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Fuel Focus

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

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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) 992-0614
Web site: <http://nrcan.gc.ca/eneene/focinf-eng.php>

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National Overview

Canadian Retail Gasoline Prices Remain Unchanged at \$1.33 per Litre from Last Week

For the week ending April 1, 2014, average Canadian retail gasoline prices remained unchanged from the previous week at \$1.33 per litre. However, average retail pump prices are 1 cent per litre higher compared to two weeks ago and 4 cents per litre higher compared to the same period last year.

Diesel fuel prices decreased by less than 1 cent per litre to \$1.42 per litre from the previous week. Prices are 11 cents per litre higher compared to the same period last year. Furnace oil prices are also down by less than 1 cent per litre compared to last week, and are 7 cents per litre higher than at this time last year.

Retail pump prices were muted partly due to wholesale gasoline lower price fluctuations in some selected centres despite slightly higher crude oil prices.

Recent Developments

• **Ontario Biodiesel Tax Exemption Repealed:**

As announced in the 2013 Ontario Budget, the fuel tax exemption for biodiesel was repealed on April 1, 2014. Unless otherwise exempted, all fuel used to generate power in an internal combustion engine, including biodiesel, is now taxable at a rate of 14.3 cents per litre. Prior to April 1, 2014, biodiesel that is ester-based and oxygenated was exempt from fuel tax in Ontario. This included any portion blended with petroleum-based diesel for use in a motor vehicle. (Source: Ontario Ministry of Finance)

• **Valero Select Oil Transport Company:**

Valero, owner of the Valero Jean Gaulin Refinery in Levis near Quebec City, chose Groupe Desgagnés to transport crude oil on the St. Lawrence River between Montreal and Levis. Valerio expects to receive crude oil from Western Canada by the end of the year via the Enbridge pipeline system to its Montreal East storage facilities. More than 100 trips by ships are expected on the St. Lawrence River between Montreal and Levis. (Source: Le Soleil, March 23, 2014)

• **Increase in Canadian Crude Oil Prices:**

In 2014, rising Canadian crude oil production has been accompanied by higher prices for Canadian crude exports. Factors which contributed to the rising price for Canadian oil includes the opening of the southern leg of the Keystone XL pipeline in January 2014, and the completion of BP's Whiting, Indiana refinery modernization project, which uses heavy crude and thus supports higher prices for Canadian crude oil. (Source: NRCan)

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

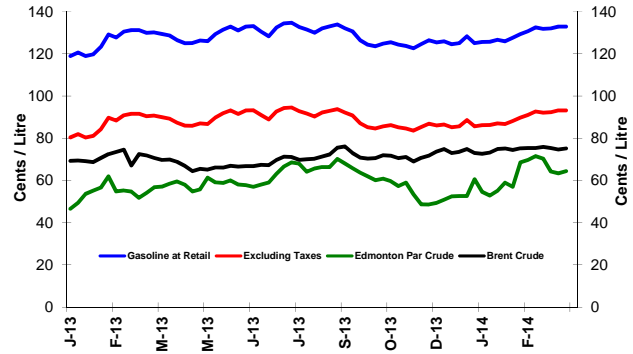
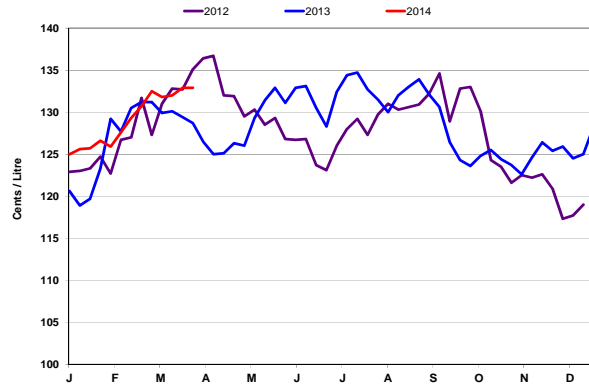


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-04-01	Previous Week	Last Year
Gasoline	132.9	0.0	+4.2
Diesel	142.3	-0.6	+11.4
Furnace Oil	129.3	-0.1	+7.0

