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Chair

Mr. Brent St. Denis

Standing Committee on Industry, Natural Resources, Science and Technology

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● (0935)

[*Translation*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): Good morning, everyone.

[*English*]

Good day, everyone.

I am pleased to call to order this September 22 meeting of the Standing Committee on Industry, Natural Resources, Science and Technology. It's an all-day meeting this morning, this afternoon, and this evening on the issue of gas prices, a topic that, as everyone knows, is very much in the news and in our lives.

Hon. Don Boudria (Glengarry—Prescott—Russell, Lib.): There are half a dozen boom cameras in here. That's out of order.

The Chair: Yes. I hadn't noticed them, Mr. Boudria, but I see they are moving away. Thank you for your assistance.

Hon. Don Boudria: Mr. Chairman, I'm sorry. I have to rise again on a point of order. This meeting cannot be constituted while the cameras are in the room. I did not write the Standing Orders; they were written before I came along.

The Chair: Mr. Boudria is actually raising a question that I haven't had to deal with before, because we rarely have such a room full of interesting people and cameras. Does anybody doubt Mr. Boudria's ruling, given his experience as a former House leader?

Is that your understanding of the Standing Orders, Mr. Boudria? I have great respect for your past role as a government House leader.

Hon. Don Boudria: I'm sure that your clerk could make you aware of it, Mr. Chair.

The Chair: Thank you very much.

We'll ask the cameras to leave the room.

This gives me an opportunity to advise members, those in the gallery, and our witnesses that this is being televised thanks to CPAC. In fact, our media can take a feed from there should they so wish.

Thank you, Mr. Boudria, for that intervention.

As I was saying, we are here to address the very topical issue of gas prices. It's something on which consumers are contacting each of us, as members of Parliament, and our colleagues on both sides of the House. Our committee agreed that it would be a good idea to have a session today to have a close look at what has happened recently. In fact, no one knows what may happen in the following day or two days, with Hurricane Rita approaching Texas.

I remind you that we have a session from 9:30 to 1 o'clock. We'll have a short lunch break. We have a room nearby for a short lunch. We'll meet from 1:30 to 4:30, and then this evening two round tables will split, taking up half of the time period from 6 to 9:15.

I would remind members that even though I'm going to try to get everybody in, I won't get to every witness. So look for your share of time spread over the three-hour time period. I know you will trust me to balance it in the best way I can.

Of course we are grateful to have our first set of witnesses here. We will be with them momentarily and with the other witnesses who have agreed to help us out throughout the day.

I would also invite members to be very concise in their questions and comments. I'm going to try not to be very strict with the rules, but I will try to keep things as tight as possible so that we can get to everybody and so our witnesses have a full opportunity to present their points of view. The witnesses have been asked to keep their comments to about five minutes. We'll allow a little bit of a grace period for that, if necessary.

If knowledge is power, then we will gather a lot of knowledge today. All of us, the consumers at large, and the public at large will have a better idea of what has happened and what actions can be taken by those who can indeed take action.

I need to do a small matter of business. We need to have a budget for these hearings. So I've asked Jerry if he wouldn't mind moving a motion to pass a budget for our hearings.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): Mr. Chair, I move that we propose a budget for studying fuel and gasoline in Canada, in the amount of $38,950, for a period from September 22 until October 28 of this year.

The Chair: Thank you, Jerry.

That's not for today. It's for a series of meetings that, as a committee, you may wish to follow. Are there any questions?

(Motion agreed to)

The Chair: With that, let's get right down to business.

You have a point of order, Mr. Duncan.

Mr. John Duncan (Vancouver Island North, CPC): Are you going to deal with my notice of motion?

The Chair: Yes. Thank you, John.

There was a notice of motion by Mr. Duncan.

John, with your indulgence, I would like to get started. We're going to deal with it after lunch. Is that okay?

Mr. John Duncan: Actually, I would say no, that's not okay.

The Chair: You have all seen Mr. Duncan's motion. Is there a consensus to deal with it now or after lunch? His motion was to invite a list of ministers to appear by September 29.

Brian, do I see you—

Mr. Brian Masse (Windsor West, NDP): I have an amendment and we're dealing with it.

The Chair: Okay, well—

Mr. John Duncan: May I present it?

● (0940)

The Chair: Okay, John, go ahead and present your motion and we'll see how it goes. If there's a consensus to deal with it now, fine. If not, we'll go after lunch.

Go ahead, John.

Mr. John Duncan: We have given the prerequisite advance notice. This is not a surprise that I would like to expand the witness list to include the ministers of environment, transport, finance, and natural resources. The rationale is that these are actually the people who can do something about what the government described as an emergency in terms of this meeting. I don't see what could possibly constitute an emergency for backbenchers that is not also an emergency for the cabinet and the ministerial level.

We have received conflicting statements from these various ministers, and I don't think it's fair to the other witnesses or to the public who are engaged in this debate through the media coverage to sit there and listen to all of this without comprehension or understanding or knowledge of whether or not those ministers will be part and parcel of this deliberation.

The sooner we deal with this issue the better. I think it should be our first order of business.

The Chair: Paul.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): I have absolutely no wish to waste any time when we have people who have come to appear before the committee. That is what is most important. At the end of the day, we will have to decide on recommendations. We may end up with one such recommendation. It is quite possible that we would ask ministers to appear before us. For now, however, I would like us to hear the oil companies and the other witnesses as soon as possible. That is why we are here and that is what the public has asked us to be here for.

In terms of the Conservatives, if we continue and if we want to debate this issue further, then we should do so as quickly as possible and not spend half an hour or three-quarters of an hour on this.

One important thing has been forgotten. The Minister of Industry is not mentioned in the wording of the proposal and this makes no sense. That is my position. Either this issue has to be resolved now or after our business, or when we come back at one o'clock., but everyone has wanted to hear these witnesses for months now, and we can't beep them waiting.

[*English*]

The Chair: Could I ask for a show of hands, colleagues?

We're going to deal with this, John, one way or the other, either now or later in the day.

Could I ask for a show of hands if you want to deal with it now. Later in the day?

Okay, John, we'll get to it later in the day.

With that, we are very pleased to have representatives from Ultramar Ltd. as our first witnesses. Without any further ado, we are here to listen to stakeholders, and we appreciate that you're here.

Mr. Bayus, are you going to start? I invite you to take about five minutes.

Mr. Ross Bayus (Vice-President, Supply and Wholesale Sales, Ultramar Ltd.): Thank you, Mr. St. Denis.

Ladies and gentlemen, good morning. My name is Ross Bayus. I'm here today, at the invitation of the committee, representing Ultramar Ltd. I have been in the petroleum industry for twenty-five years, all of which have been in the downstream or the refining and marketing sector. I'm the vice-president of supply and wholesale sales for Ultramar Ltd., and today I have with me two colleagues: Louis Forget, the vice-president of public and government affairs, who will assist me in answering some of your questions later on, and Jennifer Overend, our senior counsel at Ultramar.

Ultramar is a regional refiner/marketer with a refinery in Lévis, Quebec. At 215,000 barrels per day of crude oil capacity, it is Canada's second largest refinery. We are not an integrated oil company, meaning that we do not have upstream operations and all of our crude oil is purchased on the open market from areas such as the North Sea and North Africa. Our retail operations include about 1,000 service stations, home heat operations of about 170,000 customers, and a cardlock network of 89 sites that provide diesel fuel to the transportation and trucking industry.

We are also a large wholesale supplier to all segments of the market. Our operations are concentrated in eastern Canada from Ontario to Newfoundland, and we have a significant wholesale presence in parts of the northeastern United States.

Consumers and those who represent them have expressed concern over rising prices of petroleum products and their impact on people and on the economy in general. We fully understand the frustration of consumers and are aware that the gasoline price increases and fluctuations, and those of diesel fuel and heating oil, although justified and generalized throughout the North American continent, are a major source of concern. I would like to give you a quick overview of the current trends in the oil sector, discuss the impact of the catastrophic storm Katrina on the industry, detail the impacts on domestic prices, and finally, address some comments on refining margins.

Crude oil and petroleum products are global commodities. They are traded openly on different markets and exchanges, and prices are primarily determined by supply and demand. While prices of crude and finished products have been relatively stable through most of the 1990s, they have been rising and have become much more volatile in the last four to five years. Demand for petroleum products has been rising steadily both in traditional markets and now persistently and radically in Asia Pacific markets. At 85 million barrels per day, 2004 had the highest world demand ever and the strongest rate of growth since 1978. Asia, with China being the main factor, has represented 50% of global demand increase in the last decade.

On the supply side, both the crude production and refining infrastructure are struggling to keep up with demand. Despite added capacity in many markets, including Canada, refineries are operating almost at full capacity, with an average of 87% utilization rate throughout the world, which is the highest in 25 years. As for Canadian refineries, they have significantly higher utilization rates, exceeding 95%. In the case of Ultramar's Lévis refinery, the rate can often reach 99%.

There are a series of graphs in the back of our report that we will refer to from time to time. I won't go through them in detail at this point, but we can refer to them a little later on.

Access to crude oil to exceed current production levels is also proving to be a challenge in the Atlantic Basin. The result of this situation is that inventories and commercial stocks of petroleum products fluctuate considerably, sometimes on absolute terms and definitely in terms of days of supply available.

It is in this context of a very tight market that the area of the United States with the highest concentration of crude oil production and petroleum refining activity was hit by Hurricane Katrina. Not only was the hurricane catastrophic for the people of Louisiana, New Orleans, Alabama, and Mississippi, but it also closed nine refineries, which represented 10% of the U.S. refining capacity, the equivalent of shutting down the entire Canadian refining industry. The U.S. also lost 25% of its crude oil output and 42% of its natural gas output. The hurricane shut down key products and crude pipeline systems running into the interior of the United States and closed marine ports in the affected areas, also disrupting navigation on the Mississippi River.

While the industry has started to resume production, many analysts estimate that approximately 850,000 barrels per day of refining capacity—or about 5% of the U.S. refining capacity, which is currently inoperable—could remain out of production for several months. And I could add to that today that with the threat we have from Hurricane Rita, we know that there are refineries coming down in the Texas area as we speak. We, as Valero Energy, have already taken down two refineries as a preventative measure, one in Houston and one in Texas City.

The reaction from the market was very quick to ensure a supply of refined products. Fear of a shortage of gasoline—because the U.S. was still in its peak demand season—made for a huge and immediate demand for any available gasoline cargoes. This immediately sent prices to new highs throughout the continental United States. Marine freight rates also escalated to record levels, the marine tanker market being tight. Spot prices on futures prices, particularly for gasoline, moved to reflect the trading levels, affecting deliveries immediately.

● (0945)

The situation was serious enough that the U.S. government announced on August 31 that it would release crude oil from its strategic reserves. The countries that are members of the International Energy Agency also made available crude oil and finished product to the United States. Along with declining demand due to the very high prices, this has succeeded in bringing prices down. The spike in price lasted about 10 days, starting at the end of August, and fluctuations reached over 30¢ a litre.

[*Translation*]

Why does this have a direct impact on rack or wholesale prices in Eastern Canada and then on retail prices? Because in Canada, and more specifically in Eastern Canada, wholesale prices for refined products are related and influenced by prices on the US East Coast.

As a result of NAFTA, products flow freely between the two markets with no trade restrictions. The logistics system to move products is extensive, including cargos, pipelines, rail and trucks. Graphs 2 and 3 demonstrate the relationship between the various products in Canada and in the Port of New York.

A very important point to note is that, during the summer season, Ultramar, like its local competitors, competes with the US for imports of significant quantities of finished gasoline into Eastern Canada. We estimate Eastern Canada will need to import approximately 3.5 billion of gasoline during 2005, which is the equivalent of 60,000 barrels of fuel per day, the majority being imported between May and October. This gasoline is paid at prices related to Nymex and/or cash spot values posted as the delivery date of the cargo. Ultramar, whose number one objective is to provide its customers with a stable and competitively price supply, must regularly import gasoline volumes that can sometimes even represent over one-third of its sales, in order to meet an increasing demand.

One should also keep in mind that the supply/demand situation was very tight in August before Katrina hit the US Gulf Coast and that is the result Katrina, fears of gasoline shortages and done certainty over the adequacy of future supplies let to higher wholesale prices at US and Canadian racks.

