



Fuel Focus is produced by Natural Resources Canada and is intended for a broad audience. The objective is to provide readers with regular information on the various aspects of the gasoline market in Canada and to raise awareness of the economic drivers influencing prices. Previous issues are available on our website at: [http://www.oppi.gc.ca/index\\_e.cfm](http://www.oppi.gc.ca/index_e.cfm)

## National Overview

### Average Canadian Retail Gasoline Prices Decline 6 cents per Litre from Last Week

The Canadian average retail gasoline price declined by more than 6 cents per litre (97 cents per litre) for the week ending August 29<sup>th</sup> compared to the previous week. This is the first dip below \$1 per litre since early April and represents a 17 cents per litre drop in the last five weeks.

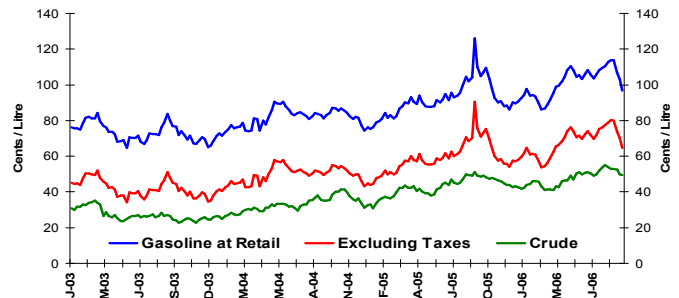
This drop coincides with the end of the driving season. Gasoline prices are expected to remain lower after Labour Day than in the previous months, unless any significant supply disruption arises particularly since hurricane season in the U.S. Gulf Coast region is far from over. Gasoline prices are 7 cents per litre below last year's prices, which a week later climbed to more than \$1.26 per litre following Hurricane Katrina. Crude oil prices also declined as tensions moderated in the Middle East.

In contrast, diesel fuel and furnace oil prices have not diminished significantly compared to gasoline. This is mainly due to the transition to the ultra low sulphur diesel fuel in response to new environmental regulation requirements and the seasonal shift in production from gasoline to heating oil.

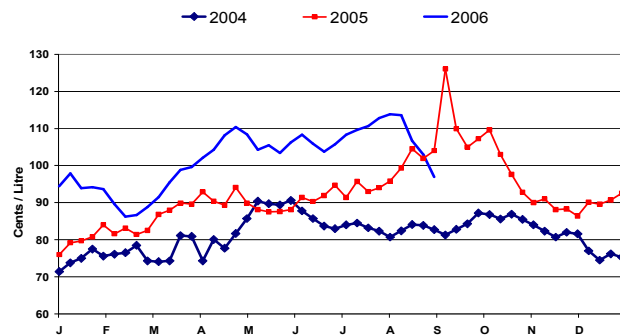
## Recent Developments

- Statistics Canada reported that wholesale sales in the automotive sector fell by 2.1% in June while wholesale sales of motor vehicles fell 1.5% in June, a fourth decline in five months. These decreases in June are partly due to falling demand for certain models of motor vehicles stemming from consumers' reaction to rising gasoline prices and climbing interest rates.
- Auto\$mart Driver Education Kits are available for students thinking of enrolling in a driver-education program and looking for a driving school. The Kit offers suggestions on how to save fuel and money by becoming a fuel-efficient driver. To find a driving school, or for driving instructors' teaching resources visit <http://oee.nrcan.gc.ca/transportation/business/register.cfm?attr=8>.

**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:	
	2006-08-29	Previous Week	Last Year
Gasoline	96.9	-6.1	-7.0
Diesel	105.7	-0.7	-8.7
Furnace Oil	86.6	-0.3	+2.9

Source: NRCan

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**Fuel Focus Info Tips** – Coming up in future issues of Fuel Focus will be a 3 part series on home heating oil. Issue 6 will feature “Fixed and Capped Price Contracts”; Issue 7 “Equal Billing Plans”; and Issue 8 “The Impact on Consumers of Heating Oil Prices”.





