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Fuel Focus

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

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Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 995-1913
Email: prb.drp@nrcan-rncan.gc.ca
Web site: <http://nrcan.gc.ca/eneene/focinf-eng.php>

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National Overview

National Retail Pump Prices Decreased 0.4 Cent per Litre to \$1.26 per Litre from Last Week

For the week ending August 23, 2011, the average Canadian retail gasoline price was \$1.26 per litre. This is a decrease of 0.4 cent per litre from the previous week and an increase of 24 cents per litre from a year ago.

Diesel and furnace oil prices remain almost unchanged from the previous week at \$1.22 and \$1.11 per litre respectively. Both diesel and furnace oil prices are up 23 cents per litre from the same period last year.

Average retail pump prices across Canada moved downward despite higher wholesale gasoline prices and the increase in crude oil prices, particularly the North Sea Brent. Uncertainties over the global economic outlook continue to dominate the oil and petroleum product markets causing prices to fluctuate in a narrow range over the last few months.

Recent Developments

- **Canadian Crude Oil Production Decline:** Production of crude oil and equivalent hydrocarbons decreased 6% to 13.4 million cubic metres in May 2011 compared to the same month a year earlier. Exports decreased 4% to 9.9 million cubic metres. About 74% of Canada's total domestic production went to the export market compared to 73% a year earlier. Imports fell 3% to 3.9 million cubic metres. (Statistics Canada, The Daily, <http://www.statcan.gc.ca/daily-quotidien/110812/dq110812a-eng.htm>)
- **Oil Well Completions Climb Significantly:** Development completions for oil wells in the four western Canadian provinces soared to 3,727 wells in January to July 2011 period, up from 2,434 development oil wells compared to the same time last year. The increase in well completion is mainly due to strong crude oil prices and stagnant natural gas prices. (Source: Daily Oil Bulletin, August 15, 2011)
- **Domestic Gasoline Sales for the First Six Months of 2011:** Preliminary data on motor gasoline sales indicate a decrease of 0.3% to 25.3 billion litres in the first six months of 2011 compared to the same period in 2010. Diesel fuel sales rose 3% to 16.6 billion litres, while light fuel oil (furnace oil) increased 4% to 2.1 billion litres in the same time period. (Source: NRCan and Statistics Canada)

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

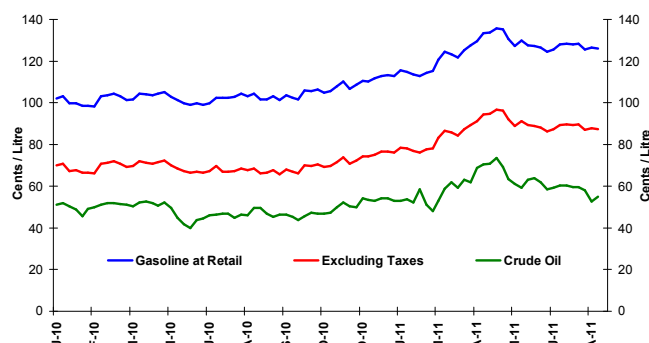
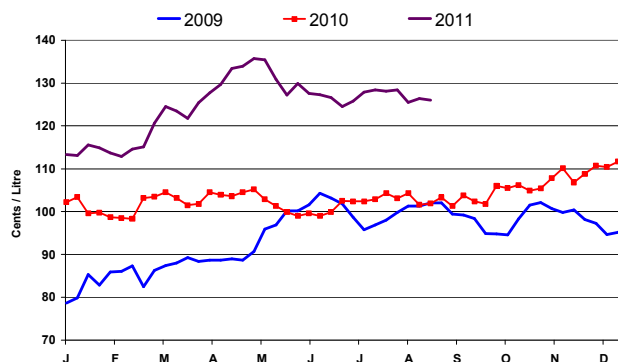


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2011-08-23	Previous Week	Last Year
Gasoline	126.0	-0.4	+24.1
Diesel	121.9	+0.1	+23.3
Furnace Oil	111.1	+0.2	+23.1

