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Oil prices are down, gasoline prices are not. What gives?

It's a good summer to be selling gasoline, not a great one to be buying it

By Tracy Johnson, [CBC News](#) Posted: Jul 24, 2015 5:00 AM ET | Last Updated: Jul 24, 2015 6:54 AM ET



According to the U.S. Energy Information Administration, gasoline demand is nearly seven per cent higher than it was a year ago. (Mark Blinch/Reuters)

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In mid-February, the price of oil hovered around \$50 US a barrel, and a litre of gasoline cost, on average, **\$1.01** Cdn.

This week, the price of oil is hovering around \$50 a barrel and the average price of a litre of gasoline is **\$1.22**. A few small things have changed over that five-month period: the Canadian dollar is lower by about three cents; Alberta has added a four cent tax to gasoline bought in that province.

But the big difference is that refineries are making a killing this summer.

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Refining margins are the difference between the cost of crude oil and the cost of wholesale gasoline.

Both Canadian and U.S. refining margins are running at seven- and eight-year highs. In Canada last month, the refining margin was **27.7 cents per litre** according to data compiled by Michael Ervin of the Kent Group.

"We're at that part of the summer where demand for gasoline is never going to be stronger," said Stephen Schork, editor of the Schork Report, which is focused on commodities.

"We're at the height of the northern-hemisphere peak-demand season."

'We're at that part of the summer where demand for gasoline is never going to be stronger.'

- Stephen Schork, Schork Report

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Demand for gasoline is high

Demand for gasoline is indeed very high this summer. According to the U.S. Energy Information Administration, gasoline demand is nearly seven per cent higher than it was a year ago. That's a significant increase.

Refiners are going full steam right now, at over 90 per cent capacity, in order to keep up with demand.

Prices set by the market

The gasoline market is tricky to unravel. Canadian refineries buy crude oil at the U.S. dollar price, refine it and then set a **rack price**, which is what it costs to buy a litre of gasoline if you show up at the refinery with a tanker truck.

The rack price is what gas stations pay. Then the gas stations add up to nine cents a litre to the rack price, resulting in the end price to consumers.

Gas station margins haven't varied much in the past number of years, so it's really the rack price that fluctuates.

Those rack prices are based on the wholesale price of gasoline in the United States, which is set by the market, according to Roger McKnight, senior petroleum analyst with En-Pro International.

"They are in turn based mainly on Wall Street speculators who point to any one of ten different signposts to come up with a daily guess. That's all it is."

Refiners look to make up production losses

McKnight also says that Canadian refineries are boosting rack prices to offset the pain they are feeling on the production side. The energy sector as a whole lost more than \$600 million in the first quarter of the year, but the companies that also refine and sell gasoline have a bit of a buffer.

"Esso, Shell and Suncor in Canada all of which have upstream (exploration and production) divisions which are suffering from the low prices they are getting for crude," McKnight said in a follow-up email.

"To compensate they drive up the racks to increase the refining margins and the followers just tag along blaming higher prices on 'market forces.'"

Both Suncor and Imperial will report second-quarter earnings next week that should be helped by those refining profits.

Oil has traded below \$50 US a barrel every day this week and analysts expect oil to fall farther before it recovers. But that still might not mean relief for drivers.

"I don't see this getting any better for the consumer, even if prices continue to fall," said McKnight.

"We have a tight number of refineries. We only have 13 in the entire country, the United States has 143 refineries. Nobody wants a new refinery, hell no. But they sure protest when the prices go up."

'Nobody wants a new refinery, hell no. But they sure protest when the prices go up.'

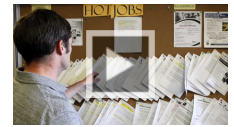
- Roger McKnight, En-Pro International



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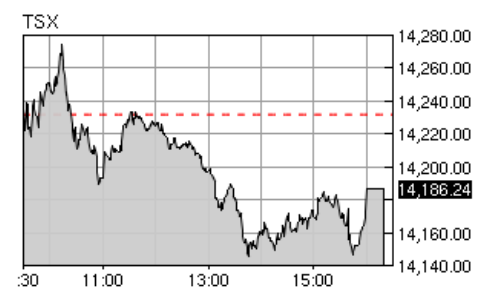
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DOW	17568.53	-163.39 ↓
NASDAQ	5088.63	-57.78 ↓
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