## Retail Gasoline Overview

The average Canadian pump price in selected cities for the four weeks ending August 29<sup>th</sup> was \$1.05 per litre, a decline of almost 7 cents per litre from the August 15<sup>th</sup> report, and almost at the same level compared to \$1.02 per litre recorded during the same period in 2005.

As noted in Figure 3, the four week average crude oil price, at 51.3 cents per litre, declined 1.8 cents per litre since the last report, but remained 2.4 cents per litre higher than the same period last year.

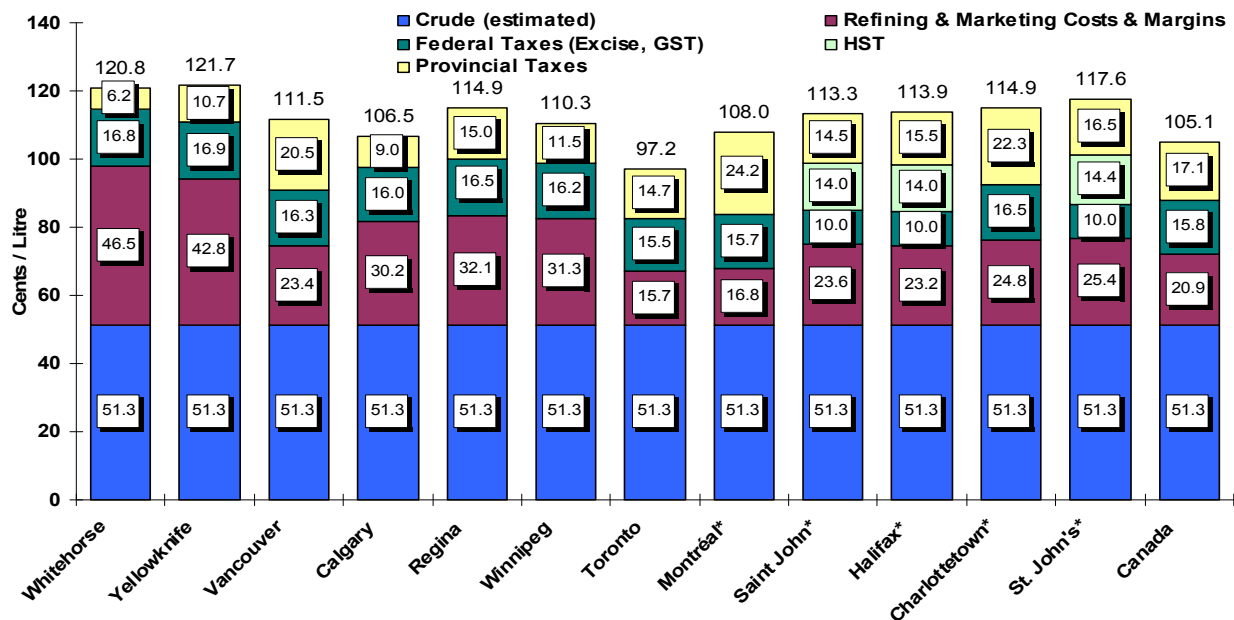
Over the last four weeks the refining and marketing costs and margins in the Prairies, although showing signs of decline, remained strong compared to Eastern

Canada an indication of the tight supplies in the region resulting from extended refinery maintenance earlier this summer.

The continued decline in pump prices also coincide with the end of the summer driving season in Canada and in the United States. A slight increase could be expected with the Labour Day coming up as drivers take advantage of the season's last long weekend, but prices are expected to follow the seasonal pattern observed historically.