Given this context in which Eastern Canada depends on imports of large volume of refined products—gasoline, diesel fuel, heating oil, aviation fuel—maintaining import capacity as directly related to the prices demand on the market. The alternative we had was to continue imports by paying the price requested in the Atlantic basin market and be able to continue to supply our customers or temporarily cease to import in the hopes that prices would come down, although this would of meant supply problems that could of result to a temporary closure of service stations directly or indirectly served by Ultramar.

● (0950)

[*English*]

The Chair: Can you summarize as best you can the balance of your remarks?

Mr. Ross Bayus: Yes, I can speed up.

[*Translation*]

The free market forces are what keeps prices in constant balance across North America.

[*English*]

We've heard a significant amount of discussion on refining margins—or what some have referred to as excessive refining margins—on gasoline during the last few days. I submit to you that refining margins are highly cyclical and that one cannot draw any conclusions from the margin on a single product on a single day. We have to look at a blended margin.

We have graph numbers six, seven, and eight that will give you an idea of what blended margins can do, and I think it's worthwhile turning to those graphs, if I have to move in a summarized fashion.

On graph six, we can see that the Brent-to-New York harbour conventional gasoline refining margin in 2005 is 8¢ per litre, and you can see the evolution since the year 2000.

We can see the heating oil on the following graph, in terms of what it represents: it's now at 9¢ per litre.

The most important graph I think we have to understand is the one that presents the Brent 2-1-1, which is a 2-1-1 crack typically used to evaluate refineries. The one on the right—what I'll refer to as being the red line that you see on your graph number eight—is a model that is very similar to the Ultramar refinery, and that includes heavy fuel oils and the penalties we incur from those types of products. You can see that the blended refinery margin in 2005 is 4.75¢ per litre, which is very typical of what we are doing.

You can see on the extreme right-hand side of the graph the extreme that lasted for a couple of days from the Katrina effect, but it has come down significantly.

In closing, I would just like to mention that Ultramar Ltd. is highly committed to eastern Canada and the customers we serve. We will have invested over $1 billion from 2001 through 2007 to manufacture clean fuels by removing sulphur from gasoline and distillate, to proceed to various expansion projects at our refinery that will have brought the refining capacity from 160,000 barrels per day in 2000 to 260,000 barrels per day in July 2007, and to extensive investments made or planned in our logistics and retail assets. This is the equivalent of the investments we had made in the previous 30 years.

Ultramar and its parent Valero Energy will continue to manage its business with integrity and a high degree of responsibility. Our goals are continued growth in line with the needs of Canadians we serve, ensuring our markets are supplied reliably with quality products and providing consumers with the benefit of world-class efficiencies.

I want to thank the committee for hearing most of my comments this morning. My colleagues and I will try to answer as clearly as possible any questions you may have, and we can refer back to the graphs.

The Chair: Thank you, Mr. Bayus. Anything you were forced to delete you can bring into any of your answers, if you'd like.

We'll start with John Duncan, please, and then go to Paul, Andy, and then Brian. We'll try to get each of the four of you in before we go to the next witness.

Mr. John Duncan: Thank you very much for your presentation.

The Prime Minister, not too long ago, talked about how Canada was an exporter and not an importer. I think one of the very significant things about your presentation is that you're very reliant on imports and that this has a major influence on eastern Canada and pricing and your business.

Could you elaborate a little bit on that for our help? We are a net exporter, but we're certainly a very significant importer. By your stats.... I'm not sure whether this is a corporate number or a national number, but somewhere near 10% of our gasoline consumption, it looks like, will be imported this year. Is that correct?

Mr. Ross Bayus: In eastern Canada I would say it's probably higher than 10%.

To address your question of exporter versus importer, I think if we look at Canada, on balance we are a net exporter, but we're talking about crude oil—the western crude oil that goes down into the western United States, from which of course Canada is benefiting significantly at this point in time.

If we look at the refining sector of the business, especially in the eastern part of the country, we are not in a balanced position; we are in a deficit position. It's one of the reasons Ultramar has endeavoured to expand the refinery and continues to expand the refinery and the logistics that go with it, to try to fill that gap. There's no doubt at this point in time that in eastern Canada, where we are attached to the Atlantic Basin activities of pricing, we are in a net import position.

● (0955)

Mr. John Duncan: Can you explain why Canada has so little redundancy or extra capacity for refining?

Mr. Ross Bayus: I'm sorry, I didn't get the last part of your....

Mr. John Duncan: Why is refining capacity in Canada so tight?

Mr. Ross Bayus: Refining capacity in Canada in the last four to five years has actually grown by about 100,000 barrels per day. It's been mostly in the east, and it's been because of the expansion essentially by a number of people, mostly Ultramar, at this point in time.

The demand curves that we've been seeing over the last few years on gasoline have been fairly interesting. We've seen 1% to 2% growth on gasoline consistently in the last few years. We have also seen significantly higher numbers on distillate fuels, being diesels, road transport. We see a lot of trucks on the road; they're consuming a lot of diesel. So we've begun to challenge what we would have had as a refining structure even a year or two ago.

We have to remember that we have also had the closure of a major refinery in Oakville, Ontario, this year. That has had a tremendous impact. That was an 85,000-barrel-per-day refinery. That was foreseen, and imports clearly could be part of the mix to make up that difference, and Ultramar's expansion as well is geared directly towards trying to make up some of the gap.

Mr. John Duncan: Can you explain how you set prices, and can you give a picture of why pricing is different across the country?

Mr. Ross Bayus: Essentially, the eastern part of the country is a bit of a watershed at this point in time, from Toronto, or even southwestern part of Ontario, all the way to the east coast, which is basically geared towards the Atlantic Basin. As for the western part of the country, we are not experts in that part of the country. Perhaps the people after me can give you a better insight to that. But I do know the impacts of what is happening on the west coast and the midwestern United States has a large impact on their operations.

In terms of our operations, I don't think I would go into the detail of how we set price, but certainly being an importer, we are in direct competition for being able to secure these import barrels and to make sure the Canadian public receives the product that we have to keep the infrastructure running. Having the open borders that we have with Europe and with the United States, we are absolutely compelled to pay the price that is in the marketplace to balance these off. That is really what drives our pricing.

Mr. John Duncan: Do you have anything more?

The Chair: How about we get that on the next round? That's great. If we can keep within five minutes, that's perfect. John, thank you very much.

Five minutes to Paul.

[*Translation*]

Mr. Paul Crête: Thank you very much for coming here today further to my suggestion, agreed to by committee members, to meet with representatives from the oil companies. At the outset, I would like to state that had the government agreed to the recommendation to establish a petroleum product monitoring agency—an idea that your association supported—we probably wouldn't need to be here today.

That being said, the document that you have submitted to us—and I would like to stress this point—contains a graph showing how the price at the pump for regular gas has fluctuated since July 2005. If the time period covered by this graph had begun in January 2005, we would have seen that, at the beginning of the year, the price was around 78¢ per litre instead of nearly a dollar.

Considering the cost at the beginning of the year and the cost for the entire year, could you provide me with an order of magnitude of the increase in your revenues? Presuming that your fiscal year begins in January and ends at the end of December—unless the dates are otherwise—, how much revenue have you earned due to the fluctuation in prices this year? What did you estimate at the beginning of the year, and what will your total sales be as a result of this new situation?

Mr. Ross Bayus: If you take into account the price at the pump from the beginning of the year, it's true that...

Mr. Paul Crête: My question is more about the increase in revenues. I would like to know if you have any figures.

Mr. Ross Bayus: No, today we did not bring any figures with us that pertain to revenue.

Mr. Paul Crête: Surely you can give us an order of magnitude.

Mr. Ross Bayus: Take a look at the model that you have before you. Graph 8 indicates our refining margin.

● (1000)

Mr. Paul Crête: Are you referring to the line that looks like a hockey stick? There is a line that is more or less the same and, suddenly, there is a dramatic jump.

Mr. Ross Bayus: That's the one. The small graph tells us that, in 2005, the average was 4.75¢ per litre and that, in 2004, it was 4.77¢. In total, 2004 will probably be more profitable than 2005. We cannot affirm that we will be earning more money this year because of the present situation.

Mr. Paul Crête: Your annual report for 2004 states, and I quote:

> THE BEST IS YET TO COME!
>
> And, our future is bright! All of the fundamentals are in place to make 2005 an even better year than 2004.
>
> Worldwide demand for refined products—fueled by a strong global economy—continues to outpace refining capacity increases and supports strong product margins going forward. [...]
>
> So 2005 is shaping up to be yet another record year.

I am not opposed to you making profits. That is not what I am questioning. However, I would like to obtain an estimate of the additional revenue that this will bring in, because the wealth has been displaced. Some individuals had money in their pockets and contributed to the economy in a given way. Now, because we have no choice but to put gas in our car—we cannot use firewood—, these people have to use this money to purchase gas. I am not trying to make the oil companies the guilty parties, but I would like to know the impact of the situation, so that I will be able to tell the government what the ramifications are. I would like to be able to say how much additional revenue has been generated and, accordingly, whether there are any ways to take action.

Do you have any figures on that?

Mr. Ross Bayus: I used excerpts from Valero Energy Corporation, our parent company. I will ask Louis Forget to answer your question, because he is more familiar with these activities than I am.

Mr. Louis Forget (Vice President, Public and Government Affairs, Ultramar Ltd.): You always have to be cautious when you use the information obtained from Valero Energy Corporation, because there are many refineries in the Southern United States. They mostly use heavy crude, and discounts on that have increased over the years.

To answer your question, Mr. Crête, if we are talking about Canada, we expect that our profits, for all our products, will be about 2.2¢ a litre, whereas the average for the past four years was approximately 1.6¢ a litre.

The last four years gave us...

Mr. Paul Crête: From 2.2¢ to 1.6¢, when you do the math...

Mr. Louis Forget: The average for the past four years.

Mr. Paul Crête: Yes. If you do the math, how much additional money does that represent for you?

Mr. Louis Forget: To provide an estimate, we can talk of about $30 million a year. Last year, we earned profits of $362 million in Canada.

Mr. Paul Crête: You are talking about profits, but I am talking about sales.

Mr. Louis Forget: In regard to sales...

Mr. Paul Crête: I am talking about the total amount of sales.

Mr. Louis Forget: I do not have the total amount of potential additional sales. However, that represents about 2.1¢ to 2.2¢ a litre compared to an average of 1.6¢ a litre for the past four years. That is not a lot considering that we have had to invest enormous sums these past years.

My colleague mentioned that from 2000 to 2007 we will have invested one billion dollars, whereas in the first 30 years of the operation of the refinery, from 1971 to 2000, we invested one billion dollars. In the past three years along, we spent $700 million dollars simply to meet new environmental standards. This is an industry that requires large capital investments just to stay in business and increase one's capacity to satisfy demand.

Mr. Paul Crête: For five companies like yours, the after tax profits were $4.2 billion in 2002 and will be about $11.6 billion in 2005. These are after tax profits by your company as well as other companies in Canada. However, I would have like to see the sales figures, but you do not have them.

With regard to the refinery margin—and that is the issue that concerns me the most—we have seen another very significant increase. The graphic that you have...

[*English*]

The Chair: Paul, we'll get you to wrap up.

[*Translation*]

Mr. Paul Crête: Could you provide us with some explanations about the refinery margin? Do you have any ideas that could prevent this situation from ???? I am talking about the increase in the refinery margin that we have seen. A normal margin is about ¢6 a litre and right now, we are seeing about ¢40 more. Over the course of September, we are still at ¢18 or ¢20. Could you explain this to me?

Mr. Ross Bayus: I think that the situation brought about the hurricane Katrina was really quite special. This is an event that did not affect the price of crude oil.

Mr. Paul Crête: There will probably be another one this week.

Mr. Ross Bayus: There will probably be another one.

As long as we have completely open markets and can import a large part of our supply, our primary goal will be to guarantee that the litre gets to our customers. To do that, we have to compete with those who want to buy the same barrels we do.

● (1005)

Mr. Paul Crête: In the fall and winter, you import from elsewhere than the United States. Do you get oil from Venezuela?

Mr. Ross Bayus: No. In the summer, we generally import from Europe. The gasoline comes from Europe. In the winter, it is fuel oil and [*Editor's Note: Inaudible*], and unfortunately that comes from the Gulf of Mexico in the United States.

Mr. Paul Crête: So the fact that the price is going up is not due to a change in your supply sources?

Mr. Ross Bayus: No.

[*English*]

The Chair: Paul, you'll have a chance to come back. Thank you.