Source: NRCan

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Retail Gasoline Overview

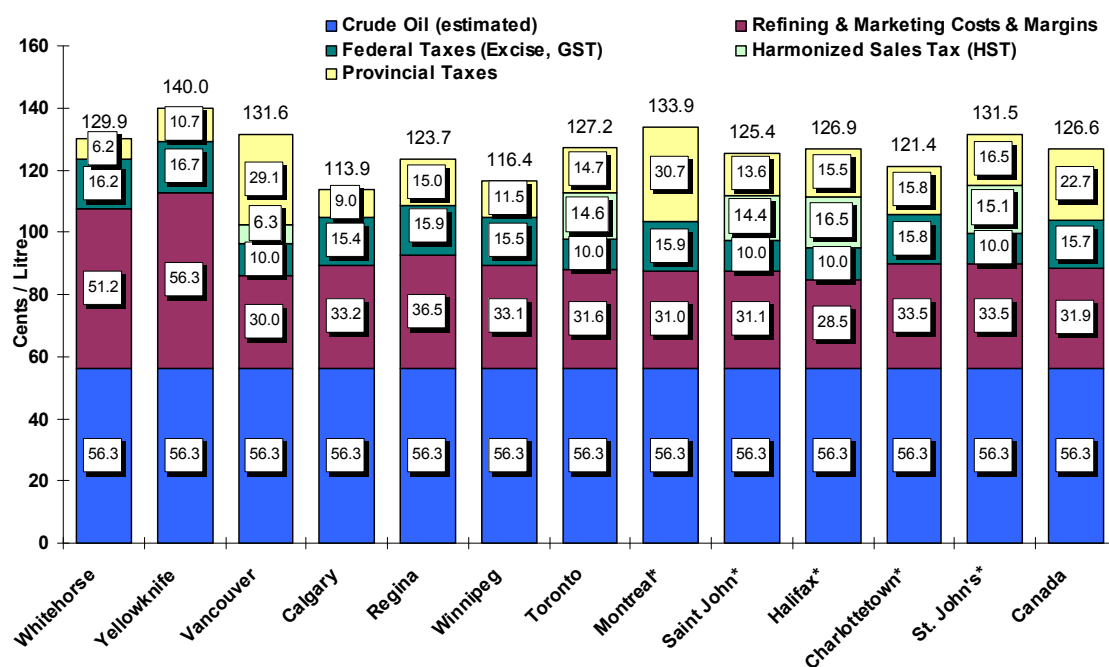
The average Canadian pump price in selected cities for the **four-week average** ending August 23, 2011, was \$1.27 per litre, a decrease of 1 cent per litre from the last report on August 12, 2011. This represents a 24 cent-per-litre increase compared to the same period in 2010.

The **four-week average** crude oil price increased by 3 cents per litre to 56 cents per litre compared to two weeks ago. This represents an 8 cent-per-litre increase compared to last year at the same time.

Retail gasoline prices in most Western centres—Vancouver to Winnipeg—decreased about 1 cent per litre when compared to the previous report and ranged from \$1.14 to \$1.32 per litre. Prices in Eastern cities—Toronto to St. John's—dropped by 2 cents per litre and ranged from \$1.21 to \$1.32 cents per litre.

At the national level, refining and marketing costs and margins increased 2 cents per litre to 32 cents per litre. This also represents an increase of 13 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (August 2 to 23, 2011)**



Source: NRCan

* Regulated Markets

Gasoline Supply Allocations

When gasoline is in short supply, refiners occasionally must restrict the amount of product they supply to their customers. In the case of a severe supply and demand imbalance, such as after a hurricane affecting petroleum infrastructures, suppliers will restrict access to supply by placing their contract customers on allocation. This means that retailers can only purchase a percentage of what they bought during the same period last year. Typically, suppliers initially begin with 100% allocations, which then decrease as supply conditions worsen. Suppliers will determine the allocation factor based on the severity of the shortage, the amount of inventory on hand and the expected duration, ensuring that there is always product to meet high priority uses such as fuel for emergency vehicles i.e. police vehicle fleet, fire trucks and ambulances.

Allocations only apply to contract customers and help to ensure that limited supplies are distributed equitably across all contracts when supplies are or could be tight. Retailers without supply contracts get last dibs on gasoline and they pay a premium for any supplies that are available. This situation can result in a price inversion—where the wholesale gasoline price for volumes purchased without a contract can be higher than the prevailing retail price.





