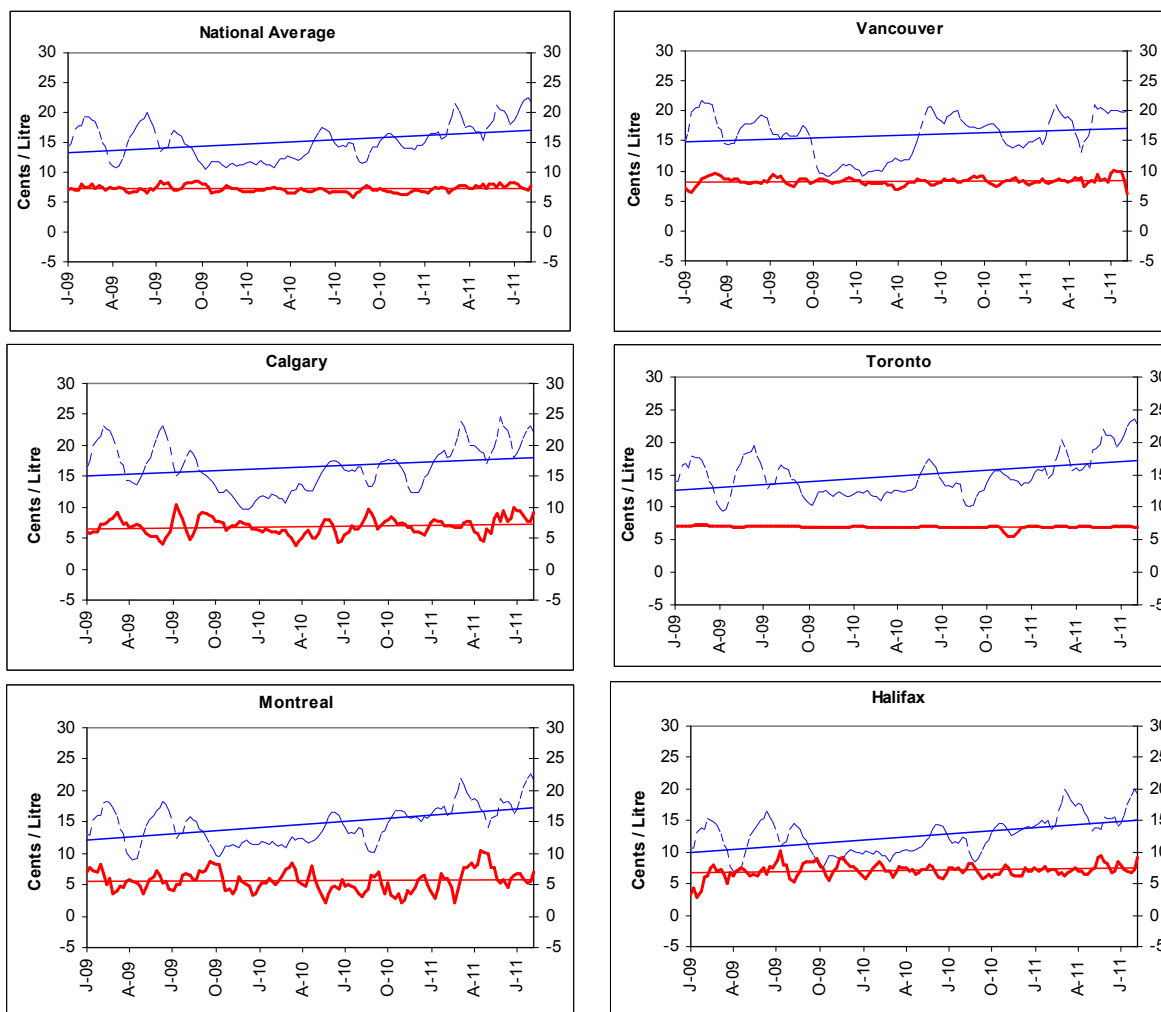
Four-week rolling averages are used for gasoline refining and marketing margins. Four-week rolling averages are used because of the price volatility of crude oil, wholesale and retail prices.

