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Fuel Focus

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

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National Overview

National Retail Gasoline Prices Decreased 1 Cent per Litre from Last Week

Overall national retail gasoline prices decreased by 1 cent per litre for the week ending July 22, 2014, bringing the average Canadian retail gasoline price to \$1.33 per litre compared to the previous week. This is a four-week straight decline and prices are nearly 2 cents per litre lower compared to the same time last year.

Diesel fuel prices decreased by less than 2 cents per litre to \$1.31 per litre from the previous week. Prices are 5 cents per litre higher compared to the same period last year.

The drop in gasoline pump prices reflect lower North American wholesale gasoline prices which, in turn, are pushed downward by underlying world crude oil prices.

Recent Developments

- Canadian Crude Oil Production:** Crude oil production and equivalent hydrocarbons increased by 5% to 70 million cubic metres in the first four months of 2014 compared to the same period last year. Exports rose by nearly 8% to 54 million cubic metres, while imports declined by 20% to reach 10 million cubic metres. (Statistics Canada, Supply and Disposition of Crude Oil and Equivalent, Table 126-0001)
- Gasoline Consumption Increased by 4%:** Canadians consumed 14 billion litres of gasoline in the first four months of 2014 or 4% more than the same period last year. In the same period, diesel fuel sales also increased by 4% to less than 10 billion litres while furnace oil sales declined by nearly 5% to 1.1 billion litres. (Statistics Canada, Cansim Table 134-0004)
- Canada's Gasoline Prices amongst Lowest in OECD Countries:** According to an International Energy Agency survey of gasoline prices, taxation has a big impact on the pump prices, making up the largest share of the total price in 22 of the 32 countries surveyed. The lowest gasoline prices can be found almost exclusively in large non-European countries, such as the United States and Mexico, where taxes are around 15% of the total price. On average, Canada has the third lowest price after Mexico. In contrast, countries like the Netherlands, Italy, Norway and Turkey levy taxes of around 60%, which make their prices to consumers the highest in the OECD area. (Source: IEA, <http://www.iea.org/newsroomandevents/graphics/2014-07-15-unleaded-gasoline-prices-and-taxes-1q2014.html>)

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

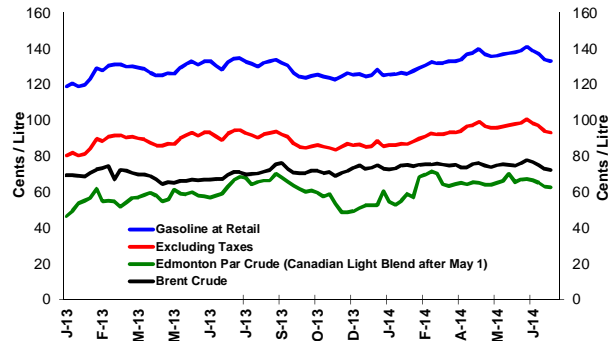
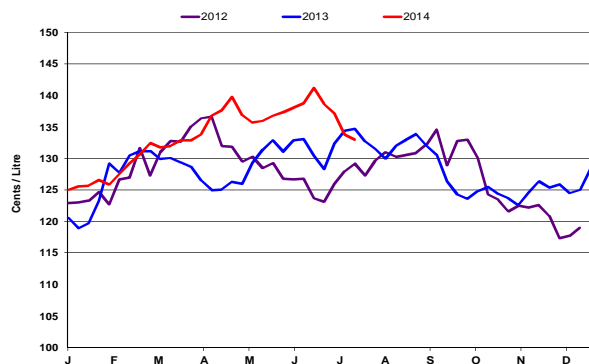


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2014-07-22	Previous Week	Last Year
Gasoline	133.0	-0.8	-1.7
Diesel	130.8	-1.6	+5.2
Furnace Oil	124.3	0.0	+5.7

Source: NRCan

Natural Gas Prices for Vehicles

2014-07-22	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	118.3	78.0	80.9
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

In this Issue

	Page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Gasoline Prices	3
Gasoline Refining and Marketing Margins	4
Crude Oil Overview	5





