



Welcome to this first edition of the Fuel Focus, a bi-weekly report produced by Natural Resources Canada. The objective of the report is to provide national analysis, based on a range of public and internal sources, of petroleum product prices, trends and events influencing the Canadian market. The report will focus mainly on the national overview with occasional features on specific events in selected Canadian cities and noteworthy recent developments in the petroleum sector. We trust you will enjoy this new report and look forward to your comments.

## National Overview

### Canadian Retail Gasoline Prices Increase 2.6 cents per Litre from Last Week

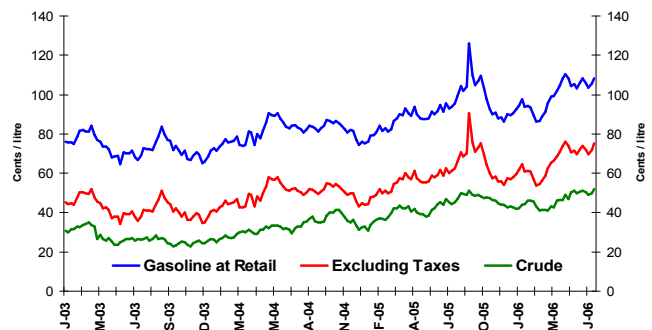
The average Canadian retail gasoline price increased by 2.6 cents per litre to 108.3 cents per litre for the week ending July 4<sup>th</sup>, up from 105.7 cents per litre in the previous week. Significant increases in world crude oil prices and the resulting rise in wholesale prices were partially offset at the retail level by the 1% reduction in the Goods and Services Tax effective July 1<sup>st</sup>.

The trend in higher gasoline prices observed in the last few months is supported by overall wholesale gasoline prices which were approximately 15 cents higher on July 4<sup>th</sup> than last year. These in turn, are being pushed by higher crude oil prices, continued tensions in some world oil producing regions, and concerns over potentially tight gasoline supplies in North America over the summer months. The seasonal increase in gasoline demand, April through September, traditionally results in higher gasoline prices during the summer.

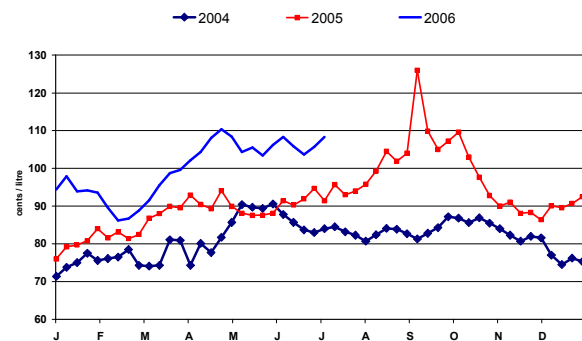
## Recent Developments

- The Government of Canada has announced a target of 5% biofuel content to gasoline by 2010 to reduce greenhouse gas emissions.
- Nova Scotia introduced gasoline price regulation on July 1. Regulation will hold prices steady over two-week intervals.  
<http://www.gov.ns.ca/news/details.asp?id=20060701001>
- New Brunswick introduced a rebate of 8% on the HST for home heating fuels and electricity. The province also introduced regulated gasoline prices on July 1, 2006.  
[http://www.gnb.ca/cnb/Promos/fuel\\_prices/index-e.asp](http://www.gnb.ca/cnb/Promos/fuel_prices/index-e.asp)

**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:  |           |
|-------------|------------|---------------|-----------|
|             | 2006-07-04 | Previous Week | Last Year |
| Gasoline    | 108.3      | +2.6          | +16.9     |
| Diesel      | 101.3      | -1.5          | +10.0     |
| Furnace Oil | 87.1       | -1.4          | +8.9      |