Andy Savoy, please.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you very much, Mr. Chair, and thank you for convening this meeting.

Obviously you stated in your opening remarks that this has a huge impact on our economy. My riding is one of the areas where the initial protest started in New Brunswick. Regarding the small trucking population, independents, and the small businesses, they had huge support, not just within their sector but within the consumer sector as well. We're here today to try to get them some answers and an explanation as to why the spike occurred.

Another issue I want to look at today is why there is a regional discrepancy and to some extent a rural discrepancy in terms of gasoline pricing at the pump. Certainly in rural areas, which are more dependent upon fossil fuels, based on transportation requirements, it has a significant impact.

Looking at the roughly 50¢ price increase that we saw when prices spiked around the first of September, post Katrina, there are some misperceptions out there about where that 50¢ went. So we look at roughly 90¢ to $1.40 in our area. I know that in New Brunswick there's the additional tax of about 7¢ on that 50¢. Looking at the four pricing components of gasoline, you have crude, refining, marketing margin or retailer margin, and taxes. So of that 50¢ you're looking at roughly 7.5¢ in GST, crude went up 2¢ or 3¢ a litre in that timeline, and the marketing margin stayed roughly the same.

So that would point me in the direction of the refinery margin. I understand what you said, that we must look at the long term, but is it accurate that roughly 40¢ of that 50¢ increase is attributed directly to refinery margins?

Mr. Ross Bayus: Probably a portion of it does accrue due to refinery margins, but we have to really understand that the mix of product that is brought in to support those markets is being bought at those market prices.

We were at a point that one time when we were paying—I'm going to throw a number here without seeing it—about 95¢ to 96¢ just to ensure that we had the litre on the street. As I mentioned before, we consider it more important to get that litre out there. Obviously the price has to move at the pump and impact the consumer, unfortunately, but I think it's more important to have the litre on the street.

In terms of discrepancy between the regions, the impact was the same in most places at the same time. There are competitive activities in different regions that would cause one to move before another, or even move down or up faster than another, so there are competitive activities at force, but in the long run the costs are still there. There may be some tax discrepancies between the regions too, I don't know, and they could be part of it.

Essentially the thing to really remember here is to balance off the barrel we are looking at during the period of time, because August and September are very high-consuming and high-import times for us at this point. We had to go out and actually pay that dollar to get those barrels in.

Mr. Andy Savoy: So if you have to pay to purchase gas, what percentage of the gas do you have to buy, as opposed to refined, to meet your demand?

Mr. Ross Bayus: We can buy anywhere from 25% to 35%, maybe 40% sometimes, in any given month.

Mr. Andy Savoy: So for the 65% or 70% that you refined, you were making an increased margin of 40¢.

Mr. Ross Bayus: That's correct, but when the price goes down we do the same thing and sort of—

Mr. Andy Savoy: Not quite as quickly. I understand those dynamics as well.

On a regional basis I understand what you're saying, but I've done a study between New Brunswick, Ontario, and Alberta in terms of taxing and the gas prices from August 23 to September 21. The price differential between New Brunswick and Ontario was in the vicinity of 10¢. In terms of Alberta it was closer to 16¢. But the difference in taxes at the same time between New Brunswick and Ontario was 4¢, so we had a 10¢ to 12¢ price difference between Ontario and New Brunswick, and only a 4¢ tax difference. So I guess you'd call the 8¢ localized competition, but it's certainly a large burden for the region to the pay.

The additional taxes required in New Brunswick versus Alberta, with the provincial and federal taxes combined, is 8.5¢, and the price difference is 16¢. There's another 8¢ there. So in my mind it points clearly to a differential between the regions. I haven't done the studies on the rural side, but in 1998 my esteemed colleague Mr. McTeague talked about the difference between northern Ontario and Toronto and other more urban regions.

Because we're more reliant on fossil fuels in rural areas, and in my riding specifically, that roughly 8¢ a litre difference between New Brunswick and Ontario, and New Brunswick and Alberta, after taxes are considered, has a huge impact. Can you explain why there's that regional discrepancy in taxes...in pricing?

● (1010)

Mr. Ross Bayus: I can't help you with taxes.

Mr. Andy Savoy: No, certainly, but in pricing. After I take taxes into account, there seems to be a consistent 8¢ difference.

Mr. Ross Bayus: I think the only thing we can say at this point is that the competitive levels of the various regions have to take over at that point. We don't necessarily see markets moving in unison all the time. They respond to different market forces. We have to find their levels according to the competitive activity in that region.

The Chair: I'm sure we'll come back to that through the day, Andy.

Brian.

Mr. Brian Masse: Thank you, Mr. Chair.

Thank you for coming to committee today.

Perhaps I'll follow up along those lines. I come from Windsor, Ontario. We always seem to have additional costs for gasoline. Can you describe specifically for the public what those competitive activities at force really are?

I'll give you an example. For several days gas in Windsor was $1.20. If you drove an hour and a half to London, it was $1. If you drove another couple of hours to Toronto, it was $1.20 again. So there was a 20% difference in gasoline for many of the same retailers.

What are the specific competitive activities that make a 20% difference within an hour and a half drive?

Mr. Ross Bayus: I think we want to see discrepancy in price. We want to see competitive activity. If that's what we're seeing, I would have to infer from it that there is some kind of competitive force at work.

Mr. Brian Masse: What would that be specifically? What would that force be? Give me reasons for the 20% markup difference between those areas within four hours of driving.

Mr. Louis Forget: The throughput per site is the main reason. Costs are fixed. If you have a throughput of five million litres a year for one service station, and another service station has a throughput of two million—their fixed costs are normally the same—one needs a smaller margin in order to stay in business. Some have other sources of revenue—car washes, c-stores. That makes a huge difference. That's the reason price fluctuates from one region to another, even within the same city. You would see higher or lower prices on the south shore or in Laval than you would see in Montreal East.

Mr. Brian Masse: Where I'm from, if you have a 20% markup... even if it's a small percent difference, people line up for days for that.

We're talking about Windsor, Ontario. We have gas stations with car washes, confectionery things, cellphones, and Tim Hortons. The same things are in London. The same things are in Toronto. I'm having a hard time understanding why there would be a 20% difference in terms of competitiveness.

Mr. Louis Forget: It's volume. As I said, the throughput per site is the most important factor. In certain regions you have service stations with a throughput of 7 million to 8 million or even 10 million litres a year. The margin they can work with is a lot smaller than the service station with a throughput of 2.5 million and that has no car wash or other revenue from a c-store. That's the big difference, even under the same banner.

Mr. Brian Masse: How does that then explain...? About 11,000 transport trucks a day go through my community and there are about 40,000 vehicles per day in total, with cars, that actually go through Windsor and have to stop along several stop lights to get out to the 401, where you can bypass all that, through a couple of stops in London again. I would suspect that the volumes in the Windsor region would be higher, would they not? How would we find that out?

You're saying that it's volume. I would suspect we're selling more gas in Windsor at an international border crossing—it's the busiest in the world—than in London, where you have to actually get off the 401 to get into multiple stations.

How would we know about that volume?

Mr. Louis Forget: It's tough to talk about that region because we have no presence in that part of the province. But as I indicated, market forces are different from one region to the other based on several factors, throughput being one, other revenues being another one, and pricing strategy.

For instance, Ultramar has a program, a strategy for pricing, which is our Value Plus program, whereby we will always match the lowest price in certain areas where we're present. Ultramar will never initiate a gasoline increase. At one point in time it will follow, because our costs are going up as are the other ones. We will lower prices from time to time, but we will never initiate an increase. Our Value Plus program, our strategy, is simple. We will match the lowest price in any given area where we're present.

As to your specific area, I don't know the trend over there. I don't know the competitors and their strategies. But as I indicated, several factors contribute to the difference in pricing, to why prices are so in a certain area and higher or lower two or five streets over.

● (1015)

Mr. Brian Masse: I appreciate your input, because those are the same arguments we hear from the people there.

I'd like to refocus a couple of the comments you made earlier about the Oakville refinery being shut down. What impact did that have, actually, on gas prices in Canada?

You are at 95% in terms of the overall refining capacity. I think it's a shock to some Canadians that companies such as yours would have to import oil when we have so much crude available in our own country. What type of impact did the refining closure in Oakville have on prices for Canadians?

If we're at 95% and we see another storm coming in, why is there not refining capacity increased to ride out the redundancy and also to lower prices, if it is about refining capacity?

Mr. Ross Bayus: I think the people speaking after me can speak to the Oakville refinery in much more detail than I can, but in terms of the impact in Canada, we were already an importer in eastern Canada. We have simply got ourselves into a deeper import position during the summer months, at this point in time. It doesn't mean we're not going work our way out of it, but we are in one right now. That doesn't mean the decisions that were made were not put in place to ensure the supply for Canada. In terms of the price impact, I don't think it was very big, frankly, because I think we were already in that position.

Mr. Brian Masse: You're suggesting that it doesn't make much of a difference if Canada has more or less refining, that it has no impact on the price of gasoline.

Mr. Ross Bayus: No, I didn't say that. I'm just saying I don't think the closing of the Oakville refinery was that material in causing us to respond to price.

Mr. Brian Masse: I have one last question. You are a subsidiary of Valero, and I believe Valero has several subsidiaries in the gas and oil industry. Is that not correct?

Mr. Ross Bayus: We have 18 refineries in North America.

Mr. Brian Masse: Thank you very much.

The Chair: Thank you, Brian.

I thank everyone for their cooperation on the timing. We thank this set of witnesses from Ultramar very much.

We're going to continue and start with the next witnesses, who will be from Petro-Canada. Werner, you'll start. I'll excuse Ultramar and invite the Petro-Canada delegation of Mr. Scharf and Mr. Elhard to come to the table.

We are pleased to welcome to the committee Mr. Scharf and Mr. Elhard from Petro-Canada. The questioners for this round will be Werner, Larry Bagnell, Paul Crête, and Jerry Pickard.

I think the clerk asked you to try to keep your remarks to five minutes. We have a little flexibility, but not very much, so I'll signal you if you're going way over the time.

We do appreciate your coming to help everyone get their heads around what's happened recently with fuel prices.

With that, Mr. Scharf, once you've caught your breath, we invite you to start.

● (1020)

Mr. Fred Scharf (Vice-President, National Retail and Wholesale Operations, Petro-Canada Limited): Thank you, Mr. Chairman, and good morning. Thank you very much for inviting us.

I'm Fred Scharf, vice-president of Petro-Canada's national retail and wholesale business. With me is Ward Elhard, our national pricing manager.

I'm sure you know that Petro-Canada is one of Canada's leading energy companies. We are pleased to be here to help explain to Canadians, and understand, gas prices better. In fact, Petro-Canada was the first company to explain the price of gas right at the pumps. We decided that Canadians needed to know what they were paying and how price breaks down. We provide decals on our pumps that show Canadians exactly how price breaks down and where their dollars go. Along with our decals, we have information sheets at all of our stations that provide even more detail about gasoline prices.

Our commitment to openness is not new. The last time we were here in Ottawa with the committee, in 2003, we provided a detailed submission around what influences pump prices and how markets work. As a result, a recommendation was made for government to create an agency to monitor petroleum prices, a recommendation that we wholeheartedly support. Today we're before you again, this time to help consumers understand gasoline prices, particularly the recent increase. And that's exactly what I'd like to do right now.

Even before Katrina, gas prices were going up. The reason was that the demand for petroleum products was outpacing supply. Countries like India and China were experiencing tremendous growth and using more oil. At the same time, demand for petroleum products, gas and oil, was increasing in North America. So we had a strain on the system leading up to Katrina. When we put Hurricane Katrina into this already tight supply picture, the result was a major increase in petroleum prices.

Just to put Katrina into perspective, Katrina took out more refining capacity than exists in all of Canada. It caused major damage to the drilling operations in the area.

The question is, why did prices go up in Canada? In Canada we are part of this North American and worldwide supply market, right from crude oil to the pump. In fact, Petro-Canada regularly imports product, so our prices go up at the same time as North American and world prices. Fortunately, this spike in prices was moderated by a number of significant events shortly after the hurricane. First, the U. S. released petroleum from the strategic reserve. Secondly, OPEC and non-OPEC nations increased production. And thirdly, consumer demand started to drop. So within two weeks following the hurricane, we had average pump prices dropping back to pre-Katrina levels.