Retail Gasoline Overview

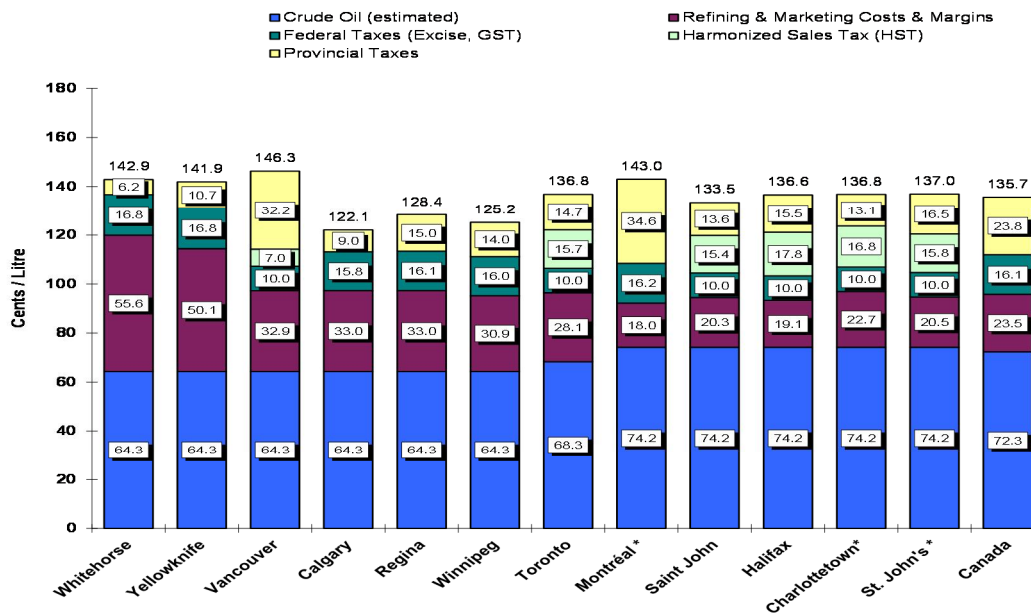
The average Canadian pump price in selected cities for the **four-week average** ending July 22, 2014 was \$1.36 per litre, a decrease of 3 cents per litre from the last report on July 11, 2014. This represents a 3-cent-per-litre increase compared to the same period in 2013.

The **four-week average** crude oil price decreased by 2 cents per litre to 72 cents per litre compared to two weeks ago. This is nearly 6 cents per litre higher compared to the same period in 2013.

Retail gasoline prices in most western centres (Vancouver to Winnipeg) decreased by 4 cents per litre when compared to the previous report and ranged from \$1.22 per litre to \$1.46 per litre. Prices in eastern cities (Toronto to St. John's) declined by 2 cents per litre from the last report two weeks ago and ranged from \$1.34 per litre to \$1.43 per litre.

At the national level, refining and marketing costs and margins registered a decrease of 1 cent per litre to 24 cents per litre. This represents a decrease of 3 cents per litre compared to the same time last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (July 1 to 22, 2014)**



Source: NRCan

* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

Fuel Consumption Testing

Fuel consumption testing helps consumers make informed, energy-efficient purchase decisions by providing a reliable comparison of the relative fuel consumption performance of different vehicles.

It would be difficult to drive every model of a new vehicle on the road to measure fuel consumption, and almost impossible to consistently duplicate on-road testing results because many variables can affect a vehicle's performance. Instead, a controlled laboratory testing procedure is followed to ensure that all vehicles are tested under identical conditions and that the results are consistent and repeatable.

Starting with 2015 model year vehicles, manufacturers will use an improved testing procedure to determine the fuel consumption ratings of new light-duty vehicles. The Government of Canada approved new test methods better approximate typical driving conditions and styles by adjusting city and highway ratings to account for air conditioner usage, cold temperature operation and driving at higher speeds with more rapid acceleration and braking. These new test methods (5-cycle testing) result in higher fuel consumption ratings that are more representative of a vehicle's on-road fuel consumption compared to the current (2-cycle testing) methodology.

