

## A Year of Relatively Stable Prices

Generally speaking pump prices across Canada were not nearly as volatile this year as they were over the past two years. Further, prices this summer did not spike as high as they did in 2000 and 2001. While stable, pump prices were relatively high in Prairie markets for much of the year. The Prairie-average pump price in 2002 was almost 68 cents per litre, more or less the same as it has been for the past two years. Retail prices in the Prairies started the year in the high 50's, around 10 cents per litre lower than they were in the early part of 2001. The lower prices were a reflection of weak crude oil prices. Crude prices started to strengthen in the early part of March, driven primarily by a tightening in inventories, and political tensions in the Middle East. Wholesale prices jumped sharply higher with the increase in crude oil prices gaining almost 10 cents per litre during the month of March. Retail prices responded, topping 70 cents per litre on April 9. Prices hovered around 70 cents per litre through until the end of July. Wholesale prices rose again in late July/early August, pushing pump prices slightly higher. Prices peaked on August 27 at 73.8 cents per litre, around 6 cents per litre lower than last summer's peak price. For the most part retail prices remained around 73 cents per litre until the end of November when they dropped down below 70 cents per litre with a seasonal moderation in wholesale prices.

## Annual Retrospective Edition

### GASOLINE

#### Retail

**Pump prices high and stable** 2  
for much of the year

#### Wholesale

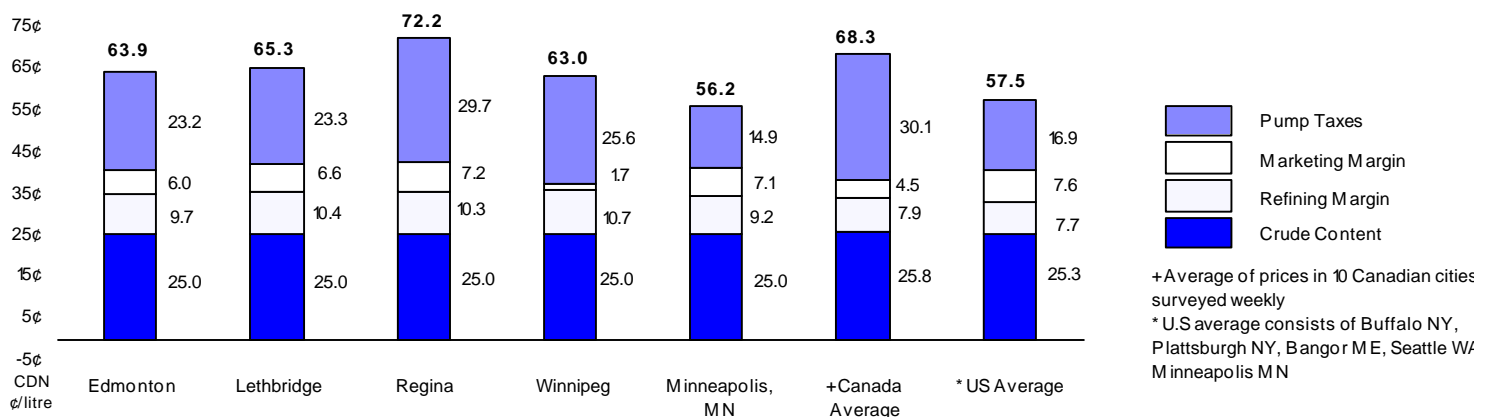
**Rack prices edge higher** 3  
following the trend in crude prices

#### Crude

**Crude prices increase gradually** 4  
throughout the year on political concerns

Gasoline markets in 2002 reflected the basic dynamics of supply and demand. The sharp reduction in demand resulting from the events of September 11 was reflected in crude oil, wholesale and retail prices in the first quarter of the year. The sustained high prices seen for the rest of the year were the result of relatively stable and high crude oil prices buoyed by concerns of a possible war in Iraq, strong demand and tight supply. However, the gasoline inventory position going into the peak summer demand season was favorable, which afforded some protection from the sharp prices spikes of the past two years.