As always any significant fluctuation in crude oil prices, due to political or weather related events, or unanticipated refinery shutdown could cause prices to spike.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4 Week Average (August 8 to August 29, 2006)**



Source: NRCan

\* Regulated Markets

### Figure 3: Pump Price Components Explained

- **Crude Oil Price (Estimated):** Based on the average of daily crude oil postings from four companies of light sweet crude at Edmonton. Does not necessarily reflect the price paid by a refiner.
- **Federal Taxes:** Includes the 10 cents a litre excise tax and the 6% GST. The GST portion is calculated from the retail price at the pump. For Montreal, the GST is calculated after the 7.5 % QST is removed from the retail price.
- **Harmonized Sales Tax (HST):** For Saint John, Halifax and St-John's, the GST and the provincial sales tax are replaced by the HST (14%). The HST portion is calculated from the retail price.
- **Provincial/Territorial Taxes:** The consumption taxes levied by the provinces / territories. In addition, are also included for Montreal the 7.5% sales tax portion and a 1.5 cents a litre urban tax and for Vancouver the 6.0 cents a litre transit tax.
- **Refining and Marketing Costs and Margins:** Calculated using the retail price at the pump, excluding all taxes and minus the estimated crude oil price.
- **Canada Averages:** Components are weighed by annual provincial gasoline sales volumes, as published by Statistics Canada, based on the price of the ten above-mentioned major centres.





## Wholesale Gasoline Prices

Wholesale gasoline prices on average dropped more than 4 cents per litre across the selected cities for the week of August 24<sup>th</sup> compared to the week of August 17<sup>th</sup>. This followed a two week trend where wholesale gasoline prices declined an impressive 9.4 cents per litre from August 10<sup>th</sup> to August 24<sup>th</sup>. Wholesale gasoline prices across Canada were approximately 3 cents per litre less on August 24<sup>th</sup> than at the same time last year.

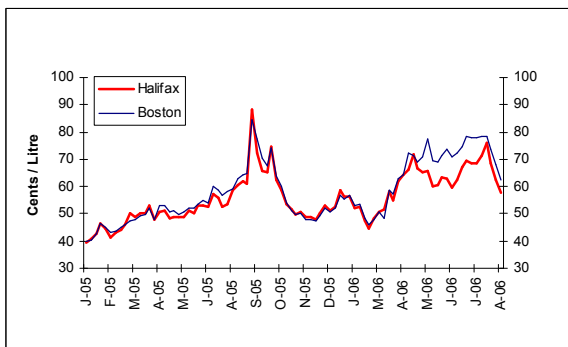
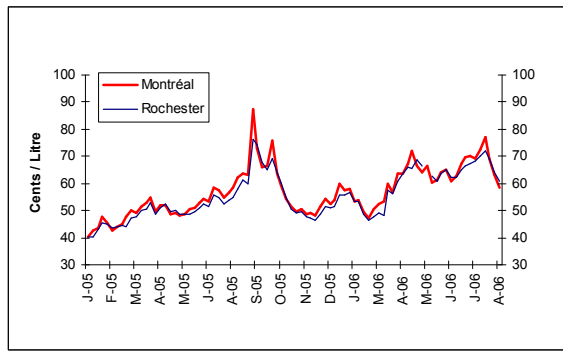
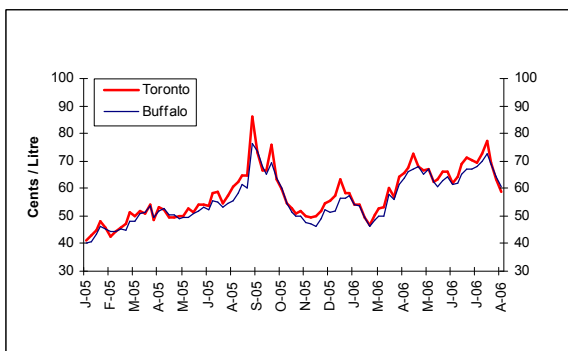
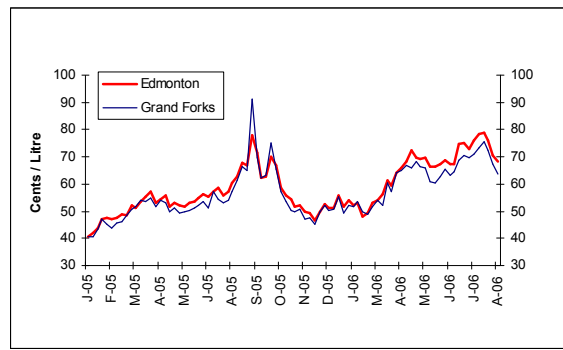
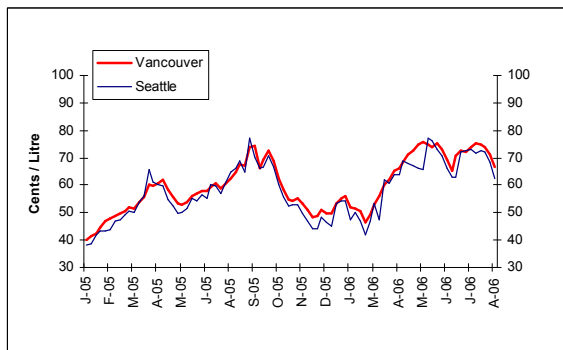
The overall decline in gasoline prices reflects lower crude oil prices and a greater availability of supply as the traditional driving season nears the end and as demand for gasoline is reduced.