Source: Office of Energy Efficiency, <http://www.nrcan.gc.ca/energy/efficiency/transportation/cars-light-trucks/buying/7491>





Wholesale Gasoline Prices

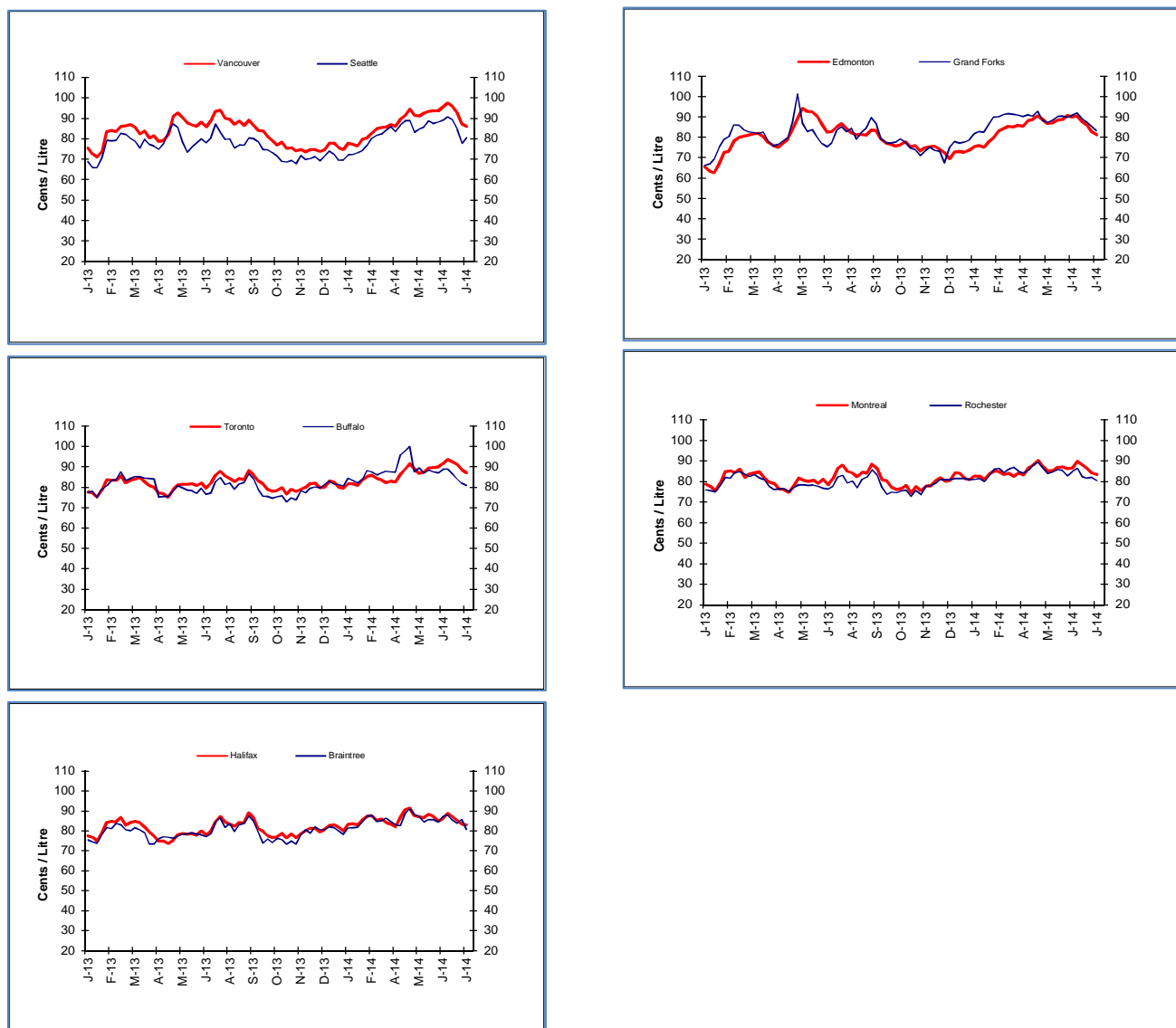
For the **week ending July 4, 2013**, wholesale gasoline prices decreased in most selected centres compared to the previous week.

In both Canadian and comparable U.S. markets, compared to two weeks ago, price changes ranged from a decrease of 5 cents per litre to an increased 3 cents per litre. Prices for the period ended in the 80- and 87-cent-per-litre range.

Eastern centres registered price decreases in the range of less than 1 cent per litre to 5 cents per litre, while wholesale prices in western centres ranged from decreases of less than 2 cent per litre to an increase of almost 3 cents per litre.