Source: NRCan

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## Retail Gasoline Overview

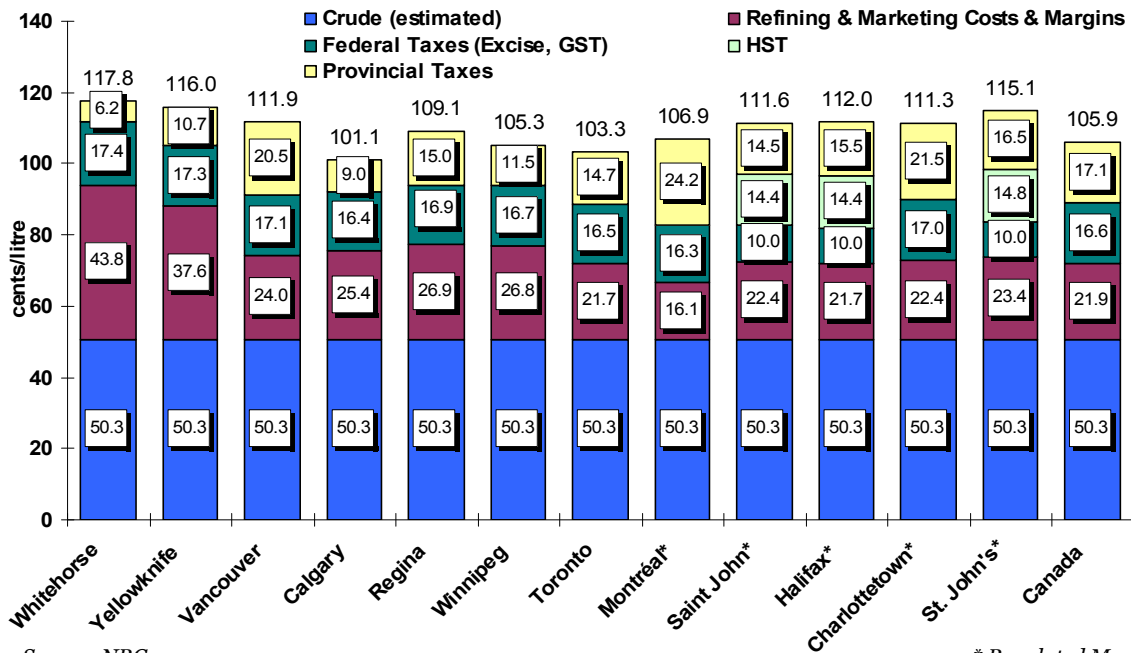
The average Canadian pump price in selected cities for the four weeks ending July 4th was \$1.06 per litre compared to 92.1 cents per litre, during the same period in 2005. As shown in Figure 3, prices ranged from \$1.18 per litre in Whitehorse to \$1.01 per litre in Calgary.

The gasoline price increases over the last few months have stemmed from concerns that many refiners in both Canada and the US were unable to build stocks leading into the period of peak summer demand. Refiners were drawing down inventories because of the need to partially or completely close some refineries to do routine maintenance. At the same time, some refinery units were temporarily shut down to install equipment to reduce the sulphur content in diesel to meet new regulations that took effect in both Canada and the US in June 2006.

As Figure 3 indicates, provincial and municipal taxes account for most of the price difference from centre to centre. The provincial gasoline taxes range from a low of 6.2 cents a litre in the Yukon to a high of 21.5 cents a litre in Prince Edward Island. Municipal taxes on gasoline range from 1.5 cents in Montréal to 6 cents a litre in Vancouver. In addition, a provincial sales tax of 7.5% applies in the province of Quebec.

The federal government excise tax on gasoline is 10 cents a litre, unchanged since 1995. Effective July 1st, the Goods and Services Tax (GST) is reduced to 6%. In the provinces of Newfoundland and Labrador, Nova Scotia and New Brunswick, the GST and the retail sales tax are replaced by a single Harmonized Sales Tax (HST) at a rate of 14%. The GST and the HST portions are dependent on the retail price.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
4 Week Average (June 13 to July 4, 2006)**



**Retail gasoline prices are determined by several factors, including:**

- crude oil prices
- transportation costs of both the crude oil and the gasoline (i.e. via, tanker, pipeline, and tank trucks)
- refining costs and margins
- marketing costs and margins
- supply and demand balances in a given region
- inventory levels
- federal and provincial taxes
- local price competition, and
- opportunity costs (i.e. the prices that can be obtained by selling gasoline in alternative markets).