Source: NRCan

Natural Gas Prices for Vehicles

2014-04-01	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.6	75.6	78.4
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

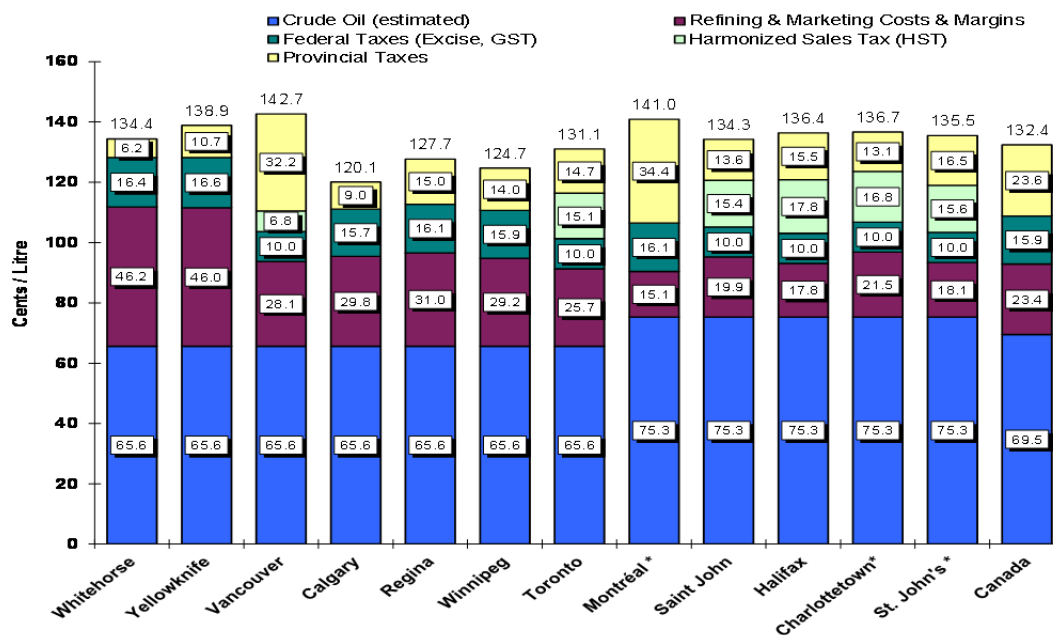
The **four-week average** regular gasoline pump price in selected cities across Canada was \$1.32 per litre for the period ending **April 1, 2014**. This is 3 cents per litre higher than last year at the same time.

The **four-week average** crude oil price component of gasoline registered at nearly 70 cents per litre, down by 2 cents per litre from two weeks ago. Compared to the same period in 2013, the crude oil price component of gasoline is 7 cents per litre higher.

Ranging from \$1.20 per litre to \$1.43 per litre, retail gasoline prices in most Western centres increased, on average, by 3 cents per litre compared to two weeks ago. Prices in Eastern centres decreased on average by 1 cent per litre, and ranged from \$1.31 per litre to \$1.41 per litre.

At the national level, refining and marketing costs and margins increased by almost 3 cents per litre from two weeks ago, and are 4 cents per litre lower than last year at this time.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 11 to April 1, 2014)**



Source: NRCan

* Regulated Markets

Inflation Up 1% in February 2014

According to Statistics Canada's Consumer Price Index (CPI) report released March 21, 2014, the CPI rose 1.1% in the 12 months to February, following a 1.5% increase in January. The smaller year-over-year rise in the CPI in February compared with January was mainly attributable to gasoline prices, which fell 1.3% in the 12 months to February, following a 4.6% increase in January. On a monthly basis, gasoline prices rose 2.3% this February, a smaller increase than in the same month a year earlier (+8.4%).

Consumer prices decelerated in nine provinces in the 12 months to February, led by slower rates of change in gasoline prices. Saskatchewan was the lone province where the all-items CPI did not decelerate. Gasoline prices fell on a year-over-year basis in eight provinces, with Quebec posting the largest decline (-3.2%). Prince Edward Island and Saskatchewan were the only provinces where gasoline prices increased in the 12 months to February, although at slower rates than in January.

