

WHAT'S DRIVING THE COST OF DRIVING?

The price of gasoline has returned to pre-pandemic levels and the U.S. Energy Information Administration's [October Short-term Energy Outlook \(STEO\)](#) suggests prices could remain at these levels for the rest of 2021 and throughout 2022.

Wholesale gasoline prices are dependent on two primary factors: crude oil prices, and refining and transportation margins. Retail prices are dependent on wholesale prices and two additional factors: taxes, and marketing margins.

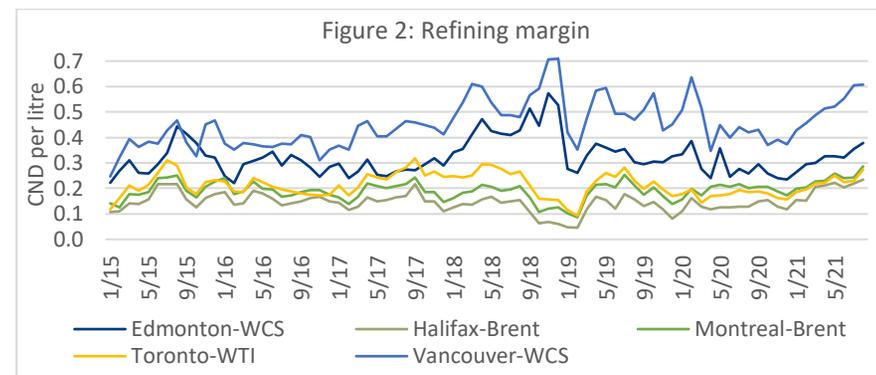
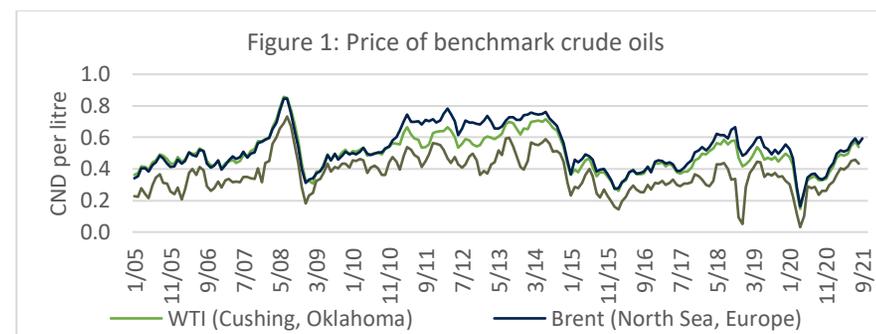
Crude oil is the raw material used to make gasoline and represents the highest value input in gasoline pricing. The cost and qualities of crude oil vary from region to region and are affected by regional geology and global and local supply and demand conditions. Price can be influenced by market access issues (like pipeline constraints and shutdowns); extreme weather and natural disasters; and political, civil and military unrest. The [EIA reports](#) that the combination of decreased global oil inventories and the announcement that OPEC+ will maintain current production targets have caused crude oil prices to increase over the past year (Figure 1).

The refining and transportation margins are the difference between the cost of input crude oil and the price of wholesale gasoline. This margin covers capital costs and depreciation of refineries, the cost of energy required to refine crude into gasoline, and the cost of transportation from a refinery to a wholesale outlet. Figure 2 shows that over the past year refining margins have increased but are still within their historic range. The sole exception is Vancouver [where local pipeline constraints have inflated the cost of wholesale gasoline in the region](#). BC also has a low carbon fuel standard in place, but its effects on wholesale pricing have so far been [negligible](#).

Marketing margins (the difference between wholesale and retail gasoline prices, net of taxes) vary by region and are generally a proportional markup over wholesale costs. The size of this markup is related to the cost of transporting gasoline from a wholesale distributor to a retail gasoline station and the level of local retail competition within a region.

Taxes paid to provincial, federal, and municipal governments account for 25-35 per cent of the price of gasoline. Taxes can be flat charges per litre or a percentage of the price (in this case, taxes paid increase with the price of gasoline).

Following an initial pandemic-induced shock in 2020, the refining margin has remained very stable in all major regions across Canada. Similarly, taxes have mostly been stable. The only exception is a 2.2 cent per litre increase (from 6.63 to 8.84 cents per litre) from the carbon tax in provinces governed by the federal carbon pricing system (Alberta, Saskatchewan, Manitoba, Ontario, and New Brunswick). Canadians are and will be paying higher gasoline prices in the near term is because the price of crude oil has increased due to decreased global oil inventories and OPEC+ production targets.



Sources – Authors' calculations using data from:

http://www2.nrcan.gc.ca/eneene/sources/pripri/wholesale_bycity_e.cfm
<https://economicdashboard.alberta.ca/OilPrice>
<https://fred.stlouisfed.org/series/EXCAUS>