FIGURE 1 Regular Gasoline Pump Prices 12 Month Average to December 3, 02



*Prairie pump prices relatively high for the third consecutive year*

**Prices Less Volatile, But High**

Pump prices in the Prairies, like the rest of Canada, were high for much of 2002. The 12-month average pump price in Prairie markets on December 17 was 67.8 cents per litre, about the same as it was for the past two years. Pump prices were relatively low in January and February; sitting in the high 50's. The low prices were a reflection of a 35% drop in crude oil prices that occurred in the last three months of 2001. Prices started to rise in March with stronger crude prices, and continued to increase steadily until the middle of April. Prices peaked on April 16 at 70.8 cents per litre. Retail prices hovered around 70 cents per litre until July. The average price crept up several cents per litre in late July, and remained in the low 70's through the end of November. Pump prices in the Prairies moderated in December and were 68.8 cents per litre on December 17. While prices were relatively stable in most Prairie markets for most of the year, Lethbridge and Winnipeg experienced several intense price wars late October/early November.

**TABLE 1 Regular Gasoline Pump Prices**

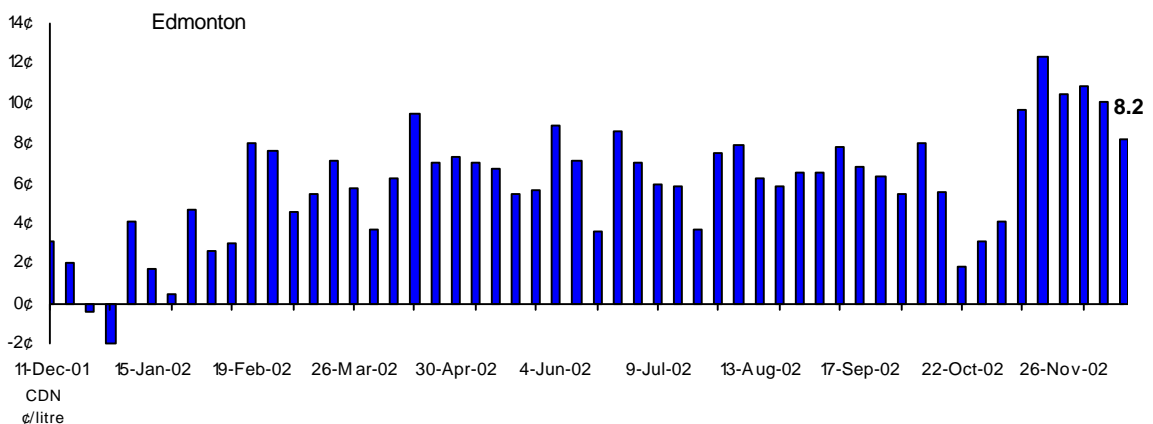
	This Week 17-Dec-02	Q1 Average	Q2 Average	Q3 Average	Q4 Average	12-Month Average	12-Month Minimum	12-Month Maximum
Edmonton	66.8	54.7	65.9	68.7	68.4	64.0	45.1	70.8
Regina	71.5	63.9	73.7	76.8	76.4	72.3	57.9	78.9
Winnipeg	60.5	56.7	66.2	68.9	61.4	63.1	48.1	70.7
Calgary	62.8	56.8	66.4	70.4	68.4	65.1	50.5	72.9
St. John's	78.4	69.9	77.7	78.9	82.1	76.9	67.9	83.4
Charlottetown	73.5	59.9	67.8	70.0	74.6	67.8	59.7	76.7
Saint John	77.2	65.0	73.3	75.1	77.0	72.3	61.7	79.0
Montreal	77.9	65.8	69.5	74.5	75.4	71.0	58.4	80.8
Ottawa	73.8	58.1	66.1	69.4	71.6	65.9	48.8	75.6
Toronto	73.5	60.4	67.1	69.8	71.6	66.9	51.5	74.9
Vancouver	70.9	57.6	72.4	74.7	73.9	69.3	52.2	79.5
<b>Canada Average*</b>	72.2	61.2	69.0	72.3	72.6	68.4	53.2	75.5
<b>Prairie Average**</b>	68.8	59.4	69.9	72.4	71.0	67.8	53.7	73.8

\* Average price of 10 Canadian cities \*\* Average price of 9 Prairie cities

**Pump Prices Reflect Strong Wholesale Prices**

The relatively high pump prices seen in the last nine months of 2002, were a reflection of strong, but stable, wholesale rack prices. In Prairie markets, the 12-month average wholesale rack price in 2002 was 35.3 cents per litre, just slightly less than it was last year. Wholesale rack prices this year followed very closely the trend in crude oil prices (Figure 4), increasing gradually over the course of the year. Retail prices in turn, tracked very closely wholesale rack prices, and as a result marketing margins were relatively stable over the year (Figure 2). The 12-month average marketing margin in the Prairies in 2002 was around 6 cents per litre, more or less the same as it was last year.