Source: The Daily, <http://www.statcan.gc.ca/daily-quotidien/140321/dq140321a-eng.htm>





Wholesale Gasoline Prices

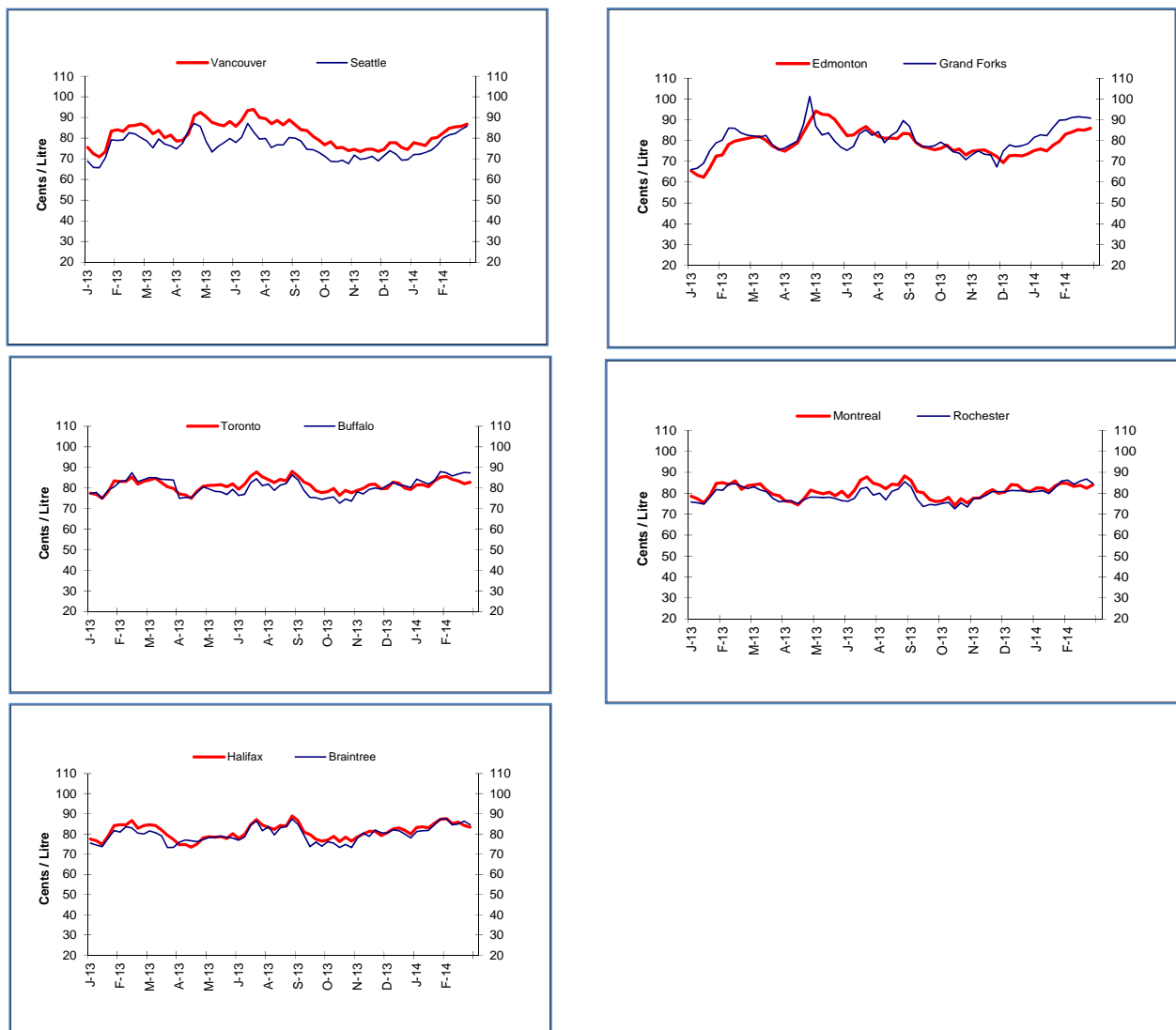
Overall, wholesale gasoline price changes ranged from a decrease of 2 cents per litre to an increase of 2 cents per litre for the **week of March 27, 2014**, compared to the previous week.