## Wholesale Gasoline Prices

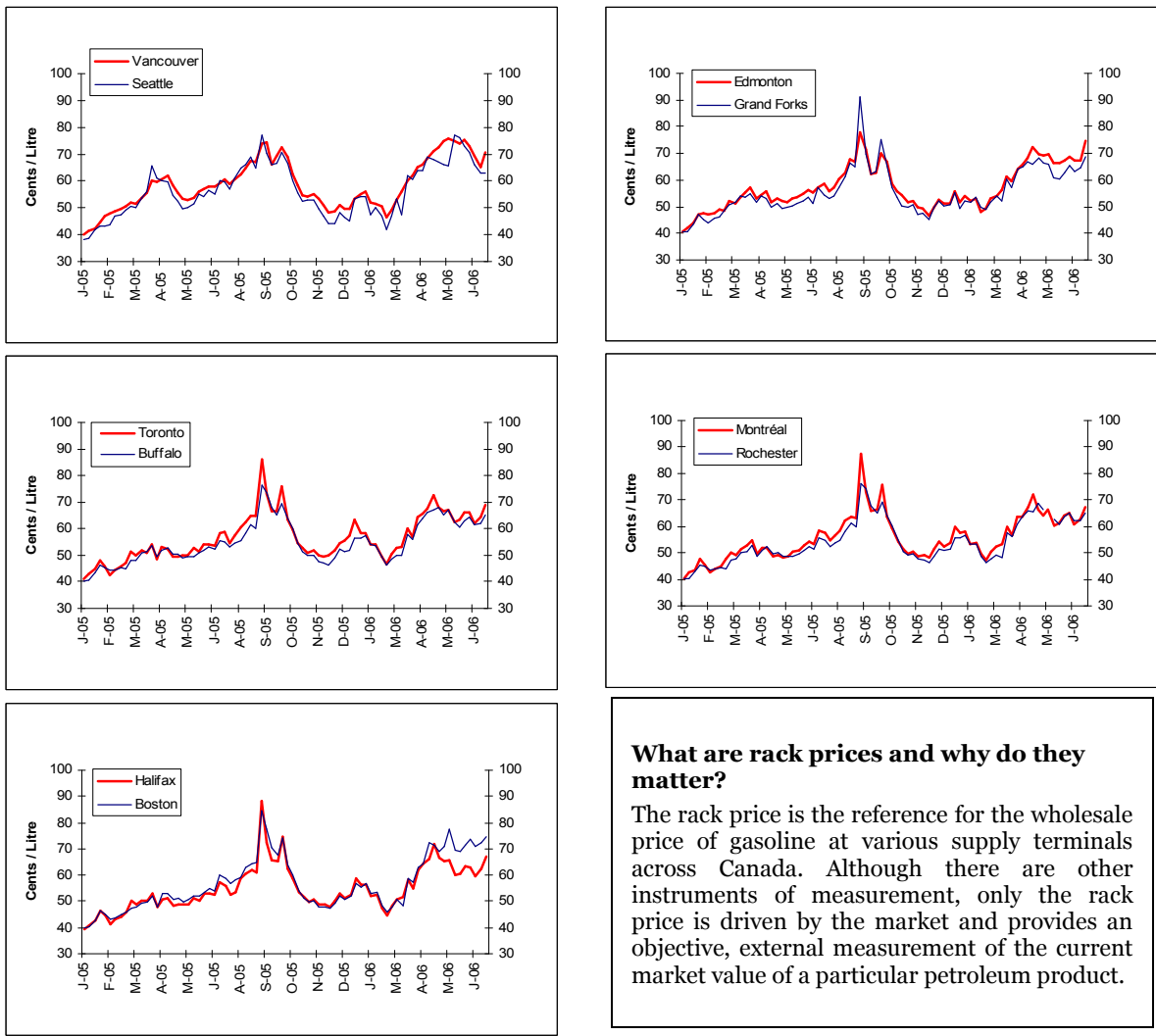
Wholesale rack prices rose across most of the selected cities in Canada the week of June 29<sup>th</sup> compared to the week of June 22<sup>nd</sup>. The price increases ranged from a high of 7.3 cents per litre in Edmonton to 4.6 in Montreal, reflecting the steady climb in crude oil prices and gasoline supply pressures.

While following similar trends with those in nearby U.S. markets, western Canadian rack prices have been rising more rapidly in recent weeks. Reduced supplies resulting from refinery production problems and low inventories, coupled with peak demand from motorists, have required increased imports on the west coast to

balance supply and demand. This tight market has forced rack prices up across the west.

The price spread between the Halifax wholesale gasoline prices and the Boston rack prices is due to the transition from using methyl tertiary butyl ether (MTBE) in reformulated gasoline (RFG) to using ethanol in RFG in some parts of the U.S., most notably on the East Coast. Changeover of tanks at terminals, the need for more expensive gasoline blends to combine with ethanol, and logistical problems delivering ethanol to some areas, have all contributed to higher prices at the Boston terminal.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminals Prices for Selected Cities on June 29<sup>th</sup> (Can ¢/L)



**What are rack prices and why do they matter?**  
The rack price is the reference for the wholesale price of gasoline at various supply terminals across Canada. Although there are other instruments of measurement, only the rack price is driven by the market and provides an objective, external measurement of the current market value of a particular petroleum product.