**FIGURE 2 Regular Gasoline Marketer Margin** December 11, 01 to December 17, 02



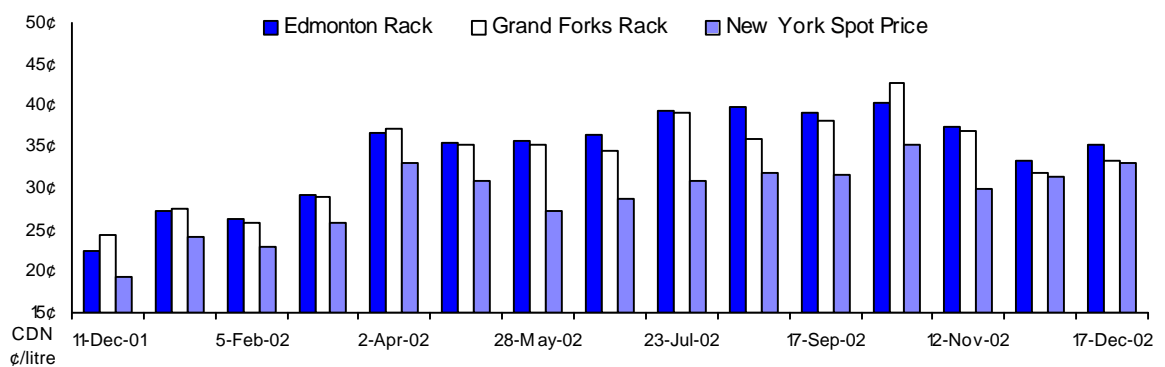
Edmonton rack prices relatively stable for most of the year

Rack Prices Edge Up Through the Year

Prompted by rising crude costs and the increasing summer demand for gasoline, rack prices in Edmonton climbed from a low of 24.7 cents per litre in January to 37.5 cents per litre in early April. They were relatively stable through the summer hovering in the mid-to-high 30's. Rack prices edged up again in the fall, hitting a high of 41.5 cents per litre in late October. Prices moderated through the end of November, falling back down to the mid 30's.

Edmonton rack prices in 2002 closely followed changes in the New York Harbor spot price and competing rack prices in nearby U.S. markets. Over the year, the rack price in Edmonton averaged 0.6 cent per litre higher than the Grand Forks rack. The 12-month average rack price in Edmonton on December 17 was 34.8 cents per litre, just 0.6 cents per litre lower than it was in 2001. While the average price was more or less the same, wholesale prices in 2002 were not nearly as volatile as they were last year.

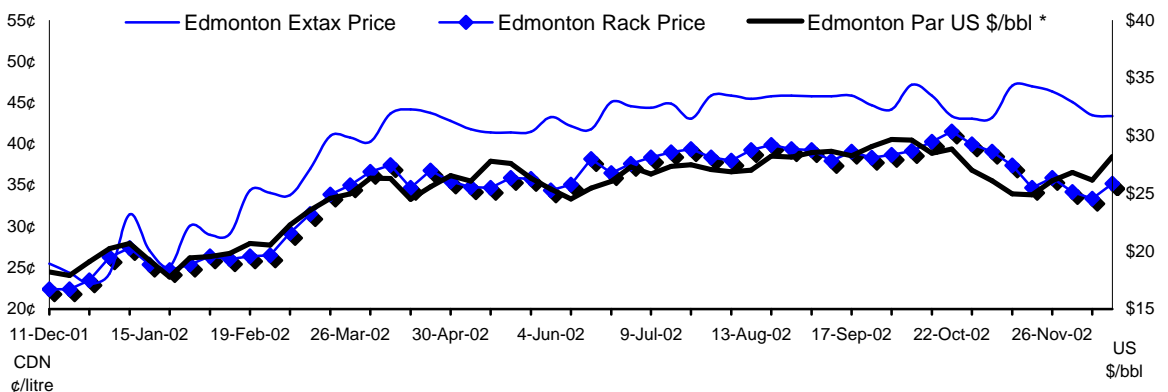
FIGURE 3 Wholesale Market Prices December 11, 01 to December 17, 02