Wholesale Gasoline Prices

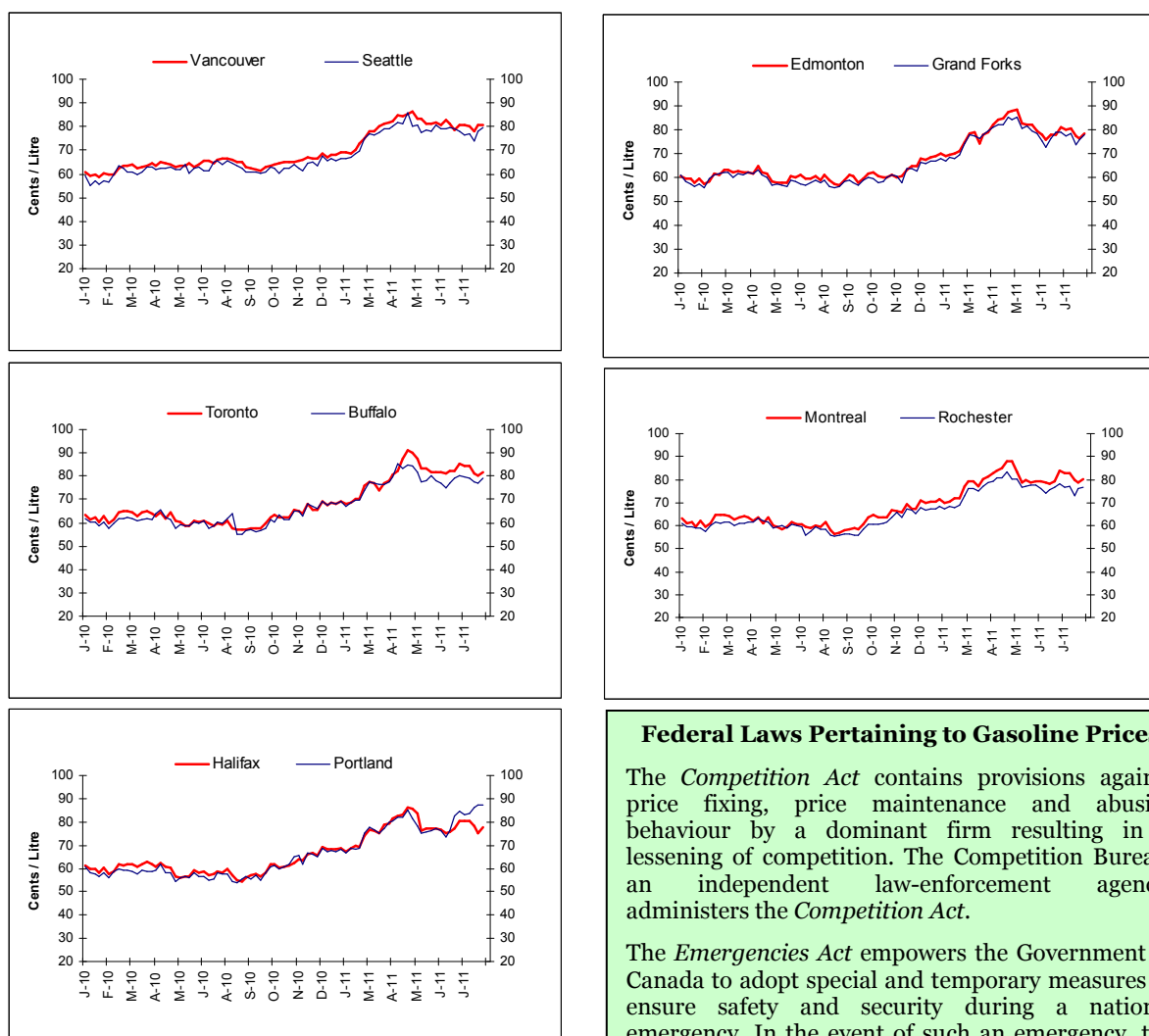
Wholesale gasoline prices increased in most selected centres for the **week ending August 18, 2011**, compared to the previous week. Overall, prices increased in the range of less than 1 cent per litre to almost 3 cents per litre.

In the Eastern markets of Canada and United States, wholesale gasoline prices, compared to the previous week, registered increases ranging from less than 1 to 3 cents per litre. Prices for the period ended in the 76- to 87-cent-per-litre range.

The gap between Portland and Halifax (a regulated market) had been drifting wider in recent weeks, reaching as much as 12 cents per litre for the week of August 11, 2011. The price gap has narrowed slightly for the current week. Meanwhile, the Toronto-Buffalo price gap observed in the last few months has narrowed significantly as refinery issues in Sarnia, Ontario, appear to be resolved.

