

War may push gas up to 80 a litre; Lack of refinery capacity would be to blame, analysts say: [Final Edition]

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ABSTRACT (ABSTRACT)

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FULL TEXT

Edmonton

Gasoline prices could rev up to 80 cents a litre a month after the start of a Middle Eastern war, an energy analyst said Monday

"The immediate short-term impact could be devastating for the (refined) products market," said Richard Zarzeczny, president of Canadian Enerdata Ltd.

He commented after crude oil prices rose by \$3.50 US a barrel Monday to close in New York trading at \$30.80 US for West Texas Intermediate, the benchmark that sets prices in Alberta.

But it would be a critical shortage of world refining capacity - not soaring oil prices - that hits Canadian consumers, Zarzeczny said.

That's a view shared by a number of analysts, who are worried not so much by crude oil shortages in the event of a war, but by refineries unable to supply fuel to both motorists and a war machine.

Markets already realize there is a four-year record high inventory of oil supplies around the world, Zarzeczny said in an interview from Toronto.

"But refining (activity) is full out," he noted. "We are at a peak period of demand. And there is a tremendous amount of consumption in the Gulf region."

Add to that picture even greater demands for aviation and shipping fuel in a war and possible cold weather, which would use greater amounts of heating oil, and there could be a serious shortage of gasoline, Zarzeczny said.

Although Canada wouldn't be as seriously affected as other countries, gasoline prices would rise because refiners could sell the fuel for more in the United States, creating some shortages here, the analyst said.

A "refining crisis" is possible in the event of a war, agreed Jack Slibar, political risk analyst with Consultants International, a Toronto strategic forecasting firm.

Middle Eastern refineries account for 3.8 per cent of the world's supply of products such as gasoline and aviation fuel, Slibar noted.

If facilities were damaged in the region, the effect would be substantial, "given the knife edge we're balanced on."

"We have a very tight gasoline situation even if a war were to end tomorrow," said Mike McCracken, president of Informetrica Ltd., an Ottawa economic forecasting firm.

"You can't fly 1,800 planes around and drive tanks that get half a mile a gallon without getting some crunch in demand."

That means that gasoline prices could climb despite moderate crude oil price hikes, McCracken said.

Meanwhile, crude oil prices Monday climbed but not as high as the record crisis-level \$40-US mark of last fall as markets dealt with a glut of oil, said Mike Brennan, an Edmonton oil analyst with Levesque Beaubien Geoffrion Inc.

Prices could climb to \$40 US in the event of a war, but traders believe the conflict would be a short one, Brennan said.

But Slibar said a war could last two or three months and result in destruction of oil facilities that force oil prices as high as \$100 US.

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