# Oil Prices Are Down, So Why Are We Paying More for Gas?

## Description

Even while oil prices remain in freefall, Canadian motorists are paying more at the pump. Drivers should be frustrated. In spite of the fact that crude oil rates have hit a six-year low, the price of gasoline has been creeping up.

Is this a sign of shadowy men in smoke-filled boardrooms conspiring to screw you over? Actually, no. The story here is just economics.



**Why you're paying more at the pump**

Here are the numbers.

According to GasBuddy.com, in January the average price for a litre of ordinary gasoline in Canada was $0.91. At that time a barrel of West Texas Intermediate crude, a popular U.S. oil benchmark, was trading for about US$57.

Today oil prices have fallen to US$43 per barrel. However, the price of gas has actually *risen* across the country to $1.02 a litre.

What's going on?

Gas prices typically rise in the spring. This is the time of year when refineries shut down to switch from producing winter fuel blends to summer grades. Energy companies also tend to schedule their annual maintenance around this period.

That's how things have played out this year. Earlier this week, **Exxon Mobil Corporation** (NYSE:XOM) announced that it would shut down its Joliet, Illinois refinery over the weekend, taking as much as 250,000 barrels of capacity per day offline. Labour strikes and unexpected production outages at other U.S. refineries are also eating into supplies.

This year is particularly tight after a string of refinery closures. Thanks to a combination of aging facilities, low gasoline demand, and growing environmental regulations, **Royal Dutch Shell plc** (NYSE:RDS.A)(NYSE:RDS.B) shut down its Montreal unit in 2010. This was followed by **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO), which shuttered its Dartmouth, Nova Scotia facility last year.

This trend is unlikely to reverse anytime soon. Across the continent, we are witnessing a wave of refinery closures. Older units are no longer economical to run. With less capacity, motorists have to pay ever higher premiums relative to oil prices.

The falling Canadian dollar plays a role, too. Over the past year, the U.S. dollar has appreciated more than 10% against the loonie. Because crude is priced in U.S. dollars, Canadian refineries must pay more for their oil feedstock—and those higher costs are passed right on to drivers.

**Where are gas prices heading next?**

Can motorists expect some relief at the pump any time soon? Maybe.

Refineries will soon be completing their spring maintenance. That means we could see a lot more capacity coming online over the next few weeks.

That will be welcome news for drivers. Assuming factors like oil prices and the Canadian dollar remain relatively steady, we could see gas prices across the country dip back down to $0.90 per litre.



**CATEGORY**

1. Energy Stocks

**TICKERS GLOBAL**

1. NYSE:XOM (Exxon Mobil Corporation)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)

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rbaillieul