pipeline capacity and temporary refinery shutdowns have played a major role in this imbalance, as has the decrease in U.S. demand, which declined 1.6 percent[2] in 2011.

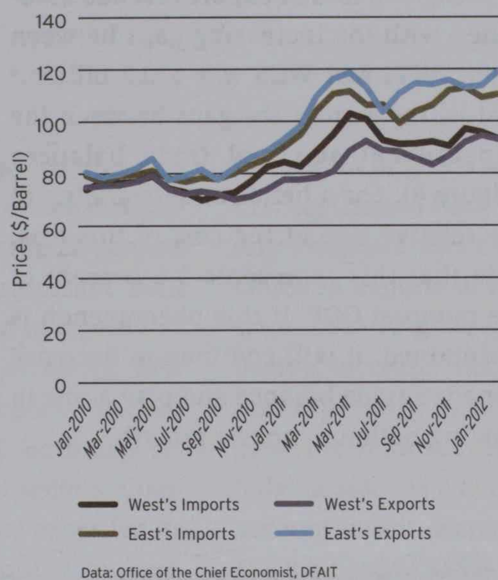
As the oil market is a global one, Canada has very little influence on price. Almost all crude oil exports are to the United States and exports from the West are generally sold at WCS prices. Diversifying our trading partners could allow Canada to be less dependent on the U.S. market and make the most of the growing demand from emerging countries, particularly China. That is also why projects like the Northern Gateway Pipeline, which notably help increase transportation capacity, could benefit Canada's oil industry.

Imports, which come mainly from Europe and the Middle East, are generally purchased at Brent prices. Although this higher import price increases production costs for companies that use oil as a production input and increases the price of consumer goods, these negative effects are normally compensated with increased revenues for domestic oil producers. Consequently, Canada has a certain immunity to increases in oil prices.

This was not the case in 2011: the increased import price was not counterbalanced by an equivalent increase in export price. Although exports from the East were generally sold at Brent prices, this gap was not enough to reverse the negative impact of exports from the West, which were sold at WCS prices.[3] This phenomenon helped reduce the crude oil trade balance and decreased Canada's terms of trade in the energy sector. According to the April 2012 *Monetary Policy Report*, this situation also played a role in reducing the real income of Canadians.

FIGURE 3

Canadian Crude Oil Export and Import Market



Data: Office of the Chief Economist, DFAIT

To quantify the impact of this gap, we can estimate what the trade balance would be if the price of Brent were the import and export reference price. The trade balance is calculated using monthly data from the January 2010 to December 2011 period.[4] After taking into account the difference in oil processing costs for exports from the West—subtracting the average historical difference between WCS and WTI for the period between January 1998 and October 2007, which was estimated at $8.49—we see that the monthly trade balance for crude oil would have been, on average, $891 million higher throughout 2011.[5] By comparing it to the

2 Scotiabank, Global Economic Research, *Scotiabank's Commodity Price Index Declines in March*, April 2012

3 The West includes Alberta, Manitoba, Saskatchewan and British Columbia, and the East includes Ontario, Quebec, New Brunswick, Newfoundland and Labrador, and Prince Edward Island.

4 Office of the Chief Economist, DFAIT