Clearly the issue was supply—or better said, a lack thereof. Happily, supplies are coming back on stream, and demand and supply are starting to get back into balance. We've all read about some recent events with Hurricane Rita, so again that's going to create some stress.

Looking ahead, Petro-Canada is being very proactive. Petro-Canada recognizes that high prices are difficult for Canadians. We're concerned about energy costs and we're very concerned about energy security. We're proud to say that we're Canada's gas station, and we're investing over $3 billion this year to find more oil and to upgrade our refineries. To put that $3 billion into perspective, this year we're investing, in new supply, more money than we earned last year. In fact our investment is almost twice our corporate earnings from last year. Let me say that again: the investment we're making this year in resource development and upgrading our refineries is almost twice our corporate earnings from last year.

Now, I also know that's not very satisfying for Canadians who are paying over a dollar a litre at the pump, but the good news is that in Canada we have the lowest gasoline prices in the industrialized world. The only country that has lower prices than Canada is the United States. There's one reason for that: taxes. It's not marketing profit margins, it's not refining margins, it's not profits, it's taxes, and that has been the case for the last 10 years.

● (1025)

I know many people in Canada are saying, “Well, do we really have low prices? It certainly doesn't feel like that to me today”. But when we look at Canadian prices on a world scale—and that's really how we have to look at it, because our industry, like every other industry in Canada, has to compete on a world scale—the Canadian market is low.

Our industry is very cost-effective and we're very efficient. After all, we're next door to the largest and most efficient supplier in the world, the United States, so we in Canada have to work very hard to ensure our level of efficiency and competitiveness.

I think the Conference Board said it very well in a 2003 study that was funded by the federal government. Perhaps I can just quote from that:

> Consumers across the country are well served by the current...system that determines gasoline prices. By “well served” we mean that Canadian prices are among the lowest possible, given input costs, and that gasoline is readily available at the gasoline pump.

I am proud to say Petro-Canada is a leader in this drive for efficiency. It's very important to keep prices down.

We're also committed to openness, and that's why I'm here today. I'm here today to answer your questions on behalf of Petro-Canada and our many employees across the country. So now I'm happy to answer any questions you might have.

The Chair: Thank you for a concise presentation.

We're going to start this round with Werner, and then Larry.

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Thank you, Mr. Chairman.

Thank you very much for that very concise and very clear presentation.

In terms of the import-export balance, in Canada we have a net export of crude oil. You say you import product. Do you import crude oil as well?

Mr. Fred Scharf: Yes. As I said, the Canadian market is an open market. Gasoline flows freely between the borders. Crude oil for refineries flows freely. It's similar to other systems, so I think the point in that is Canadian refiners and markets have to be very efficient because we're small when you compare us to the United States.

Mr. Werner Schmidt: One of the other points you made was that essentially this was a supply problem that drove the price up.

Mr. Fred Scharf: Sorry, supply problems?

Mr. Werner Schmidt: Yes.

Mr. Fred Scharf: Yes.

Mr. Werner Schmidt: Is that a supply problem because there wasn't sufficient crude available, or was it because of insufficient refining capacity?

Mr. Fred Scharf: When you look at supply-demand balance, I think we've all been aware that demand has been growing faster than supply in every area. Crude, refined products—everything has been growing. In fact, margins—refinery profits—have been extremely low. There hasn't been a new refinery built in North America in 25 years, and when you get China and India starting to increase their consumption for oil, yes, we'll get an increase in prices. That's why we're investing—

Mr. Werner Schmidt: But, Mr. Chairman, that wasn't my question. My question is, was the shortage in supply in crude or in refined products?

Mr. Fred Scharf: It was in both. What happened during Hurricane Katrina was that it damaged drilling operations in the gulf coast at a time when crude supply was already tight. It shut down two major pipelines that bring product up to the northern part of America and Canada, so both areas were impacted, sir.

Mr. Werner Schmidt: Okay, and if you were to develop a proportion, where would the proportion be? Was the proportion of shortage of supply larger in crude than in refined product?

Mr. Fred Scharf: It happens in terms of timing. It was crude as well, but that's why the Americans released petroleum from the strategic reserve. It was refined products, because two major pipelines, the Colonial and Plantation pipelines, were down. So it started off with crude, and it moved very, very quickly and became an extreme shortage of gasoline and refined products. You probably saw stations in the United States that weren't even open.

● (1030)

Mr. Werner Schmidt: I think that explains it in part. Nobody predicted Katrina and the impact it would have, but the fact of the matter was that demand was rising worldwide.

Mr. Fred Scharf: Right.

Mr. Werner Schmidt: Was supply in crude rising to meet that increased demand?

Mr. Fred Scharf: That is one of the issues, because demand was rising faster than supply. As I mentioned, we have significantly increased our investment program to try to bring on more supply. But this problem has been created over a number of years, and there's not a short-term solution.

Mr. Werner Schmidt: Really, the question was whether the demand was rising on both crude and on supply. Was the refining capacity increased in the same ratio as the increase in discovering new resources of crude?

Mr. Fred Scharf: Refineries in North America are running and were running at almost full capacity prior to Katrina, so there wasn't a lot of new capacity that could be brought on in a very short period of time.

Mr. Werner Schmidt: I appreciate that. What is the plan for building new refineries?

Mr. Fred Scharf: If you look at building new refineries, if I could just put that into perspective, it's not short term; it takes a long time. It's billions of dollars.

When you look at our business, our profits in the refining and marketing business are less than 2¢ a litre. They have been for six months—they have been for the last ten years—so it's very difficult to garner capital investment to build refineries.

So I don't foresee any new refineries on the horizon in Canada and perhaps even in North America, but I don't have a crystal ball.

Mr. Werner Schmidt: Does that mean, then, Mr. Chairman, that it's inevitable that there will be an increased hike in gasoline prices?

Mr. Fred Scharf: As I said, I don't have a crystal ball, but when I look at those fundamentals, it's very likely that if demand keeps going as it is—and as I said, it's difficult to bring supply on in the short term—the prognosis would be for higher gasoline prices.

Mr. Werner Schmidt: Going back to the other question, which really has to do with government policy, what proportion of the spiking in gasoline prices was a direct result of government policy and what was a direct result of the supply-demand equation?

Mr. Fred Scharf: As you can imagine, we don't influence government policy, so I'll speak to the other side of what would have created it. I've said before it would be largely created by the shortage in refined product and crude oil supplies. And as I've said before, Petro-Canada worked hard to import product. We've been a leader in efficiency. That helps to keep prices down. But it was fundamentally driven by that demand squeeze and that lack of supply.

The Chair: Thank you very much, Mr. Scharf.

We're going to go to Larry Bagnell.

Hon. Larry Bagnell (Yukon, Lib.): Thank you for coming today.

I agree with your point that by 2003 the Conference Board and the Competition Bureau had proved—to me, at least, and to our committee when they came to our committee—that the system is working well and the prices were fluctuating with crude. But I have questions about this particular situation. I think it is slightly different, and I follow up on some very revealing questions from my colleague from Tobique—Mactaquac.

I'm glad you've come to help people understand the prices, but I'm not sure they're going to be happy with what they heard today when Ultramar confirmed my colleague's question: that the refinery profits margin had gone up 10 times the amount that crude had gone up. I don't think when the consumers understand pricing today, as you said, they're going to be very happy to hear that. The cost of refining didn't go up 10 times the price of crude. That's a remarkable increase in revenues for the refineries.

● (1035)

Mr. Fred Scharf: Let me speak to that.

First of all, I should put refining margin into perspective. Yes, refining margins did increase during this period, but “refining margins” isn't the profit we make. From refining margins we have to pay the wages of hundreds of refinery workers. We have to pay the cost of running our refineries. A lot of it is natural gas; it's going up as well. It's a commodity, and you can see that it has probably gone up as much or more than crude. We have maintenance costs. So it's not just that it's a profit. That's not the definition of a refinery margin.

And it changes from time to time. The fact is that two weeks later the refinery margin was down again.

The point, though, that I'd really like to make is that refining and marketing margin represents less than 2¢ a litre, and that's over the last six months of this year and over the last ten years of what the margin was. That 2¢ a litre is the profit we're making after all expenses on a litre. That's not very much.

Hon. Larry Bagnell: I agree that's a small part of the equation, but that's the part we're dealing with in this part of the hearings. The fact that your employees were being paid and everything, and all these costs were being covered and there were profits, and then all of a sudden they went up ten times the increase in the price of crude, I think would be hard to explain to consumers.

The other thing my constituents ask me about—and I'm sure my other colleagues—is that there's quite a supply of inventory and product before there are these world crises and the prices go up. Yet when the prices go up, you still have inventory, both retailers and wholesalers, that you purchased at the lower prices. And yet the prices go up, and you're making extraordinary profits because you bought the original before the demand. I know my colleague said that he understood why the prices go up quickly, but they don't go down as fast once the world prices change. I wonder if you could explain those mechanics to me, because my constituents keep asking me about that.

Mr. Fred Scharf: I can understand. Your constituents are the people who buy our gasoline and they're asking us the same questions. What I would say to that is that in Canada it's an accounting issue largely, because we work on a last-in, first-out basis. So the prices, if they're going up, are reflected immediately. And the prices, when they're going down for our inventory evaluations, are also passed on. We've talked about this many times. I know many customers phone me and ask me that question. You can see prices go up one day and prices go down one day. So it's symmetrical is what I'm saying. The United States has a little different methodology, but in Canada that's the way we value our inventory. So we're passing it on when it goes up; we're passing it on when it goes down.

Hon. Larry Bagnell: The last question, I guess, is that you know there are a lot of gut-reaction solutions to this very difficult stress on people. Which of those solutions—as you said, you hear them as much as we do—the government might undertake would be productive, and which would not be productive for the industry, would cause unintended consequences that would hurt Canadians?

Mr. Fred Scharf: We believe that healthy competition is the best thing for consumers. Competition, I think, brings out the best in all of us. It drives efficiency, and that helps keep prices down. It brings innovation to our business. By innovation, I mean the industry—and Petro-Canada is what I'm speaking to—brings forward programs to help consumers save money. In our highly competitive industry we've got programs that allow consumers to save 2¢ a litre every time they fill up. We've got programs that allow them to exchange their Petro-Points, in our case, for groceries or household items. Those things are driven by healthy competition. Petro-Canada has always been a leader in this area. Our contention is that this is the best way to serve consumers.

The Chair: Thank you very much, Larry.

Paul, and then Jerry.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman.

I wish to thank you for reiterating your support for the creation of an oversight body for the oil sector and I hope that this committee will adopt that motion.

Moreover, although your profit of 2¢ a litre does not seem huge, like Ultramar's, it has risen from 1.6¢ to 2.2¢. That represents an increase of 27 per cent. That is starting to be reasonable.

My concern is the refinery margin. The multimillionaire owner of Virgin wants to build a refinery because he feels that it no longer makes sense to depend on the oil companies in this situation. The sudden increase in the refinery margin has had a direct impact on the rest of our economy: on our truckers, our forest industry and everyone, on the model, on the system and on the competition. We have to find solutions to this problem.

Do you have any solutions to propose to us in order to counter the impact of the refinery margin, be at the beginning or the end of the process? What can we do to avoid the consequences of increases that systematically slow down our economy very significantly? Is there any way to increase the refinery capacity?

● (1040)

[*English*]

Mr. Fred Scharf: I would just like to clarify one point that you made about profit margins being 25%. Actually, our profit margins are less than 2% of the price of gasoline. I'd just like to clarify that, sir.

[*Translation*]

Mr. Paul Crête: I did not say a 25 per cent margin, but a 25 per cent increase in profits. You told us that your profits were around 2¢ a litre. Ultramar told us that they rose from 1.6¢ to 2.2¢, which represents an increase of 27 per cent.

[*English*]

Mr. Fred Scharf: Yes, 1.6% to 2.2%, I understand, but it's still a very small part of the profit on a litre of gasoline. I will try to answer your question about what are some of the solutions and what can be done.

I feel very strongly that the solutions lie in a number of parts. One is increasing supply. That's why Petro-Canada is investing twice its earnings from 2004 to find new sources of oil and gas and upgrade our refineries. I think the other solution is in consumer demand. With consumers, we can see it already. In some parts of the country demand is decreasing, and that will take some of the pressure off supply.

Petro-Canada will continue to work hard to find new ways to bring value to consumers, but this situation has been created over a long time, as I've mentioned—25 years with no investment in refining—so it will take some time to correct.

