FUELLING ANGER

Why prices have jumped at the pump

Several factors are at play as cost of fill-up in Ontario rises by 5% in just three weeks

BRYAN BORZYKOWSKI
SPECIAL TO THE STAR

Gasoline prices are making a lot of people angry in Ontario, and for good reason — your pump payments have climbed about 5 per cent in the last three weeks, from $104.5 to $1.10.

Here's what's at work:

• Closed Shell refinery

In September, Shell Canada closed a refinery in east Montreal and converted it to a fuel depot.

This refinery supplied eastern Canada with 10 per cent of its gas needs, according to Dan McTeague, Liberal MP for Pickering-Scarborough East who monitors gas prices. McTeague said this has had a major impact on prices in Toronto, Montreal and Quebec City.

McTeague said Shell was producing 130,000 barrels a day at the refinery, but now is buying fuel from other suppliers to fill the gap.

The closure has not received a lot of attention outside Quebec, but it's a big reason why prices have risen.

"It's significant," said McTeague. "We've all allowed too many mergers and now there are too few players to feed the demand."

• HST add-on

While the Harmonized Sales Tax has nothing to do with gas prices rising and falling, the extra 8 per cent tax is a major reason why our wallets are feeling a little lighter at the pump. Before July 1, Ontarians were paying 5 per cent GST on gasoline. Now it is 13 per cent.

"The tax may not have caused a jump in prices, but it is a reason why it's gone up over the past year," said Earl Sweet, senior economist and BMO Capital Markets.

McTeague agrees. "If prices are at $1.10 a litre, that means we're paying 8.8 cents more than we were in the pre-HST days."

• Crude oil price increase

Sweet said a rise in the price of crude oil also puts pressure on prices. The cost of a barrel of crude has been climbing steadily since July — from about $70 (U.S.) per barrel to a recent high of $88. It's at about $82 today.

McTeague argues that oil has less to do with the gas price than people think. He says the rising Canadian dollar, trading at 98 cents Thursday, offsets rising crude prices, dampening the financial implications to energy companies and therefore the consumer.

However, that does not mean that gas companies aren't trying to pass along the costs. McTeague suggested that oil companies are padding their margins. "They're demanding a lot more for gas than they need to turn crude into gasoline," he said.

According to the website Tomorrowsgaspricetoday.com, Torontonians are paying 6.9 cents (Canadian) per litre more than they should because of a lack of competition and fewer refineries.

"There are fewer and fewer companies to take advantage of the price and pass on savings to the consumer," says McTeague.

• Outside factors and demand

More generally, gasoline prices can fluctuate without any apparent good reason at all.

"There's never really any rationale," said Bill Bishop, vice-president of communications for B.C.-based 4Refuel, a company that gases up trucks and other vehicles for transport companies. "Prices seem to move around almost arbitrarily."

As well, everything from the general economic outlook to oil spills and hurricanes affect prices during different times of the year.

Right now though, Bishop said he has seen demand increase across the country — his company is fuelling up more vehicles than it did last year — and that's another reason why costs have gone up.

"We're seeing a modest recovery in consumption," he said. "And more consumption means more demand."

Add these factors together and it's likely that gas prices won't come down any time soon.

"If you continue to have an incremental increase in demand for fuel and a tight supply of gas," said McTeague, "permanent high prices will be here for a very long time."

Go to Bryan Borzykowski's blog on the economy at **Moneyville.ca**.

RICK EGLINTON/TORONTO STAR

Gas was just over $1.09 a litre at Bayview and Broadway Thursday — and it's unlikely the price is coming down any time soon.