Rack terminal prices in selected Canadian and U.S. cities mirrored each others market. Between August 10<sup>th</sup> and August 24<sup>th</sup> the Vancouver and Seattle wholesale gasoline prices dropped 7.3 and 9.4 cents per litre respectively while the Edmonton and Grand Forks prices dropped by 7.6 and 8.7 cents respectively. However, the price spread at Vancouver and Edmonton increased 1.4 and 2 cents per litre in the last week versus the competing U.S. rack prices.

On the East Coast, the Halifax wholesale prices declined 4.7 cents per litre while the competing Boston wholesale rack prices also declined by more than 5 cents per litre. This suggests that supplies of reformulated gasoline are now available in sufficient quantities to meet the regional demand.

**Figure 4: Wholesale Gasoline Prices**

Rack Terminals Prices for Selected Cities ending August 24<sup>th</sup> (Can ¢/L)



**Does Regulation Result in Lower Gasoline Prices?**

Historically, the introduction of gasoline regulation in a market has not necessarily resulted in lower gasoline prices. In fact, in the long term, Canadian regulated markets tend to pay slightly more on average than other similar non-regulated markets. However, the advantage of a regulated market is that consumers face relatively lower price volatility.

Sources: NRCan, Bloomberg





## Refining and Marketing Margins

Refining margins continue to follow the seasonal pattern as seen in the historical graph below, namely rising in the summer and dropping in the winter. The higher costs seen over the years reflect the market conditions under which the refiner operates such as new environmental standards associated with producing low-sulphur fuels and concerns over tight supply conditions in a particular market.