Canadian Rack Prices Up With Crude Prices

Following the depressed prices that occurred late in 2001, Canadian rack prices increased sharply this spring and continued to ease upward through most of the year. The Canada-average rack price in April was 34.7 cents per litre, around 9 cents per litre higher than it was in January. Gasoline demand in Canada rose around 2.2% this year. While the stronger demand contributed to the increase in wholesale prices, most of the pricing pressure came from the rise in crude oil prices. Crude oil prices increased more or less steadily through the first quarter of the year, and were around 30% higher in April than they were in January. Rack prices in Western Canada were higher than in Eastern Canada for much of 2002, reflecting a tight supply and demand balance in the West. Western prices eased closer to Eastern levels late in the year, as gasoline demand declined in the fourth quarter.

FIGURE 4 Market Prices December 11, 01 to December 17, 02

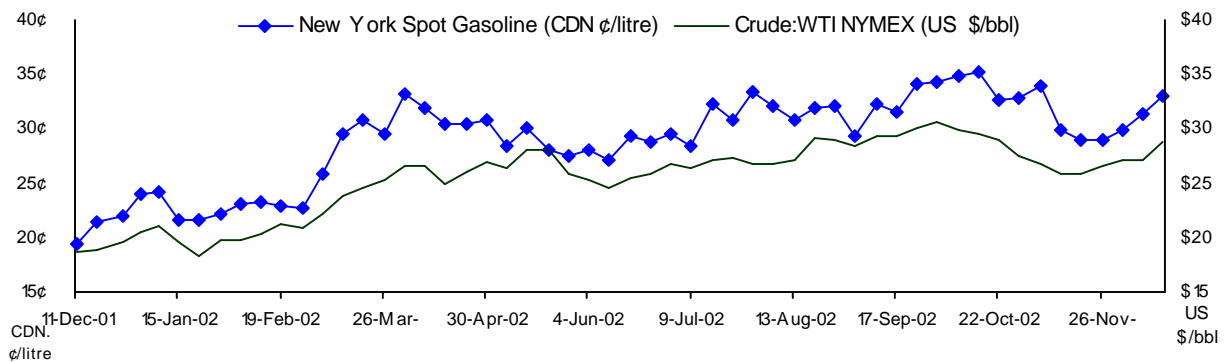


*Gradual strengthening of crude prices attributed to war premiums*

**Crude Prices See Less Volatility in 2002**

Crude oil prices were quite stable over the year, rising gradually from around US \$20 per barrel early in the year to the mid-to-high \$20's later in the year (Figure 5). Political tensions related to Iraq and the recent strikes in Venezuela held prices higher than expected given the relatively low petroleum demand growth in 2002, and the poor economic news in the third quarter. OPEC production crept up over the year, exceeding members' pledged limits, but political turmoil kept crude prices from falling. There will be a lot of pressure on OPEC to cut production next year to keep prices in the range of US \$25 per barrel. OPEC committed to curb over production at its December 12 meeting. However, war in Iraq remains a wild card, as OPEC may be called on to temporarily increase production to offset a loss in Iraq crude production. In mid-December the labour dispute in Venezuela created a shortage of crude oil and petroleum products, pushing crude prices up over US \$30 per barrel, and adding to the uncertainty in petroleum markets.

**FIGURE 5 Crude and Spot Gasoline Prices** December 11, 01 to December 17, 02



**Driving Gains Maintain Gasoline Demand**

New York spot gasoline prices increased in the spring in advance of the summer driving season (Figure 5), but stayed well under the peak prices experienced in spring 2001. They remained relatively strong through October, supported mainly by strengthening crude oil prices and a relatively strong gasoline market. Over the last week, the Venezuela labour strife caused the spot gasoline price to jump up more than 3 cents per litre to 33.1 cents per litre.

The benchmark New York spot price averaged 29.4 cents per litre in 2002, around the same as last year. U.S. gasoline demand in 2002 grew 2.5% over 2001 levels. Although the U.S. economy was relatively weak, Americans traveled more by car and truck this year, helping maintain strong gasoline demand throughout the year. Refining margins were about 20% weaker this year than they were in 2001, however they were less volatile with the relatively stable gasoline and crude oil prices (Figure 6).

**FIGURE 6 New York Spot Refiner Margin** December 11, 01 to December 17, 02