Wholesale gasoline prices in Eastern markets in both Canada and the United States registered increases ranging from 1.6 cent per litre to decreases of 2 cents per litre, compared to the previous week, ending the period in the 83 to 87 cent-per-litre range.

In comparison, Western wholesale gasoline price changes ranged from a decrease of less than 1 cent per litre to an increase of nearly 2 cents per litre, with prices ending the period in the range of 86 to 91 cents per litre.

Overall, prices in all selected centres increased from less than 1 to 8 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 27, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

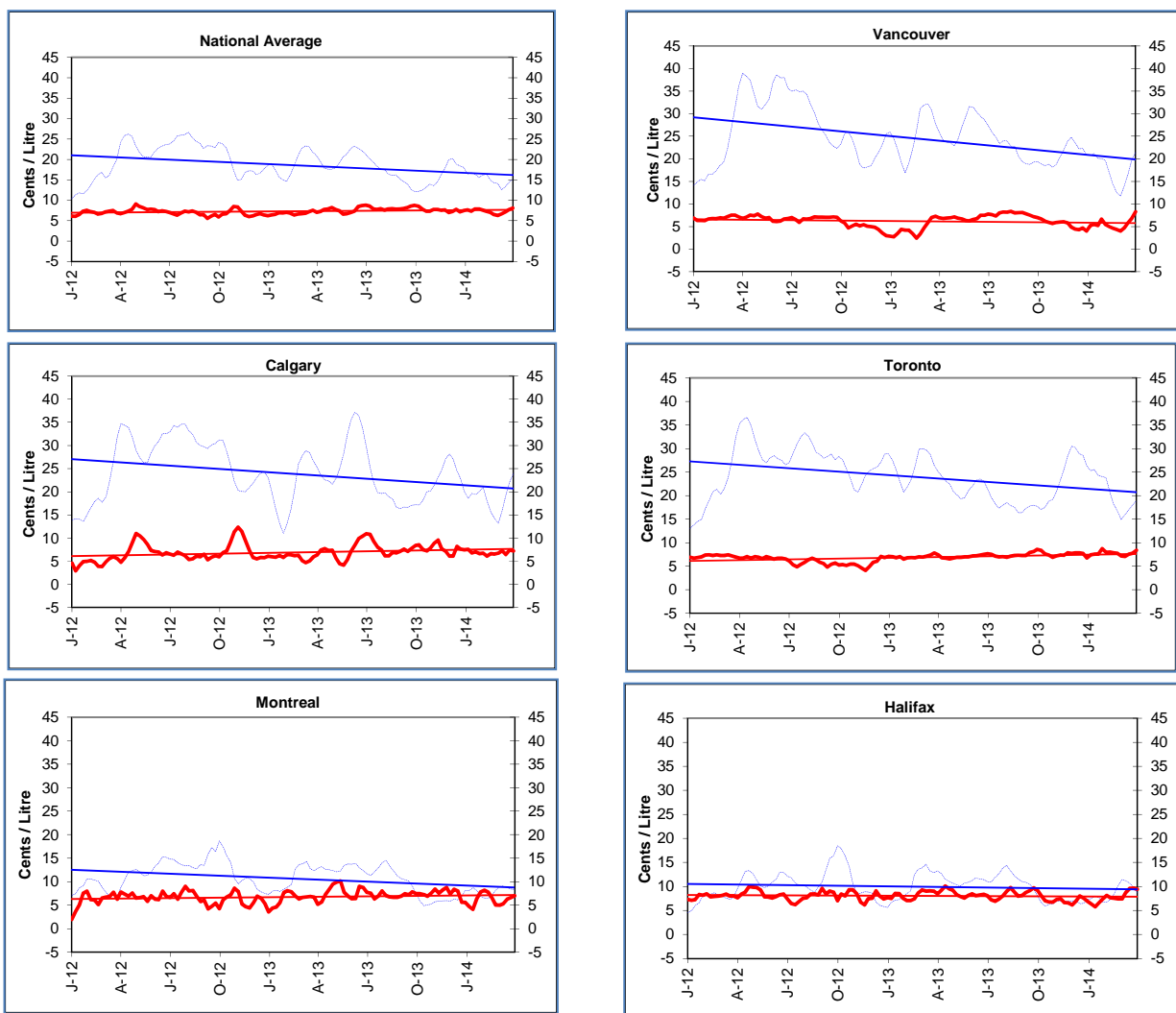
Four-week rolling averages are used for gasoline refining and marketing margins. Refining margins have shown downward movement in the last few months. Reductions in refining margins are indicative of adequate supply, while larger margins are a sign of a tightening in supplies.