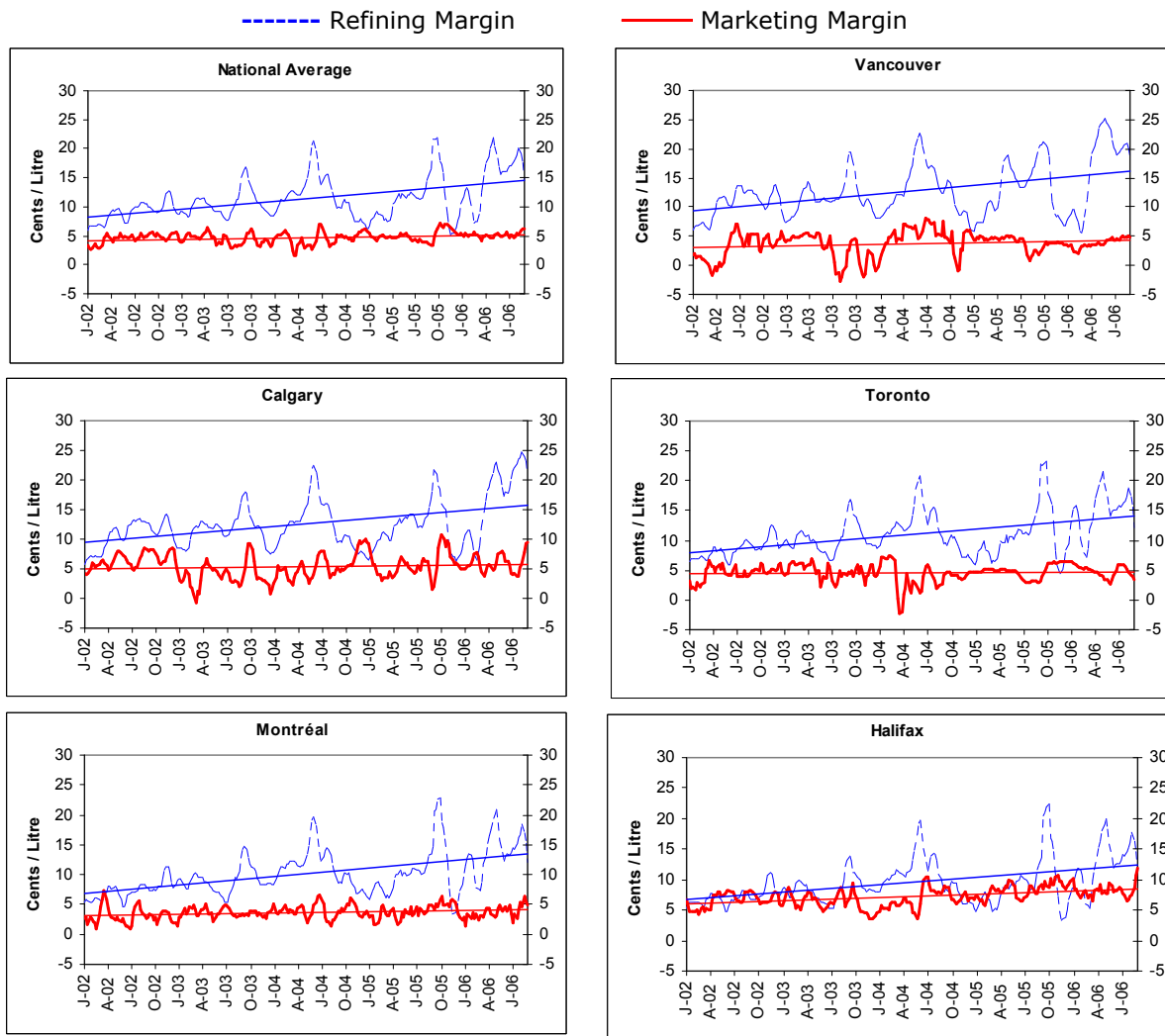
Indeed, all gasoline sold in Canada and the U.S. has to meet certain quality and environmental standards. Traditionally these standards are harmonized between the two countries which have resulted in a continental wholesale market.

The downstream margin represents that portion of the price of gasoline over which the refiners and

marketers have the ability to exercise some influence. This margin must cover the costs associated with the refining of the crude oil, transporting the products throughout the distribution system to the demand centres and marketing the product, while providing the refiner and the gasoline station retailer with a reasonable rate of return on their capital.

The marketing margin can differ significantly from city to city and region to region. Although this margin represents a small fraction of the cost of a litre of gasoline it attracts the consumer's attention because it is related to the price posted by service stations across the country. Ultimately, it is the local market conditions in each area which determines the retail pump price and the margin available to the retailers.

**Figure 5: Refining and Marketing Margins**



Source: NRCan





## Crude Oil Overview

### Crude Oil Prices Continue to Decline

World crude oil prices continue to moderate this week as tensions appeased between Israel and Lebanon. The Middle East conflict had, over the last few weeks, exacerbated a situation which brought crude oil prices above their latest peak of May 2006.