Overall, wholesale prices in all selected centres decreased in the range of 1 to 8 cents per litre than they were at this time last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending July 17, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





Gasoline Refining and Marketing Margins

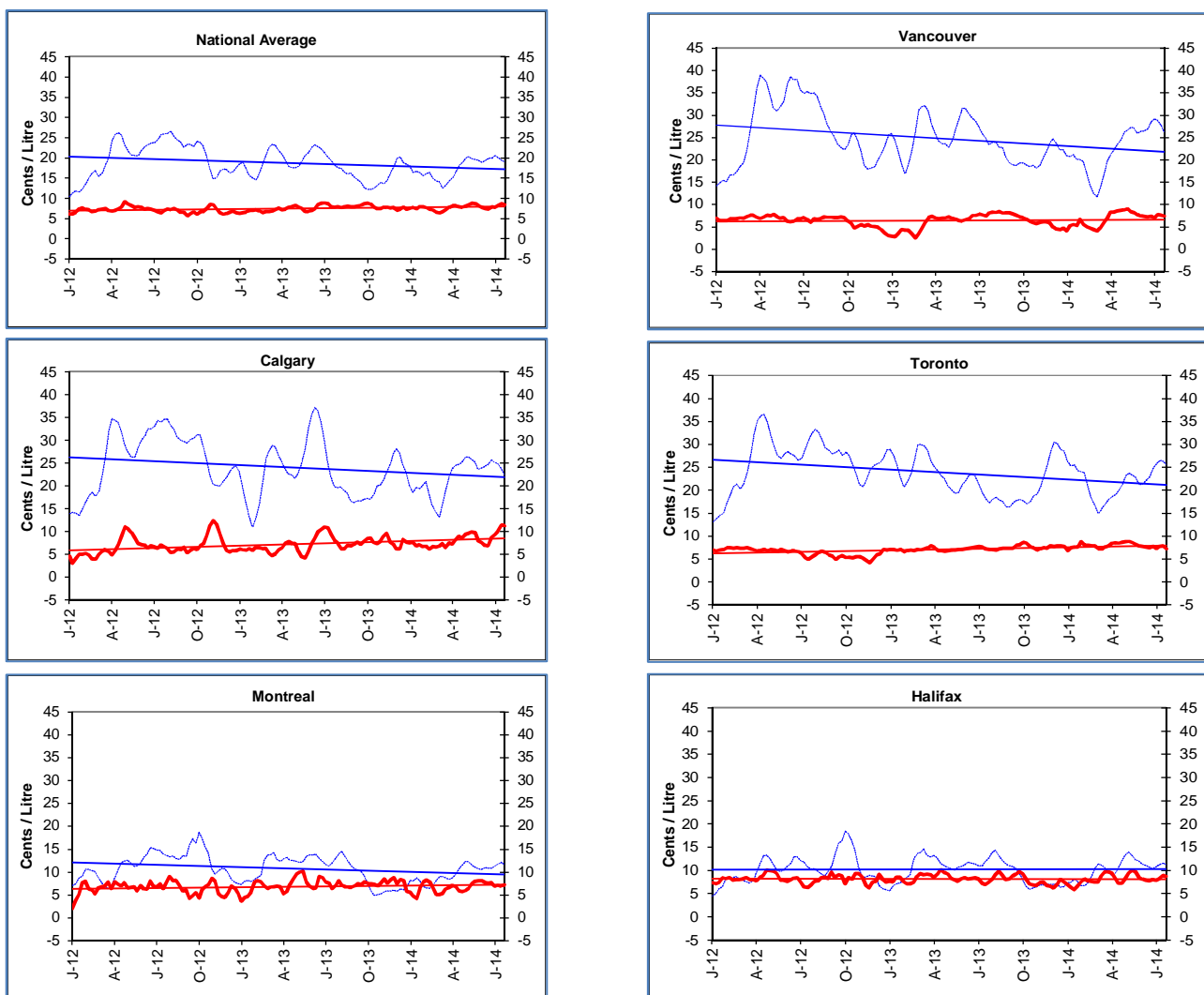
Four-week rolling averages are used for gasoline refining and marketing margins.

Reflecting lower wholesale gasoline prices and an adequate supply in the North American distribution system, gasoline refining margins continued their downward trend in this reporting period. Margins declined for the third straight week to 19 cents per litre from 21 cents per litre.

Nationally, marketing margins hovered around 8 cents per litre. Some individual centres show more fluctuations depending on the region, volume sold, and availability of other product offerings such as convenience stores and car washes.