Western wholesale gasoline ended in the range of 78 to 81 cents per litre, with prices increasing in the range of nearly 2 cents per litre in most centres.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending August 18, 2011
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Federal Laws Pertaining to Gasoline Prices

The *Competition Act* contains provisions against price fixing, price maintenance and abusive behaviour by a dominant firm resulting in a lessening of competition. The Competition Bureau, an independent law-enforcement agency, administers the *Competition Act*.

The *Emergencies Act* empowers the Government of Canada to adopt special and temporary measures to ensure safety and security during a national emergency. In the event of such an emergency, the Government of Canada has the authority to intervene and control various aspects of the market.





Gasoline Refining and Marketing Margins

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

As such, gasoline refining margins exhibit similar patterns as the wholesale gasoline market, rising and falling closely with demand. The gradual increases indicate that wholesale prices have been increasing faster than crude oil prices. However, the refining margins below are based on Edmonton Par crude oil. Refiners relying on more expensive crude oil supplies for gasoline products would have lower margins, depending on the region in which they operate.

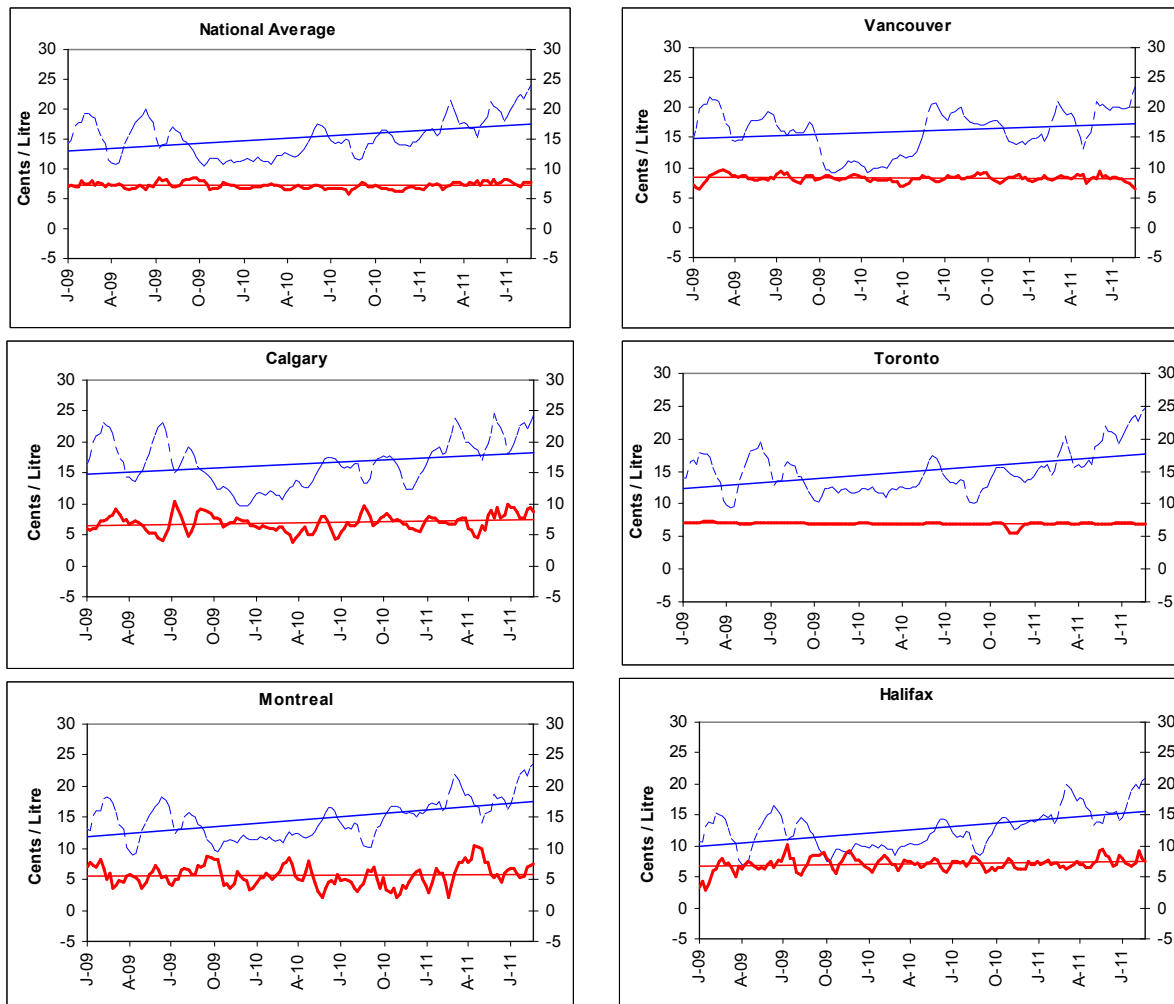
The marketing margins are usually very stable across the

selected centres. It is the difference between the pump price (excluding taxes) and the acquisition costs of the fuel by the retailer and represents the smallest component of the retail price of gasoline at the pump.