[*Translation*]

Mr. Paul Crête: However, if you look at the margins in 2001, you notice that the average was about 7¢, 7.3¢, 9.7¢, 6.4¢. In the current period, since August 30th, it continues to be around 30¢, 26¢, 25¢, 18¢, 20¢, 21¢. Obviously, this is a major change.

What solutions would allow you to establish reasonable refinery margins that would correspond to reasonable profits? Right now in this sector, the situation is not reasonable and that has an unacceptable impact on the rest of the economy. That is why we are here today. We therefore have to find ways not to control the market but to stabilize it so as to eliminate the impact we are experiencing right now.

Do you have any solutions to propose specifically with regard to refinery margins?

[*English*]

Mr. Fred Scharf: I think the period of time you're referring to is a very short period of time. As I mentioned, two weeks later we have a much lower situation in terms of margins. But I think the solution lies in continuing to drive for efficiency, and that's the main challenge of the industry. When you think about gasoline prices, as I made mention, in Canada we have some of the lowest prices in the industrialized world. I know that doesn't make Canadians feel a lot better, but when you look at the industrialized nations around the world, one of the lowest in pricing is Canada. The only place that is lower is the United States, because of taxes.

So you're referring to a very short period of time. We're trying to do our part in driving up supply, if we can.

[*Translation*]

Mr. Paul Crête: We know that 85 per cent of our exports go to the United States. An increase in the price of gasoline has a direct impact on cost, which in many cases, could make or break a company's ability to stay in the market. The situation applies to all sectors, but let's take the example of a peat company in Rivière-du-Loup that sells in Texas. With this increase, you are eating into the profit margin, which means that people will withdraw from the market. I understand that the oil companies do not have any special social responsibility. However, we have to solve this problem. We have to find solutions, because if you do not take a proactive approach in this particular case, the pressure will become so strong that solutions will be imposed on you that may not suit you at all.

● (1045)

[*English*]

The Chair: Thank you, Paul.

Any comment, Mr. Scharf?

Mr. Fred Scharf: Yes. My comment would be that we feel the same way about the pressure it's creating on people. The consumers and the buyers you're referring to are our customers, and if we don't have them we don't survive. The solutions, as I mentioned, are not short term. We import a significant amount of product. We are investing in our refineries. We have programs available for consumers and truckers to help them deal with some of these situations, but as you said, even if we reduced our profit margin to zero, the price of gas would drop less than 2¢.

The Chair: Thank you, Mr. Scharf.

Jerry Pickard, please.

Hon. Jerry Pickard: Thank you very much, Mr. Chairman.

Mr. Scharf, thank you for coming this morning.

I understand that yesterday the price of a barrel of crude was $63 or in that area. Today it has gone up a dollar. I also understand that this morning some folks in Halifax filled up their vehicles at $1.12 a litre. The price in Halifax right now is $1.87. That's a jump of 65¢.

You say that competition answers that question. I have a problem with competition increasing that much in Halifax over the last hour. In my hometown of Chatham, the price was $1.03. I filled up yesterday. Today, this morning, it's $1.50. I have a problem with anybody telling me that competition has pushed the price up.

I understand that the wholesale price for most corporate interests in Canada remains the same. If the wholesale price remains the same, if the factors of the purchase of crude have remained the same, which are supposed to be the driver of the cost, then what is it? Where's the money going? Why are people being forced right now to line up by the hundreds at the gas pumps?

I understand that maybe the industry has been negligent in not looking at refining capacity. If that's the case, maybe we can answer that.

But I've got a problem with what's happening right now, because it affects every good that we sell in this country. If affects every consumer. It affects the price of everything we're doing. There's really nothing to justify what I see. I'm sure the gasoline that's selling at the pump right now was refined previously, and for some unknown reason the price has just been bumped right up through the roof. Could you explain why and how that happens?

Mr. Fred Scharf: I'll try to address some of your questions, sir.

First of all, there are over 500,000 price changes a year that happen for us. As you mentioned, one day the price will go up and one day the price will go down. There'll be huge fluctuations. Let me explain that.

It's a very competitive marketplace. You can check gas prices at 60 kilometres an hour. People will switch for small tenths of a cent per litre. Costs will come through. Station operators will change their prices and another competitor may do something different. Within moments, because they go out and look, they change prices as well. Prices go up and prices can go down dramatically in one day for those reasons.

On your comment about whether the refining industry has been negligent in terms of bringing on product, I believe that's not the case. The refining industry has absolutely been working hard. We've been working hard, investing in our Montreal refinery and reversing pipelines to bring in more product. We're putting over a billion dollars into our Edmonton refinery to try to bring on new products. We're doing all that at a margin.

I know you're quoting specific days, but when you look at it over six months, because prices go up and prices go down in one day, as you said, it's less than 2¢ a litre, sir.

● (1050)

Hon. Jerry Pickard: Are you telling me that with a 65¢ jump in Halifax right now, it is the retailers who are reaping the profit?

It's a 47¢ jump in Chatham. The retailers are taking 47¢ a litre today that they didn't get yesterday because there aren't major factors to change the circumstances. What has caused that? This isn't a couple of cents. This is huge.

Mr. Fred Scharf: I'm absolutely not saying that retailers are making a huge profit here.

Hon. Jerry Pickard: Who is?

Mr. Fred Scharf: I'm saying that prices go up and prices go down in days and in hours. I'm saying that if you look at it over six months, profits are less than 2¢ a litre. The dealers and the refiners are not making a huge profit over a period of time.

I can pick any point in time. I can go to a certain place and say that we're losing 20¢ a litre in Vancouver today. It's part of our highly competitive industry. Those are things that we deal with every day. But if you look at it over time—and I think that's the way you have to look at investment decisions and profitability decisions— at 2¢ a litre, nobody is making excessive profits here.

Hon. Jerry Pickard: I'm talking about 65¢; I'm not talking about 2¢. Are you not alarmed at that 65¢ increase?

The Chair: I need you to wrap up, Jerry.

Mr. Fred Scharf: What I'm trying to convey is that we're going to get price increases up and down across the country. I'm trying to make the point that you look at it over time and that our profits are modest in comparison to other inputs of gasoline tax, in terms of gasoline price. Taxes are 20 times our profit margin. So I'm saying that over the long term I believe Petro-Canada is acting and being a leader, in fact, in investing in its refineries, in crude, in natural gas, bringing on more supply, and that's one of the important solutions, sir.

Hon. Jerry Pickard: You and I both know taxes have not changed in ten years. It's not your problem here.

The Chair: Thank you, Jerry.

Mr. Brian Masse: On a point of order, Mr. Chair, because of the format we have here, I do not get to question certain witnesses. Normally we would have three different witnesses across and I would have some time.

I would suggest that perhaps I could have a couple of minutes, or have a reduction of time elsewhere, so I could at least have some questions to the witnesses, because the format right now prevents me from even—

The Chair: Colleagues, Brian is on the next round for his five or five and a half minutes. If it's agreeable, if he wants to take two or three minutes now and two or three minutes then, is that okay with colleagues?

Okay, just get right to it, Brian, and we'll let you do that.

Mr. Brian Masse: Thank you, Mr. Chair.

With regard to the closure of your Oakville refinery, when we have 95% capacity now, why would that be closed, when there are no new ones on the horizon for North America; and did that have an impact on the price of gasoline and the refining?

Mr. Fred Scharf: I can understand why that question would come up.

One of the reasons we closed Oakville is that, as I mentioned, this is a highly competitive industry and Oakville was a very small refinery that was just not competitive. In order to address the supply solution, we expanded our Montreal refinery and we have accessed some imports. But Oakville was a very small percentage.

Mr. Brian Masse: For that gasoline that you once refined, what type of replacement do you have? Do you purchase somebody else's gas?

Mr. Fred Scharf: In terms of supply and demand, we have expanded Montreal, as I mentioned, and we do buy gasoline on the international market.

Mr. Brian Masse: So whatever happened, you lost some capacity.

I want to touch quickly upon what Mr. Pickard was talking about. Who pays, then? Who decides at the end of the day whether you take 2% one day, or 20% or 50% one day, in terms of refining product? Who decides that? Who pulls the trigger each day in terms of how much they should charge people?

Mr. Fred Scharf: As I mentioned, as we've talked about, those prices—refining prices, wholesale prices for refined products—are determined on the international level.

Mr. Brian Masse: How does the international level play, for example, again in Windsor at $1.20 and an hour and a half away, the same station, the same company, a 20% difference? Who decides there's a 20% difference between those two areas?

Mr. Fred Scharf: Really, as we've talked about, the difference between areas of Canada is driven largely by competition, and as I've said before, you can have times in Windsor, I'm sure, when prices have been some of the lowest in Ontario. It does change from community to community, driven by specific market conditions. Cost is one. Competition is another. Basic strategies of the various competitors is another. We've seen it for years now.

● (1055)

Mr. Brian Masse: I just can't buy a 20% difference within a driving distance of an hour.

Thank you, Mr. Chair.

The Chair: Thank you, Brian.

I want to thank our delegation, Mr. Scharf and Mr. Elhard from Petro-Canada. We're going to excuse you and invite to the table our next witnesses.

From the Canadian Petroleum Products Institute, we're pleased to have Mr. Perez and Mr. Baily.

Mr. Perez, will you be speaking on behalf of the delegation?

Mr. Alain Perez (President, Canadian Petroleum Products Institute): Yes, I will be, but my colleague will probably help me answer some questions.

The Chair: As the clerk probably explained, try to keep your remarks to five or six minutes maximum, if you would. I'll signal you.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): On a point of order, Mr. Chair, I realize I'm not a member of this committee, but I do have an interest in this and I understand that the committee has been trying to put together a list of people who will present. I wonder if I could get the consent of the committee at least to allow me at some point, if it's not too much difficulty, to ask a question of any witness at any given time...eventually.

The Chair: In the normal roll of Liberal slots, is there any objection to Dan asking a question?

Mr. John Duncan: I object. We have a full member of cabinet here, and so—

Hon. Dan McTeague: I'm not a member of cabinet, Mr. Duncan.

The Chair: Order, please, colleagues.

Just quickly arrange a substitution with one of the members, Dan, okay.

We're going to proceed to the presentation, and the questioners are Brad, Denis, Andy, John—and Brian has some time remaining. Thank you.

Mr. Perez.

Mr. Alain Perez: Thank you, Mr. Chairman.

I have about two or three minutes of presentation. My colleague, with your permission, would like to comment on three charts that he has given to the clerk and that should be in your possession, so I hope that's satisfactory.

I want to thank you for the opportunity to appear in front of your committee. You may recall that the last time we appeared here was in 2003 and the subject was similar. You issued after those hearings a short but very powerful report that contained two recommendations. We supported the first one—we supported it publicly and we supported it with the minister—and that recommendation was to create a body capable of gathering, interpreting, and disseminating information on prices, supply and demand. Since then we have been very active trying to convince the federal government and provincial officials to take that small but significant step towards achieving your recommendation.

We also followed your second recommendation, and we have been very active in informing and trying to educate various stakeholders, particularly the media and elected officials, on issues of pricing. We believe we've had a certain measure of success with the media. When you look at what happened after Hurricane Katrina, the media coverage after that event, which shut down 10% of the refining capacity in North America, was well informed and balanced, in our view.

I would like also to convey the regrets of two of my colleagues from Imperial Oil and Shell Canada, both of whom are based in Calgary. With such short notice and on an important subject, they tried to send their senior people here, and they just couldn't do it. They can make themselves available for any further hearings that you would like to have with them.

I'm assuming that all the technical causes of the recent price spikes have been discussed by our colleagues from Ultramar and Petro-Canada. I would like to raise two strategic points, and these are two considerations that I believe are paramount if we are to understand what is happening now and what may happen in the future.

Prices reflect the relationship at any given time between supply and demand. When it comes to petroleum products, we have been experiencing in the last couple of years, here and in the U.S., a surge in demand that was impossible to predict just a few years ago.

On the supply side, it's true that no new refineries have been built, but it's also misleading to say that the capacity overall has not increased. If you look at the Canadian capacity to produce gasoline and distillates like furnace oil and diesel, it has increased consistently in the last ten years for two reasons: one, the capacity that was used to make heavy products, like bunker for instance, has been displaced to make other products like gasoline or distillates; and two, on existing sites where permits to expand are easier to get than permits to construct, you have seen the equivalent of several refineries being built through expansion of those refineries. Irving Oil and Ultramar are the last two examples in the last three years.