As we near the spring season, the demand for gasoline is expected to increase. As a result, refiners will be

attempting to balance the supply of distillate (heating oil and diesel fuel) while converting their operations to produce more gasoline in readiness for the summer driving season.

Sometimes, this situation can create a temporary tightening of supply and an upward pressure on refining margins. Ultimately, the higher margins are reflected in the pump prices.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 1, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Crude Oil Prices Hover in a Narrow Range in the Last Three Weeks

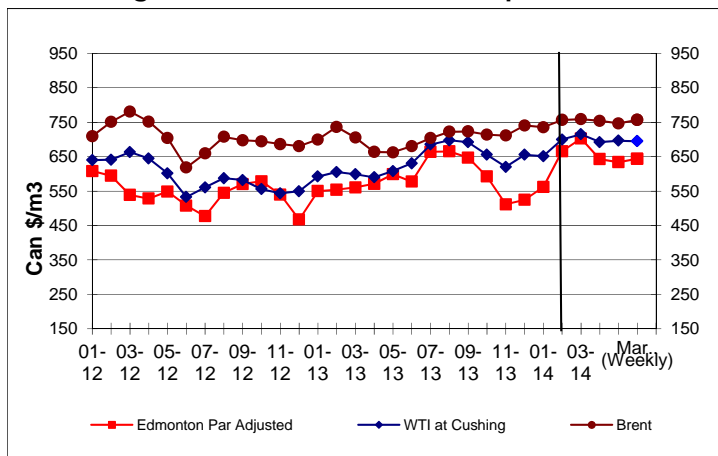
For the week ending March 28, 2014, prices for the three marker crudes averaged between \$644/m³ and \$756/m³ (US\$92 to US\$108 per barrel). While both Edmonton Par and Brent prices rose by \$10/m³ (US\$2 per barrel), respectively, from the previous week, WTI declined by almost \$2/m³ (US\$0.06 per barrel).

For the week ending March 28, 2014, the price differential between Edmonton Par and WTI closed at \$51/m³ (US\$7 per barrel). The price gap between Brent and WTI stood at \$61/m³ (US\$9 per barrel).

Upward pressure eased on North American crude oil prices after the U.S. Coast Guard partially reopened tanker traffic by mid-week following a collision that triggered an oil spill in Texas' Galveston Bay on March 22, 2014. The key 53-mile (85 kilometres) Houston Ship Channel links Gulf Coast refineries and petrochemical plants with the Gulf of Mexico.

Meanwhile, U.S. commercial crude oil inventories were near the upper limit of their five-year average range, contributing to lower crude oil prices.

Figure 6: Crude Oil Price Comparisons



Canadian Crude Oil Production

In 2012, Canada became the world's 5th largest oil producer. A decline in Iranian oil output, following a European embargo on Iranian oil imports was a key factor leading to this new ranking. For the past two years, only Saudi Arabia, the United States, Russia and China had higher oil production than Canada.

In 2014, with new oil sands production expected to come online, Canadian oil production could exceed China's, and this would make Canada the world's 4th largest oil producer.

Canadian oil and natural gas liquids production grew from an average of 3.4 million barrels per day (mb/d) in 2011 to a record high of 4.3 mb/d in February 2014 with higher oil sands and tight oil output accounting for the growth in production. In contrast, China's oil production rate has been relatively flat, ranging between 4 mb/d and 4.3 mb/d in the December 2010 to February 2014 period.

Source: Natural Resources Canada

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-03-28		Change From:			
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Edmonton Par	644.04	91.99	+10.20	+1.64	+60.33	+0.77
WTI	694.92	99.25	-1.68	-0.06	+78.82	+3.00
Brent	756.54	108.05	+9.80	+1.60	+57.45	-1.16

Source: NRCan

