

January 31, 2008
102nd Issue

LOOK FOR HIGHER GAS PRICES BY SPRING

FOR RELEASE
January 25, 2008

THREAT OF U.S. RECESSION GOOD NEWS FOR OIL COMPANIES Gasoline prices to hit \$1.30/L by May, 2008

OSHAWA - As gasoline prices head inexorably higher – to as much as \$1.30/L predicted in May of this year, because of refinery capacity, the question is: Why haven't the oil companies built more refineries? The answer is basic supply and demand: if gasoline prices are going up due to a shortage of refinery capacity, why invest billions in a new refinery. Why not just let prices rise?" says Roger McKnight, a senior petroleum cost analyst at En-Pro International, a leading consulting firm specializing in commodity prices.

And, don't be misled by the impact a recession will have on gasoline prices in Canada or the U.S. because prices will not drop.

"As people tighten their belts they may drive less and consumption will go down but prices are still going to go up to as high as \$1.30 a litre," says Roger McKnight, a senior petroleum cost analyst at En-Pro International, a leading consulting firm specializing in commodity prices.

The conventional view is that crude costs will go up this April or May and will be higher than they were the same time a year ago. This will happen notwithstanding that a U.S. recession, is likely to reduce consumption. Nevertheless, the oil companies will cause prices to increase by reducing the amount of gasoline that is refined. Their pretence will be that the refineries are undergoing scheduled maintenance in order to be ready for the driving season.

McKnight says, "We have seen this before and we are likely going to see it again. Inventories of gasoline in the U.S. are currently at the upper limit of the five-year average and it is curious that the refinery maintenance period is starting at this time – which is earlier than normal. This will lower inventories to coincide with the start up of the driving season and eventually will send up prices at the pumps."

Current inventories and diesel are in "comfort mode" right now, and what's at issue here is the bottom line for the oil companies. Last May, the crack spread for gasoline was on an average in Canada \$0.30/L. Today it's considerably lower at about \$0.08. The crack is the difference between the acquisition cost of crude internally, and the wholesale price, which is then marked up at the pump to create the retail margin.

"Current cracks in the U.S. Midwest are negative and will have to rise in the second quarter because the oil industry is shareholder driven. Companies are expected at minimum to at least repeat the performance of previous years. So, the bottom line is that in order to do this, prices will have to rise to \$1.28 to 1.30/L at the pump in April/May," added McKnight.

"The U.S. consumer is now apparently numb to \$3.00/gal prices and in Canada anything less than \$1.00/L is looked

at as a bargain. As a result, any recession in the U.S. and the resultant drop in crude demand will be seen by the oil industry as a gift. It will allow them to maintain or increase pump prices at the same time the cost of crude drops, thereby increasing their refining margins. But it begs the question: 'if things are so tough, why are oil companies making historically high profits?' Oil giant Exxon Mobil Corp., on Thursday, posted the largest annual profit by a U.S. company—\$39.5 billion—that's about \$75,000 a minute – even as earnings for the last quarter of 2006 declined 4 percent. Royal Dutch Shell is also expected to reveal profits of more than \$26 billion U.S. dollars. Conoco beat estimates by nearly 25 percent.

“The answer lies in the fact that those oil companies that produce crude have profited from the higher cost of crude to offset the lower refining margins. These crude prices have been driven not by supply demand imbalances but by speculators on the NYMEX looking for a safe haven for their funds following the subprime mortgage crisis,” said McKnight.

“The excuses of a recession, nor the refinery incapacity can no longer fly. A year ago it was the fire on February 15, 2007 in a crude processing unit in Nanticoke, Ontario, that the industry said caused a fuel supply shortage. Then, on April 28, 2007 fire broke out after lightening struck an oil refinery in Wynnewood, Oklahoma. And who could forget Katrina in 2005, when the industry said the U.S. would be thrown into a widespread fuel shortage,” added McKnight.

It's worth asking the question again, “Why aren't the oil companies taking steps to improve the refining capacity?” First of all, why should they? As increased production would result in higher inventories and result in lower refining margins; secondly, a green field 400,000 bpd would take ten years and \$7 billion to build, with no assurance from the various regulatory agencies that both emission standards and fuel specifications would remain unchanged 10 years from now.

Ultimately, the threat of a recession is good news for the oil industries, but it's consumers who end up paying the price at the pumps.

This material may be used editorially provided
En-Pro is credited.

EN-PRO INTERNATIONAL INC.

174 Simcoe Street North
Oshawa, Ontario, L1G 4S9

www.en-pro.com

Phone: (905) 686-6400

Fax: (905) 686-6439

Media Relations – Susan Ponting: (416) 897-7028

EN-PRO
INTERNATIONAL INC.

*Your Energy Management and Commodity Price
Professionals Since 1985*

Celebrating 23 Years of Service in 2008