The surge in demand, however, has created for crude oil end product a situation where every apprehended incident—political, technical, supply—creates higher prices in the marketplace in ways that we haven't seen before; and when a catastrophe actually happens, then the results are painfully visible and are felt by consumers throughout the continent.

[*Translation*]

We have often been asked why problems in the US should affect Canadian consumers. The short answer is that we are in the same free-trade market. For our products, free trade preceded NAFTA and the Free Trade Agreement with the United States.

Subsequent treaties have placed an obligation on Canadian businesses to offer their products at the same price to Canadian and American customers, including wholesalers and product buyers.

Consequently, an artificially low Canadian price (through legislation, for example) would result in massive purchases by US consumers, particularly from Quebec and the Atlantic provinces, and a shortage for the Canadian market. This situation is well explained in the appended Globe and Mail editorial dated September 2, 2005.

This being the case, the Canadian refining industry must answer a number of questions. I will give you three: Do Canadian prices reflect the American market fairly? Are we in any danger of incurring shortages? How can consumers deal with high prices for products?

My colleague will show you some historical charts that clearly demonstrate Canadian prices are fair and follow closely the larger continental market, except for a few differences resulting from transportation costs. As a result, the North American markets also work in Canada. These charts are part of a CPPI presentation made to the Council of Energy Ministers at their annual meeting two days ago.

On the question of security of supply, we have, barring an even larger catastrophe than Katrina, enough capacity to supply all Canadians and to continue to export to the US the equivalent of the production of one or two refineries.

The third question, the most important in my mind, raises the issue of conservation. Why have we, as a country, been so effective in improving our energy efficiency at home and in our factories, but continue to consume motor fuels at a rate that is alarmingly high, still increasing and much higher than in other OECD countries, except for the US? We would very much like to be included in a serious debate on these real issues that affect and frustrate Canadians—whether they are producers or consumers.

We have some answers, but we need to feel that there is a real direction and political leadership.

● (1105)

[*English*]

The Chair: Thank you, Mr. Perez.

I'm going to maybe get you to import any comments into answers, Mr. Baily. We're over seven minutes.

Brad, please.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): Before beginning questions I'll just make a brief comment. It's fairly interesting for me to see that the committee, by the tenor of its questions, seems to be coming to the consensus that lower prices are good for consumers.

Having read the Minister of the Environment's comments that high prices were good for Canada, I'm a little bit surprised. I know that the member for Toronto—Danforth has said similar things, so I'm encouraged to see that a consensus is coming that high prices are not good for Canadians. Maybe the Minister of the Environment will come to that conclusion later, but we'll let the government resolve that.

With the groups going, I'm not sure how detailed the answers can be. It basically comes down to this: my position is that when prices are high, we should look at how we can make prices low; when prices are low, we should be looking at how we can make prices lower. There's never a bad time to increase efficiencies. There's never a bad time to figure out ways to drive the cost of production, etc., in the whole system lower. It's the efficiencies of the market. That being said, this committee can have an impact and recommend government policy.

So with that in mind, my question begins on things like refineries. What specific government policies drive up the cost of production for refining, distribution, etc.? I can break it down into details. Specifically I'm looking for anything on regulatory matters. It doesn't matter where it is, be it environmental, non-environmental, labour, tax and finance matters, capital cost depreciations, or other government policies having to do with things such as we heard with natural gas and underlying costs of inputs, because as we know, decisions made on natural gas reserves in Canada have brought a lower supply.

If you could start working there, we'll expand as much as you're able to do it. Ultimately these are the things we have policy control over, and these are the things that can drive prices up or down.

Mr. Alain Perez: Thank you for your question.

The main purpose of my organization is to try to preserve and enhance the competitiveness of our industry, and in doing so, we try to dialogue with governments.

It may surprise you, sir, but I think today I would tell you we're pretty happy with the way that over the past 10 years our relationship with the federal government, in particular, has evolved in terms of looking at how to regulate the industry. We've had big, big differences in the past. They were based on issues that we thought would make us uncompetitive with the U.S. refineries and therefore could create a situation where refineries would shut down here and we would import product from the U.S. that would have a lower cost.

In the past five or six years, both through Environment Canada and other departments, we have worked really to harmonize specification and regulations between the two countries. I would even say that on a couple of occasions the federal government has given us a chance to help them fashion some regulations that give us a competitive advantage over the U.S., which is excellent.

The reason we need that is that if you look at the U.S. refineries, a typical one would be 300,000 to 400,000 barrels a day, because they serve very dense markets. In Canada, it's 80,000 to 100,000. So we start with a problem of size, and they have an economy of scale advantage. That's why we need smarter regulations here. I would say that by and large on regulations, we are pretty happy with the way provinces and the federal government have responded to that.

● (1110)

Mr. Dane Baily (Vice-President, Business and Communications, Canadian Petroleum Products Institute): Perhaps I could add a point. In terms of when we talk cost, we really have to distinguish cost and market price. The market sets the price in North America. The only time that cost really comes into the equation is when the accountants get hold of the balance sheet. So what we really need to do in terms of affecting the market is increase supply and decrease demand. Those are the only levers that will drive prices down.

Mr. Bradley Trost: Okay, but to get back to my point, I understand that we can't really control the supply and demand on the crude oil side. But is there anything we can do on the refinery side, on the distribution side, to increase supply, be that with direct competition, in smaller markets, etc.? Also, I didn't get any feedback on any of the taxation questions and so forth. I'm assuming your answer was the same on those.

Mr. Alain Perez: Markets are free. Therefore, they're behaving—

Mr. Bradley Trost: But government policy interferes with the freedom of the market. I'm asking, is there anything interfering with the freedom of the market?

Mr. Alain Perez: Well, I'm getting to that. The biggest thing the government could do—and we've been trying to pass that message for many years—is to provide leadership, not on supply but on demand.

I would draw your attention to the fact that what we're selling is a commodity, and wholesale prices and refining margins and everything you hear about all the time, those prices have gone up recently twofold and threefold simply because there was a shortage of maybe 5% apprehended. Conversely, if demand were to slow down, if conservation started being something that really happened in our market, as it has happened for heating oil, as it has happened for electricity, it wouldn't take a lot of changes to affect prices on the North American level. So that's why we hope we're going to see more and more leadership from all governments in leading conservation efforts, particularly in the gasoline market.

Mr. Dane Baily: The specific point is that at the wholesale level it's a North American price. We would have to increase enough capacity to balance the North American shortfall. It's not a Canadian price. In Canada, because we're one-tenth of the U.S. market, we're price-takers. So what we'd have to do is not only increase the Canadian refining capacity, but essentially supply the U.S., because today we're self-sufficient. We can make all the products that we need in Canada and we're exporting a considerable amount of gasoline. So what we'd have to do, if we wanted to add capacity, is be able to balance the U.S. demand.

The Chair: Thank you, Mr. Baily.

Thank you, Brad.

Hon. Dan McTeague: I have a point of order, Mr. Chair. I am a member of the House of Commons and not a cabinet minister, as suggested by the Conservative, Mr. Duncan.

Mr. John Duncan: And you're a privy councillor.

Hon. Dan McTeague: So are many at this table. Mr. Boudria was here just a minute ago, Mr. Duncan, and that didn't stop you then.

The *House of Commons Procedure and Practice*, Robert Marleau and Camille Montpetit, page 820, reads:

> Only members of a committee (or officially designated substitutes) may move motions, vote and be counted as part of the quorum. Other members of the House

—which I am, Mr. Chair—

> may attend committee meetings, question witnesses and participate in the committee's public proceedings, unless the House or the committee orders otherwise.

Mr. Chairman, I am enforcing my right to ask questions of witnesses, at your discretion.

The Chair: I think the simplest way, so that we don't lose time with the witnesses, is a quick show of hands. This was my previous question, but we'll just ask for a straw vote. If there is a Liberal slot open where a permanent member is not taking it or an approved substitute, who will agree that Dan can use that Liberal slot? All in favour?

Some hon. members: Agreed.

● (1115)

Mr. John Duncan: Has he substituted in?

The Chair: He doesn't have to, according to the Standing Orders.

Thank you very much.

Let's move to Andy Savoy, please.

Mr. Andy Savoy: Thank you very much, Mr. Chair.

Thank you for coming.

I explained to the previous witness from Ultramar the impact that the spike in prices to $1.40 had on my economy, a rural economy, the economy of New Brunswick, in the Saint John River Valley, and the fact that in terms of fuel price surcharges that are available for truckers to apply, many of them couldn't in their economy. They didn't have those clauses in their contracts with their clients. I learned this morning that the prices have gone to $2 in New Brunswick. They couldn't work at $1.40, they couldn't make a go of it, and they certainly can't at $2. So I'm certain that we'll see further protests on that front.

Looking at $2 or $1.90, whatever it is at now, and looking at roughly the dollar increase that we've had, as I understand it there are four price components to gasoline pricing: one being crude, two being refiner, three being retailer, four being taxes. Correct?

Mr. Alain Perez: Correct.

Mr. Andy Savoy: All right.

Crude has stayed roughly the same, at 51¢, 52¢, whatever. So of that $2 now that we're at, 51¢ is crude; and taxes in New Brunswick, at 10¢ federal tax, 14.5¢ provincial tax, and 15¢ GST, are roughly 51¢. So it's 50¢ for crude, 50¢ for taxes. The marketing margin, the retailer margin at the service station, has remained around 5¢—3¢, 4¢ or 5¢. So that means that of the increase of a dollar, about 15¢, from what I can understand, is taxes and 85¢ is refinery. Is that correct? I'm not arguing about the reason, but is that roughly correct? Are my numbers in that correct?

Mr. Dane Baily: We don't track prices that closely, but I did look up one of our member's sites this morning to find out what the wholesale price was. The wholesale price in Halifax was 65.30¢ for regular unleaded gasoline. Add to that about 38¢ or 40¢ taxes, I think it is, and you get to the $1 or $1.10 range. As of today, if a dealer wanted to pick up product from that particular member of ours, that's what they would pay for it.

The retail market. We've heard some rather bizarre stories about what is going on in the marketplace. We've heard of a not dissimilar situation in the Windsor area—and I'll admit this is rumour, because it seemed to be happening so quickly, and we don't have people looking at the sites—where apparently there were price spikes that happened in Detroit, and people started funnelling across the bridge. There were huge lineups at the retail sites in Windsor and the prices went up at three pumps in Windsor. That's as much as we know.

Why does it happen? Apparently the media was reporting panic buying and lineups. There's a real issue that we could take a situation.... We should not be short of product, but it is like a run on a bank. A bank may be in a solid financial situation, but if everybody runs on it, all of sudden then the bank gets in trouble. If everybody in the consuming public decides to fill up their tank, they can drain a tremendous amount of inventory. If everybody decides to go from, let's say, an average of half a full tank to a full tank, they can clean out virtually all the service stations in an area. There's a risk that by waving a red flag in front of the public by saying we're going to have huge price spikes, we could end up exacerbating the problem by having runs on service stations, which would create run-outs, which would cause more panic, and that wouldn't be effective for anybody. We could be seeing preliminary signs of that going on at the retail markets, but it is unheard of.

Mr. Andy Savoy: To get back to my original question, the first witness basically confirmed that of the 50¢ increase in prices, 10¢ was for other factors and 40¢ was for refinery costs.

Mr. Dane Baily: During Katrina.

Mr. Andy Savoy: During Katrina.

If in fact it's accurate that prices have shot up to $1.90 in New Brunswick, would you say roughly...? If in that case it's 80% of a 50¢ increase, it's going to be roughly 80%—actually it'll be a little more, because it's only a 15% GST component they're adding on.

● (1120)

Mr. Dane Baily: I really can't respond to that. We don't know. We don't have pricing to this minute, but with Katrina the retail prices followed the wholesale prices. There may be these—

Mr. Andy Savoy: And the response is happening again.

Mr. Dane Baily: We haven't seen the wholesale prices jump up.

Mr. Andy Savoy: I'd like to address the tax issue. There have been some calls for reducing taxes, and I would just have you comment on this.

New Brunswick tried this in the early nineties, reducing the taxes by 2.5¢ per litre. There was virtually no change at the pumps; over 48 hours, the pump prices were back up. The leader of the opposition at the time, when he was treasurer in Alberta, said that if we had looked at lowering the gas tax in 1989, what kind of guarantee would we have had that retailers would also have dropped their price? In fact, after those deliberations, he decided not to drop the gas tax in Alberta—and he's the present critic for foreign affairs.