Sources: NRCan, Bloomberg





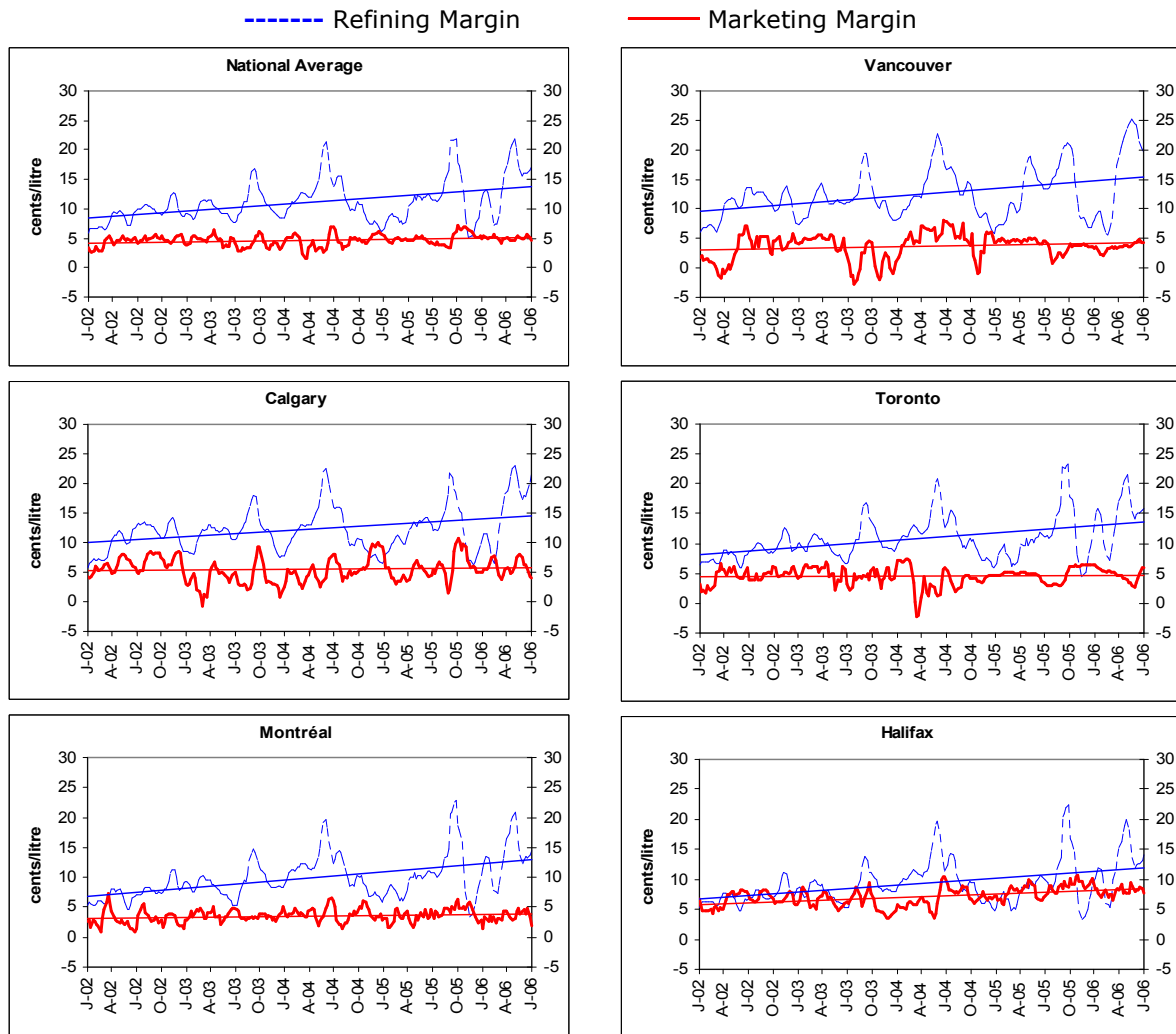
## Refining and Marketing Margins

Marketing margins were fairly stable over the last few weeks across Canada. The marketer margin is the difference between the pump price (excluding taxes) and the acquisition cost of the fuel by the retailer. This margin, which represents the smallest component of the retail price, generally accounts for approximately 5 cents per litre of the price at the pump.