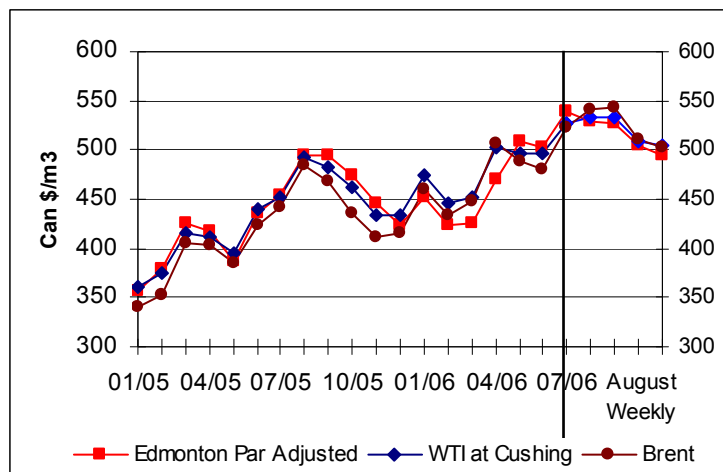
However, other factors still cause concerns and continue to create pressure on the market. The possibility of trade sanctions against Iran which could result in the loss of Iranian oil export together with concerns relating to tropical storms hitting the U.S. Gulf Coast continue to reinforce market unease.

The Edmonton Par crude oil prices declined in the week of August 29<sup>th</sup> reaching \$495 per cubic metre (\$79 per bbl) down \$9 per cubic metre from the previous week. This was also below the \$528 per cubic metre recorded two weeks ago.

West Texas Intermediate (WTI) was nearly \$505 per cubic metre (\$80 per bbl) on August 29<sup>th</sup>, a decrease of \$3 per cubic metre from the previous week.

The Brent benchmark crude oil price also declined to \$502 per cubic metre (\$80 per bbl), nearly \$10 per cubic metre lower than last week, but almost \$8 per cubic metre higher than last year.

**Figure 6: Crude Oil Price Comparisons**



#### Inflation Down for a Second Consecutive Month

Statistics Canada's Consumer Price Index (CPI) report released August 22, 2006, <http://www.statcan.ca/english/Subjects/Cpi/cpi-en.htm> indicate that the 12-month percentage change in the CPI was down for a second consecutive month, from 2.5% between June 2005 and June 2006 to 2.4% between July 2005 and July 2006.

Excluding energy prices, the 12-month increase in the CPI slowed down slightly, from 1.5% in June to 1.4% in July. However, on a monthly basis, the CPI increased 0.1% in July. This suggests that price increase pressures were important enough in July to more than compensate for the expected effect of the 1% reduction in the GST.

Again, higher gasoline prices accounted for most of the 12-month increase as the CPI climbed 2.4% in July 2006 over July 2005. Gasoline prices climbed 16.1% in July 2006 compared to the same period last year, up from 15.4% from the previous 12-months ending June 2006. However, after a steady 12-month increases of 14.1% in May and 11.5% in June, the energy index continued to decelerate, posting a relatively smaller increase of 10.6% in July. Aside from natural gas, all components contributed to the rise in the energy index, with gasoline (+16.1%) playing the largest part, followed by electricity (+6.3%), fuel oil (+12.1%), and fuel, parts and supplies for recreational vehicles (+10.1%). Natural gas prices were nonetheless down by 3.3% in July, largely owing to the 18.8% drop in Alberta.

#### Changes in Crude Oil Prices

Crude Oil Prices (\$Can)	Week ending: 2006-08-25		Change from:			
			Previous Week		Last Year	
	\$/m3	\$/bbl	\$/m3	\$/bbl	\$/m3	\$/bbl
Edmonton Par	495.20	78.73	-8.85	-1.41	-6.54	-1.04
WTI	504.97	80.28	-3.32	-0.53	+6.19	+0.98
Brent	501.84	79.78	-9.68	-1.54	+7.54	+1.20

Source: NRCan