Can you tell us how these people who are calling for tax reductions can be assured that those tax reductions will be reflected at the pumps, with the history that we have in New Brunswick and the comments from the former leader of the opposition, the former treasurer in Alberta, and their actual deliberations and determination that it wouldn't be prudent to lower the tax prices? What's your opinion on that? Do you think that a small reduction in taxes would be reflected at the pumps, based on all of that history that would point to the contrary?

Mr. Alain Perez: Well, excuse me, sir. There is no evidence whatsoever pointing to the contrary. We have been dealing with this since the year 2000. I have sent a letter to all finance ministers, including the current Prime Minister, explaining to them that we do not want to be viewed as an impediment to a political decision to lower taxes. If you want to lower taxes, lower them; the market will pass them on.

I wrote to Minister Goodale last week. I'll refer you to the letter that I wrote to him. If you want, I'll give a copy to this committee. I suggested that they could even have a forensic auditor to look at what the market would do. What I also told him is that if taxes were lowered by 1¢ or 2¢ the day that wholesale prices went up by 10¢, it might take a week before you know what the result would be.

The accounting of the various components of pump prices is well known; the marketing margin is well known; the averages are well known. I have given the minister all the assurances that the marketplace will pass on any tax increase or decrease that would take place.

So if you intend to lower taxes, please go ahead.

The Chair: Thank you very much. That's good. We're certainly going to come back to this before the day is over, I'm certain.

We're going to move right now to John Duncan, and then to Brian's couple of minutes.

Mr. John Duncan: Thank you very much. I want to thank my colleague, Mr. Savoy, for asking the question about taxation, because I think you gave a fairly comprehensive response that a tax decrease would indeed be passed on to the consumer. What's very clear is that the government actually doesn't want to go there, so they're creating a lot of confusion. I think the stats right now would indicate that, on average, the combined tax load in the U.S. is about 27%, and in Canada it's about 40% , and that is the difference in price between the two jurisdictions.

Further to that, the GST situation in Canadian taxation actually makes these price spikes worse, because it exaggerates any sudden change in pricing. We have a Liberal caucus report from 1998, which Mr. McTeague was a part of, which recommended that the tax be removed—the GST, the double taxation, the tax on a tax.

I guess I would like to further the question. Is there any way we can move the industry in a direction where this becomes more informational for the public at large? I don't think the public at large really grasps that this is more of a government taxation issue than an industry issue and that this has become quite politicized, to the detriment of your industry.

● (1125)

Mr. Alain Perez: We have remained, for many, many years, completely neutral on the issue of taxes. This is government policy. You people have to decide what is at the provincial level and what kinds of taxes you will have. We have been neutral and we will remain neutral, and I think for that reason, many of my members have refrained from what might be viewed by some as a provocation —breaking down, very vividly, on those high signs, the taxes people pay. Plus, with the GST, we'd have to change those numbers and make some calculations every day.

One of my members, though, has done that at the pump. They provide a breakdown, which is approximate, but it's not done in a vindictive way. To be fair, also, Canada has the second lowest taxes of all the OECD countries. I checked prices in Europe yesterday, and in Germany, Germans, who also drive big cars, are paying exactly €2.24, which is about $3, and of the $3, about $2.25 is tax. France is a little bit lower, and England is a bit lower. We in North America look at the U.S. as our competitor. And it's true, their taxes are much lower, which explains most of the price difference, even though our margins are lower than theirs.

We really want to remain neutral. The only thing we do not wish is that we become the excuse for government not to lower taxes. And we're telling you again, if you lower taxes, the market will pass on those savings. It can be audited, but this is your policy, not ours. This is yours to decide.

Mr. John Duncan: I have a further question. With the news today about the suggestion that people are out panic buying, does that sound like the normal reaction of a public that is informed about the movement of gas pricing and delivery of gas supplies, or does that sound like a public that has been left to its own devices by a lack of leadership from whomever?

Mr. Dane Baily: Clearly, there's a challenge in communicating the petroleum markets to the consumer. It's something we have been working on. In fact, we've been trying to organize a workshop with the people who deal with retail prices right across Canada—a federal-provincial industry workshop that I've actually set up for the middle of October. I'm trying to get participants to look at how we can better assemble the data and then communicate it so that people understand the markets.

One of the commitments following the 2003 hearings was that NRCan said they'd improve their website. I haven't checked it recently, but I believe they're working on that. I know specifically we have an initiative to have what we call "pricing 101" on our website. There are charts, which many of you have seen when I've sat down with you, with a storyline, so that the media, the general public, you, and your confrères can at least read through and make some sense out of the market. It's an ongoing challenge.

The unfortunate thing about gasoline prices is that there are the three markets: the crude market, the wholesale market, and the retail market. As you know, there are thousands of retail markets in Canada. Anytime you have five or six service stations, you've got a market, and those dynamics are different. The public needs to understand that there are those three elements in order to make some sense of what happens at the pump. We hear a lot about crude, we hear a lot about the retail price, but we don't hear a lot about the wholesale price.

Earlier this week, on Tuesday, I spent an hour with the energy ministers and specifically ran them through a discussion on wholesale pricing. It was quite informative, and I was pleasantly surprised with the reaction in their press release. I think it began to help them better understand—they already had a decent understanding—how the wholesale markets have been working over the last two or three years.

When you have the time, those charts, which look specifically at North American and Canadian markets over the last few years, are part of our handout.

● (1130)

The Chair: John, thank you very much.

We're going to move on.

Brian, there's a little bit of time left for you.

Mr. Brian Masse: Thank you, Mr. Chair.

I was glad to hear that you mentioned the issue of conservation. You were saying that conservation will then lower prices in the future. That was your statement. Is that correct?

Mr. Dane Baily: To the extent that conservation practice really shows up in reduced demand, that will have a positive effect on prices.

Mr. Brian Masse: Then how do you reconcile previous testimony today from the industry saying that high-volume sales are what drive prices down? How do you reconcile the fact that if they're flooding into the markets in Windsor right now, lining up, that it's not driving the price down as opposed to it going up? That actually creates people scrambling out of their homes to go to the pumps.

Mr. Dane Baily: There are two different issues. One, the demand increase is driving the price up in Windsor. You have a flood of new demand that's abnormal. That has the potential to either create a shortage or to dampen the demand through higher prices. Those are the decisions it appears the retailers are taking, but—

Mr. Brian Masse: We had testimony earlier about—

Mr. Dane Baily: The productivity at a site reduces the overall cost of a site. Some of them are 20-million-litre sites. The average I think is about four million litres in Canada. A 20-million-litre site has a lower operating cost. It can compete more effectively, and that shows up when you look at the large markets, where the margins tend to be lower and the very large competitive markets, where they have high-productivity sites like Toronto, Montreal, and Vancouver.

Mr. Brian Masse: So are you suggesting that the industry cannot service the most important border crossing area in the country right now? Is that why they have to actually increase the price—to keep people away from the pumps?

Mr. Dane Baily: My understanding—and this is all rumour—is that it is the U.S. customers who are crossing the border. I don't know what is happening on the Detroit side of the—

Mr. Brian Masse: We get 40,000 vehicles a day. It's not unusual.

I want to move on to another quick question, if I could, because you mentioned that you can actually reduce the price if tax is reduced. In the year 2000, the corporate income tax rate for the oil and gas industry was 28%. In 2004 it was down to 26%, and in 2005 it's 25%—about a 3% drop already. In that time you've had record profits. You've also had record earnings and record increases at the pumps. How could anybody believe, as you continue to get corporate reduction in taxes to 21% by 2007, that this is going to be passed on to the consumers?

Mr. Alain Perez: You're trying to make an equation between corporate taxes and prices at the pump, when in fact all the discussion before that was about whether fuel taxes levied by governments will be passed on to consumers if they are lower. The answer is yes. If income taxes or corporate taxes change, these are things that will be reflected over the long term. We stand by the answer we gave for fuel taxes: 10¢ excise tax, GST, PST, and 15¢ to 16¢ provincial tax—if those taxes are changed, up or down, the market will pass them on.

Mr. Brian Masse: But you won't pass on the corporate tax.

Mr. Alain Perez: How can I pass on the corporate tax?

Mr. Brian Masse: With record profits and earnings.

Mr. Dane Baily: It sets the price.

Mr. Alain Perez: That's new investment, sir. This industry is spending, the last time I checked, $60 billion on oil sands development. What kept Canada out of a recession two years ago were the expenditures in western Canada. What keeps us ahead of the U.S. in terms of growth is the money that is being spent by the oil industry. We are reinvesting more than the cash we're taking, and our cash includes what we get in terms of taxes.

Mr. Brian Masse: There are grants as well.

The Chair: Thank you, Mr. Perez and Mr. Baily from the CPPI.

Now I invite the Canadian Association of Petroleum Producers and Brian Maynard to the table. The questioners are Dan McTeague, Marc Boulianne, Werner, and Jerry.

Mr. Maynard, thank you for being here on behalf of the Canadian Association of Petroleum Producers. Thank you for helping us out today with our study of recent events, in particular over gas prices. Of course, within the context of the larger scheme of things and longer periods of time, I'm sure we will learn a lot.

We're going to start with Dan McTeague.

● (1135)

Hon. Dan McTeague: Mr. Chair, thanks very much.

First of all, I didn't want to interrupt on a point of order. Mr. Duncan earlier recited a committee report I wrote. It's interesting he cited me but wouldn't allow me to speak: "The committee therefore recommends the federal government consider removing the GST". He is correct, but he's forgotten we fought a 2000 election in which we defeated his party, we recommended that if the GST were removed, measures should be undertaken to ensure the resulting savings were passed on to consumers and not merely absorbed by the oil industry.

I know Mr. Duncan didn't want to talk about that, nor did his party. We proceeded with the GST rebate. It worked then, it will work again, hopefully, to help Canadians in the future.

Mr. Maynard, thank you for being here. My question was actually to CPPI.

I notice from the Department of Energy of the United States, the energy information agency, that crude storage rates and crude oil stocks on September 2, 9, and 16 show that within the five-year rate, crude oil stocks are where they were, as was gasoline, maybe within two years. Yet we see at the wholesale level.... I realize this is not your industry. Sometimes you're in for the day when we have as much diversity in people producing gasoline as opposed to those in your industry who are obviously taking it out of the ground by whatever means.

Do you find it a little strange in your experience...? I understand you're with the Canadian—

The Chair: Can we have Mr. Maynard's presentation?

Hon. Dan McTeague: Sorry, yes. Thank you. I'm always following your advice, Mr. Chair.

The Chair: I'm sorry. Pardon me.

Mr. Maynard, you must be wondering what is going on.

Mr. Brian Maynard (Vice-President, Stewardship and Public Affairs, Atlantic Canada, Canadian Association of Petroleum Producers): It's your committee.

Thank you very much for inviting me to be a witness today.

My name is Brian Maynard, and I am a vice-president with the Canadian Association of Petroleum Producers, or CAPP for short. CAPP represents 150 member companies that explore for, develop, and produce natural gas, crude oil, and oil sands throughout Canada.

We are known as the upstream sector of the oil and gas industry. There is also a midstream or transportation sector, as well as a downstream sector, which refines and sells various fuels to consumers, whom you have heard from here today.

As I represent the upstream sector only, I will not be able to answer your questions on gasoline prices. I will leave those answers to other witnesses. Indeed, my own mother asks me those questions and I am not able to answer those for her either.

What I can provide you with is information on the benefits that the upstream industry brings to Canadians, how crude oil prices are determined, the reasons why Canadians pay the global price for oil, and the implications of various forms of government intervention on Canadian industry.

The upstream petroleum sector is truly a national industry. We are active in 12 of 13 provinces and territories. We are the country's largest single private sector investor, with $35 billion in annual capital investment. We provide 350,000 direct and indirect jobs, and we will pay $20 billion in direct payments to Canadian governments this year alone.

The impact of our economic contribution goes well beyond the local communities where we operate. A recent study determined that 30% to 40% of the impact of the billions of dollars invested in Alberta's oil sands takes place outside the province of Alberta. These megaprojects require everything from building and telecommunications material to steel and truck parts that come from industrial regions across Canada. In short, all Canadians benefit from a competitive upstream oil and gas industry because it is such an integral part of this country's vibrant economy.