Conversely, refining margins were relatively unstable mainly due to concerns over tight supplies while the demand for gasoline continues to rise. The refiner margin is the difference between the wholesale gasoline price and the crude oil price. As the graphs

below indicate, over the longer term refiner margins follow similar trends across the country and have been increasing gradually in the last 5 years. Some of this increase reflects the higher costs associated with producing lower-sulphur fuels. However, on a day to day basis, refining margins can fluctuate widely depending on the gasoline supply demand balances in specific regions. The volatility in the wholesale gasoline prices in recent months has led to the wide variations seen in refiner margins. However, in the longer term, improved refiner margins can be expected to attract increased investment in refining capacity which in time should help stabilize gasoline prices.

**Figure 5: Refining and Marketing Margins**



Source: NRCan





## Crude Oil Overview

### Major World Events Continue to Impact Crude Oil Prices

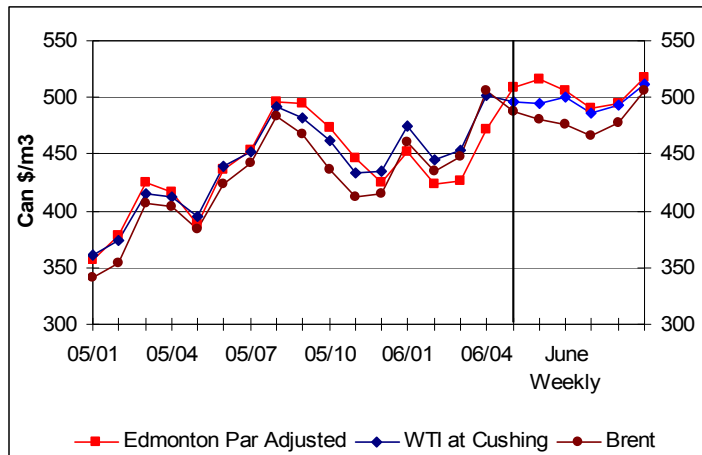
The summer driving season with its associated increased demand for transportation fuels such as gasoline, combined with concerns that this year's hurricane season could lead to further damage to oil production infrastructures in the Gulf of Mexico are keeping upward pressure on oil prices this summer.

In addition, world oil prices have been moving up steadily for the past few weeks driven by increasing tensions in Iran. Traders are concerned that any U.S. action against Iran could cause havoc in oil markets, particularly if Iran moves to block the Straits of Hormuz, the production gateway to the Persian Gulf.

Average weekly Edmonton Par crude oil prices increased by more than \$3 per barrel (bbl) as of June 30<sup>th</sup>. As shown in the table below, crude oil prices reached \$517 per cubic metre (\$82/bbl) for Edmonton Par compared to \$438 per cubic metre (\$70/bbl) last year. On June 30<sup>th</sup>, the benchmark crude price for West Texas Intermediate (WTI) was \$81/bbl, an increase of more than \$3/bbl from the previous week, and \$10/bbl higher than last year.

The Brent crude oil benchmark rose to \$506 per cubic metre, nearly \$28 per cubic metre higher than last week.

**Figure 6: Crude Oil Price Comparisons**



#### Changes in Crude Oil Prices

| Crude Oil Prices (\$Can) | Week ending: June 30 |        | Change from:  |        |           |        |
|--------------------------|----------------------|--------|---------------|--------|-----------|--------|
|                          |                      |        | Previous Week |        | Last Year |        |
|                          | \$/m3                | \$/bbl | \$/m3         | \$/bbl | \$/m3     | \$/bbl |
| Edmonton Par             | 517.37               | 82.25  | +22.45        | +3.57  | 78.93     | 12.55  |
| WTI                      | 512.06               | 81.41  | +19.34        | +3.08  | 62.14     | 9.88   |
| Brent                    | 505.83               | 80.42  | +27.67        | +4.40  | 70.77     | 11.25  |

Source: NRCan

#### Competition Bureau's Report

The recent Competition Bureau's report released in March 2006 has found no evidence that last's year gasoline price increase, following two successive hurricanes, were the result of a conspiracy among North American refiners.

In fact, the hurricanes caused losses of about 10-15% of US gasoline production and this, combined with damage to pipelines that transport oil from the Gulf Coast to other refineries in the US and uncertainties about supply, caused US wholesale gasoline prices to increase sharply, putting upward pressure on gasoline prices in Canada.

The report found that while refining margins widened sharply, they have since returned to pre-hurricane levels. The gasoline price spikes before the hurricanes reflected the retailer's response to the surge in consumer demand on fear of potential shortages and further price increases.

<http://www.competitionbureau.gc.ca/interne/index.cfm?itemID=2046&lg=e>