For the five centres, marketing margins ranged from a low of 7.1 cents per litre to 11.2 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending July 22, 2014
----- Refining Margin — Marketing Margin



Source: NRCan





Crude Oil Overview

Light Crude Oil Prices Decline for the Third Straight Week

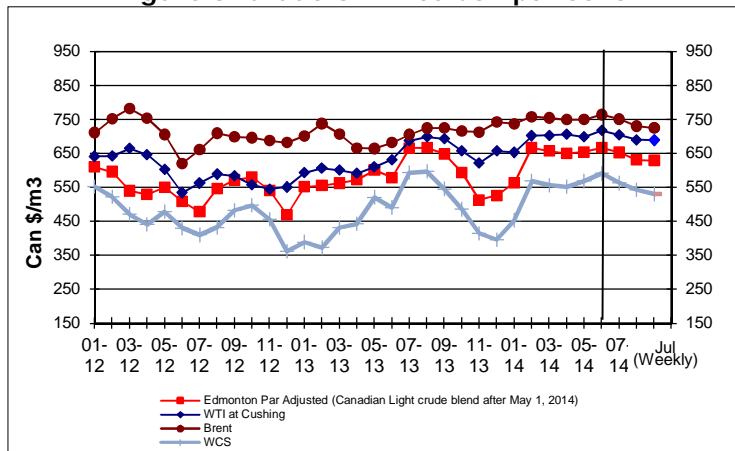
For the week ending **July 18, 2014**, prices for the three marker light crudes averaged between \$627/m³ and \$724/m³, (US\$93 to US\$107 per barrel). Compared to the previous week, the price for the three benchmark light crudes decreased in the range of less than \$2/m³ to \$5/m³ (US\$1 to US\$1.50 per barrel).

For the week ending July 18, 2014, Brent crude oil prices traded at a premium to WTI by a margin of \$36/m³ (US\$5 per barrel).

Despite concerns over potential oil disruptions caused by conflicts in Gaza and Ukraine, world crude oil prices, namely Brent, continue to drop and higher Libyan oil production eased supply disruption concerns. A possible agreement with respect to Iran's nuclear program could also lead to lifting of sanctions on Iran's oil exports adding more oil to world supply.

The U.S. crude oil inventories are currently hovering at their historical five-year average high further moderating the upward push on WTI prices.

Figure 6: Crude Oil Price Comparisons



As of May 1, 2014, Edmonton Par prices are no longer available. The Canadian Light Sweet Crude is a blend of Canadian light sweet (low sulphur) crudes delivered in Edmonton, Alberta. The blend has an API gravity of approximately 40 degrees and 0.3% sulfur content, and so is very similar in quality to WTI. The Canadian Light Sweet crude blend is traded daily on the Net Energy Index, at prices listed in US Dollars, and is considered a benchmark crude for the Canadian crude market. Net Energy Index reports NYMEX's WTI future settlement prices and the differential between Canadian Light Sweet and WTI; NRCan calculates the Canadian Light Sweet price from this information.

Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-07-18		Change From:			
			Previous Week		Last Year	
	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl	\$Can/ m ³	\$US/ bbl
Canadian Light	627.34	92.82	-2.02	-0.94	-56.57	-11.76
WTI	687.24	101.68	-1.50	-0.92	-12.36	-5.30
Brent	723.61	107.06	-5.14	-1.50	+12.67	-1.67
WCS	528.94	78.26	-11.89	-2.31	-68.72	-13.13

Source: NRCan

Canadian Crude Oil Forecast

According to the Canadian Association of Petroleum Producers' (CAPP) annual *2014 Crude Oil Forecast, Markets & Transportation* forecast, Canadian crude oil production is expected to grow over the long-term to 6.4 million barrels per day (b/d) by 2030.

The growth is driven by the oil sands, which is expected to grow 2.5 times from current production of 1.9 million b/d to 4.8 million b/d by 2030. Total conventional production, inclusive of condensate, grows slightly and will contribute 1.5 million b/d to total production. This is a reversal of the declining trend in condensate production previously forecast.

Canadian crude oil production is expected to grow by an average of 4 per cent annually until 2030. Western Canadian production reaches 6.4 million b/d by the end of the outlook. Production in Eastern Canada is stable in the near term but declines gradually by 2030.

Pipeline projects to the East, West and South are being developed to access new markets while rail is becoming a growing alternative to supplement the existing, expanding pipeline network.

Source: CAPP, *2014 CAPP Crude Oil Forecast, Markets & Transportation*