In general, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances.

Traditionally, the summer driving season increases demand for gasoline which can result in increased prices. As the end of the driving season nears, typically with Labour Day weekend in September, prices tend to stabilize or decline.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending August 23, 2011
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

World Crude Oil Prices Rebound Slightly after Declining for Over Four Months

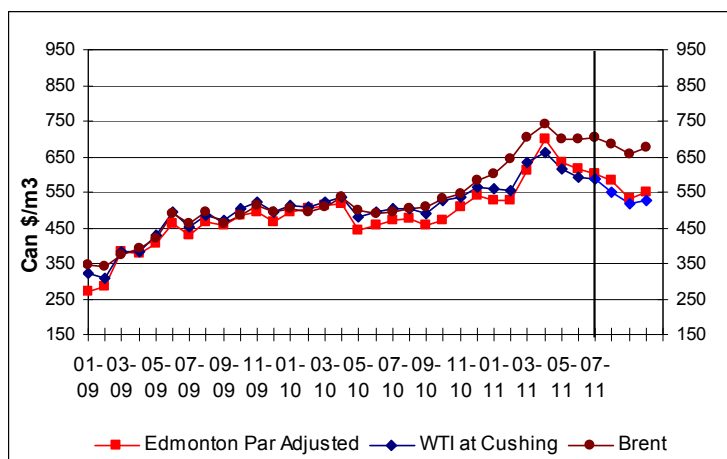
For the week ending August 19, 2011, prices for the three marker crudes averaged between \$528/m³ and \$677/m³ (US\$85 to US\$102 per barrel). This is an increase of \$13 to \$20/m³ (US\$2 to US\$4 per barrel) compared to the previous week. The three benchmark crudes averaged a decline of \$114/m³ (\$18 per barrel) since April.

U.S. crude oil inventories remain above the five-year average levels, reflecting a lower demand and an uncertain economic outlook, helping to moderate prices. Meanwhile, U.S. gasoline inventories have declined, but remain within the five-year average. Concerns about the European debt crisis and worries about the weak U.S. economic data have moderated the upward movement in crude oil prices.

Brent oil prices continue to firm up mainly due to the Libyan conflict which has shut down fields that once pumped 1.6 million barrels per day. This has pushed Brent oil prices higher as most of Libya's oil is priced against it.

Overall, the traditional oil market fundamentals such as inventory levels and oil supply and demand balances do not seem to have as much impact on the current oil market conditions. Rather concerns over the global economy and the perception of an underlying malaise seem to trump the usual factors explaining the crude oil markets.

Figure 6: Crude Oil Price Comparisons



S&P 500 and WTI Prices Track Each Other

Over the past few weeks (July 1 through August 19), the movement of oil prices has closely mirrored that of the Standard and Poors (S&P) 500 Index. Crude oil settlement futures prices for West Texas Intermediate (WTI) crude fell just over 13% while the S&P 500 stock index fell 16% during this period. Recent economic news, such as a downward revision to U.S. GDP for the first half of this year, has provided downward price pressure across many asset classes during recent trading sessions.

The recent strong relationship between oil and equity prices resembles that seen during the economic downturn and recovery in 2008-2010. This contrasts with a weaker correlation between oil and equity prices in the years before 2008 and also with price movements earlier this year, when oil and stock markets decoupled.

Source: Excerpts from *Today in Energy*, U.S. Energy Information Administration, August 22, 2011, <http://www.eia.gov/todayinenergy/detail.cfm?id=2750>

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2011-08-19		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	549.01	88.66	+18.47	+3.40	+76.27	+16.29
WTI	528.49	85.35	+12.52	+2.43	+39.42	+10.48
Brent	676.72	109.28	+19.67	+3.69	+184.89	+33.99

Source: NRCan