Compared to two weeks ago, refining margins in most of the selected markets declined slightly by less than 1 cent per litre. Across Canada, refining margins ranged from 19 to 23 cents per litre.

Refining margins are 7 cents per litre higher than they were last year at this time, when refining margins were slowly emerging from the low level impact of 2009.

Marketing margins ranged from 6 to 9 cents per litre and have fluctuated significantly in some centres compared to two weeks ago. Changes range from a decrease of almost 4 cents per litre to an increase of less than 3 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 9, 2011
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Drop in World Equity Markets Drives World Oil Prices Down

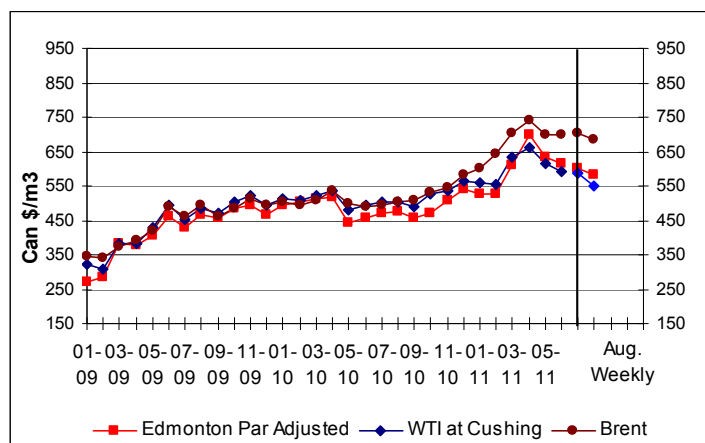
For the week ending August 5, 2011, prices for the three marker crudes averaged between \$552/m³ and \$683/m³, (US\$91 to US\$112 per barrel) – a four month low. The gap between the WTI and Brent price stood at \$131/m³ (US\$22 per barrel).

Looming concerns of a weakened global economy, and the possible reduced oil demand, caused oil prices to drop to their lowest level in 4 months. Employment and consumer spending indicators in the U.S. continue to

falter further reducing the prospect for increased oil demand in the near future.

As the summer driving season nears its end, investors' awareness is now shifting towards the hurricane season in the Atlantic basin and the U.S. Gulf of Mexico region. Typically, concerns over supply due to potential damage to oil producing and refining infrastructure can create temporary upward pressure on wholesale refined petroleum product prices and ultimately retail prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-08-05		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	581.91	95.67	-16.43	-4.69	+94.21	+19.84
WTI	552.32	90.82	-30.87	-7.00	+26.09	+9.01
Brent	683.19	112.33	-15.80	-4.91	+157.68	+30.63

Source: NRCan

Canadian Energy Overview 2010

According to the National Energy Board's (NEB) newly released *Canadian Energy Overview 2010*, the Canadian economy achieved a 3.1 per cent growth rate in Gross Domestic Product (GDP) in 2010. Overall, global and North American economic conditions improved in 2010. Global real economic growth was estimated at 3.8 per cent in 2010 and 2.8 per cent in the United States (U.S.). However, there were mixed economic signals during the year related to financial stability in the eurozone and economic expansion in the U.S. and China.

In Canada, tight and shale gas production accounted for 36 per cent of total domestic gas production in 2010, compared to 18 per cent in 2000. In 2010, North American natural gas prices remained below the yearly average of 2003-2008 gas prices because of the abundance of U.S. supply and decreased Canadian demand.

The average oil price of US\$79.48/bbl (WTI) in 2010 was 28 per cent higher than the average oil price in 2009. Higher oil prices contributed to increased oil sands activity and more oil drilling in low permeability formations of Western Canada. Domestic crude oil production grew by 5.0 per cent and synthetic crude oil production grew by 3.5 per cent in 2010.

Source: NEB, <http://www.neb.gc.ca/clf-nsi/rnrgynfntn/nrgyrprt/nrgyvrw/cndnnrgyvrw2010/cndnnrgyvrw2010-eng.html#s2>