Canadians are keenly aware of increases in the price of crude oil and other fuels. Some are questioning why prices have risen and why, with our immense oil reserves, we should pay world prices. Canada is part of the global oil market, and world oil prices are determined by one of the most basic economic principles, that of supply and demand. Crude oil prices fluctuate with changes in and perceptions of the level of global supply versus demand.

Long-term demand for crude oil has been steadily rising, due in part to the growing economies of India and China. Crude prices have risen steadily with that demand. Despite these higher prices, demand has not slowed.

In the short term, oil prices can be extremely volatile. Disruptive events that cause any uncertainty around the reliability of supplies, such as war in the Middle East or a hurricane in the U.S. gulf coast, may lead to sudden and sharp price changes.

Canadians pay the global price for crude oil because Canadian companies do not set the price of oil. They take the price offered on the world market. This situation is not unique to oil and gas. We produce materials, such as steel, textiles, and automobiles, and ship them to markets outside the country. Canadians pay world prices for those products, and paying world prices for crude is no different.

Although it may be tempting for governments to try to regulate or control domestic oil prices when they are high, Canada has tried it before, with disastrous results. In 1973 the global energy crisis saw Canada's federal government impose an export tax on Canadian oil. The result, a lower domestic oil price, a small Canadian market, and restrictions on access to foreign markets, led to a sharp drop in our oil production. Exploration and production companies stopped investing in Canada and moved to areas where they could sell crude at world prices. Within a decade, Canada went from being a net exporter of oil to being a net importer, and Canadians lost a good portion of the economic benefits they received from oil and gas production.

We must also recognize that in today's global markets, export taxes on oil and natural gas would come out of the prices that companies receive from selling them, because buyers will not pay more than the world price for those commodities. The refinery in Chicago will only pay the world price. They will not pay the world price plus a Canadian export tax.

Less revenue for companies leads to declining company investment and lower payments to governments. Open markets do the opposite. Trade encourages more investment by companies, leading to a stronger economy and ultimately more benefits for Canadians.

● (1140)

While we understand that Canadians are concerned about energy, government intervention in the marketplace is not the way to solve this issue. CAPP has two recommendations.

First, Canada should continue to support market-based solutions. History demonstrates that government intervention in the marketplace not only creates higher prices for consumers but has other negative impacts as well. There are longer-term and better solutions to the energy challenges that Canadians are facing.

This leads me to my second recommendation: make energy a government priority. Canada has a pressing need for immense levels of investment in energy infrastructure, from hydro lines to oil refineries. We encourage the committee and governments of all levels, federal, provincial, and territorial, to focus attention on energy and to begin to move forward on energy-related issues. Public debate in Canada must move beyond single issues and look at the big picture. Energy is a vital public policy issue that cannot be ignored.

Citizens, industry, and government must work together to find a solution to the complex energy challenges we're facing today. Energy is now costing more to find, to produce, and to consume. Canada can continue to benefit from its immense energy resources, but to ensure these benefits the country needs smart public policy, informed government decisions, and, most of all, action on energy-related issues.

Thank you. That will conclude my remarks. I welcome questions.

The Chair: Thank you for being so concise.

Dan, we'll get you to continue where you left off.

Hon. Dan McTeague: Thank you, Chair.

I just wanted to point out that I'm pleased to see that the researcher has provided us with information at this committee. However, all the information here is supplied by the oil industry, through CPPI, and I find that.... Unfortunately, whether the facts are correct or incorrect, the perception of this committee being able to operate in an unbiased way I think is extremely important, and it goes to the recommendation I worked on with this committee back in 2003, to make sure we have objective information to give Canadians objective answers to what they're looking for.

Mr. Maynard—sorry for the interruption—I was interested in your comments about what government ought to do, particularly with infrastructure. It struck me that over the past 20 years we've seen the infrastructure, certainly not...beyond your level of interest, but with member companies. We've seen Shell, Petro-Canada, and Imperial Oil consistently shut down refineries—in other words, reduce the amount of supply—and as a result cause the Canadian economy and consumers to be sensitive, within a microsecond, to international developments well before they take place.

I am, however, concerned, because your industry is also involved not just with gasoline but obviously with other forms of energy extraction, such as propane, for instance, or in this case natural gas. There is a real concern in your industry—and I think this is also reflective of the fact that we don't have a spotlight on the refinery industry—that at present levels, we have 2.758 trillion cubic feet of storage rate. That is about half a percent less than where we were last year, and yet we've seen the rate of natural gas double.

Of course, the Conservatives over there believe all this can be answered by simply dropping taxes. I point out to them that this may be 7% of the problem, but in terms of trying to address the actual issue....

In your opinion, what drives the price of energy, whether it's gasoline, propane, or natural gas—which is going to affect each and every one of our constituents—when the levels of supply in storage you have are almost identical to what they were last year? What's justifying, not from your industry, but in your own experience, the doubling of the cost? Do we have a sick market? You've asked for the Government of Canada to become involved in energy production, which we have done. I think a number of incentives are given. Can you explain to this committee specifically what the federal government could do to build infrastructure only to have it shut down by the industry through concentration, as we've seen over the past 20 years?

● (1145)

Mr. Brian Maynard: What drives prices ultimately is the economic principle of supply and demand, there is no question. Let me address several points that you did raise.

You correctly point out that natural gas storage levels today are not dissimilar to previous years. What you are seeing is that particularly the natural gas market in North America is truly a continental market. It's not an international market as much, because the pipelines are all interconnected in North America, of course. What you're seeing is that because crude oil prices are so high, those large industrial consumers that can switch from natural gas, or from gas to fuel oil and back and forth, are switching because of the high crude prices, and they're driving up demand for natural gas.

Hon. Dan McTeague: [*Inaudible—Editor*]

Mr. Brian Maynard: I'm talking fuel switching and demand. Storage levels are healthy, but so much fuel switching has taken place, from the large industrial consumers, to natural gas that we are seeing unprecedented levels for natural gas despite storage levels.

Hon. Dan McTeague: Mr. Maynard, I'm looking at all forms of energy right now—the kinds of energy you want us to apply government policy to—and I'm seeing levels within the past five years that are identical. If they're switching from one to the other and the prices are still going up for the others, but we still have a consistent supply situation in Canada that has not been affected by any hurricanes—believe me, sir, I know more about the hurricane in Katrina than perhaps any member of Parliament, given my direct involvement for Canadians abroad—it strikes me as being somewhat inconsistent.

What's driving this—speculation, greed?

Mr. Brian Maynard: Looking at storage levels, which are really inventory levels, is only part of the equation. It's still the unprecedented levels of demand internationally, worldwide, that are driving the price levels.

We are not building more storage. We are providing sufficient storage to meet the demand. Storage levels today may be insufficient for that.

Hon. Dan McTeague: Mr. Maynard, you have several types of oil that you use and that you extract from your member companies across.... Why is it, in your view, that the wholesale price in any given region of the country for a similar product is higher than in the United States, ex tax, and that in any given region of the country on any given morning you have one of your member companies that leads with the price and the others follow in identical lockstep to 41.2¢, as when we had the crisis with Katrina?

Would there not be someone who would want to walk in and say, “I'm going to challenge that, drop it by 3¢ a litre, and take over that entire market”?

Do you not find that strange? It doesn't happen in the upstream. Why in God's name do you believe it's happening at the wholesale level?

The Chair: Thank you, Dan.

Mr. Brian Maynard: Again, Mr. McTeague, I only represent the upstream and I can't answer questions.... The large independents operate as separate business units and things like that.

But I can tell you, from the experience of the upstream sector, that government intervention into the marketplace distorts price signals, and the solution takes longer to get to than allowing those market prices to act.

You heard the CPPI talk about significant price spikes, but those price spikes were temporary and rapidly came down. Just as fast as they go up, they do come down.

● (1150)

Hon. Dan McTeague: Thank you, Mr. Chair.

The Chair: Thank you very much.

Marc Boulianne, then Werner, then Jerry.

[*Translation*]

Mr. Marc Boulianne (Mégantic—L'Érable, BQ): Thank you, Mr. Chairman.

It is clear that we have had a crisis and we are still in it. In my opinion, the seriousness of the situation should not be underestimated. There are very negative impacts on the regional economies. I believe that it is important not only for citizens, but also for businesses and day-to-day life.

You talked earlier about being worried. People are certainly worried. The credibility of the companies is at stake, and then there is the government's inertia. There is pressure from the public. The possibility of committee hearings led to a drop in prices, and people are wondering whether they will go back up afterwards. So there is obviously a crisis.

The creation of a monitoring agency has been proposed. My colleagues spoke earlier of the need for objective information. It seems to me that if we had had a monitoring agency, as recommended, its objective would be to gather information, investigate the situation and make proposals. It would have been helpful to have such a body. You make no mention of such a monitoring agency in your report. So I would like your comments on that.

Do you agree with the president of the Canadian Petroleum Institute, who said that the institute members agreed with the committee that an independent monitoring agency could put an end to confusion and prevent crisis?

[*English*]

Mr. Brian Maynard: Our industry absolutely supports anything that provides more information to the Canadian public so that they can make informed decisions. If there is a mechanism that provides it in a way that's effective and efficient and has the data, that would be a good thing.

We spend a lot of time as an industry working to provide education and information. We are very transparent in our pricing. You can pick up any media or check the Internet to see what crude oil prices are trading for on a minute-by-minute basis. We're a strong supporter of the Canadian Centre for Energy Information, which is a web-based site where information and background on all sources of energy is available.

So if the objective here is to provide more information to help educate publics and stakeholders, that in itself is a worthy initiative.

[*Translation*]

Mr. Marc Boulianne: The previous group mentioned to us that it had begun working with senior provincial and federal officials.

Have you done likewise?

[*English*]

Mr. Brian Maynard: We are in regular contact with senior government officials. I recently, too, was at the Council of Energy Ministers' meeting in St. Andrews, New Brunswick, and there was discussion around government support for the Canadian Centre for Energy Information for that exact purpose, to ensure that information is being made available to Canadians so they can make informed choices and have an informed discussion about these issues.

[*Translation*]

Mr. Marc Boulianne: In response to that request, the government obviously answered that the current methods are appropriate and can provide information.

Do you agree with that, or would setting up a monitoring agency add something extremely important to that information?

[*English*]

Mr. Brian Maynard: I can see where an independent, government-appointed overseer or an oversight and information gathering and information dissemination role would probably have more credibility with the public than if industry were to do it. Someone mentioned earlier that industry itself lacks credibility on this issue. I can see that the public would probably more readily accept the information if it came from that. From that perspective, it would probably be useful. Other than that, I mean, it's a question of administration and efficiency and access to the information and whether they can do their job, which I would leave to the policy analysts themselves to decide.

● (1155)

[*Translation*]

Mr. Marc Boulianne: At the end of your presentation, you call for a broad coalition of citizens, industry players and government to find a solution.

Do you have one or more solutions to propose? Do you have a priority?

[*English*]

Mr. Brian Maynard: Really, there is no magic solution that can do this. At the end of the day, it is our belief and our experience that markets work best. Price signals send the right signals to consumers and producers alike. The consumer is encouraged to seek greater efficiencies to conserve, to save. The producer is incented to bring on more supply and to bring things back into balance, which will affect price.

What we are really saying is that this is a matter that has not been under discussion in Canada in a number of years. The world is changing significantly. We are seeing a prolonged exposure to high prices, and it is very timely to have that debate and have that discussion and to engage all citizens and stakeholders—governments and regulators and industry—in an informed debate and discussion about the issues. I'm a firm believer that people who know the information and know the facts generally arrive at the same conclusions. I think that's absolutely critical to the energy policy debate.

The Chair: Werner, please.

Mr. Werner Schmidt: Thank you, Mr. Chair. Thank you, Mr. Maynard.

There are three areas I would like to touch on. I don't know if we'll have time for all of them. For sure, I want to deal with one of them, which I think is probably the most important, and that was right at the end of your presentation. It had to do with government policy with regard to energy and its development, and, if you like, a framework within which energy supply can be sustained, can be stable, can be secure, and can be environmentally responsible.

It seems to me, Mr. Maynard, that there is one particular application here, which I would like to ask about. You make the suggestion that we not concentrate on a single issue. I quite agree with the single-issue question. But at the same time, I have to ask you, with regard to the spikes that have happened in the prices, does the petroleum-producing part of your association find itself influenced by the sudden rise and fall of world crude prices?

Mr. Brian Maynard: We respond to price signals, just as everyone else does. Temporary price spikes are less likely to cause significant long-term behavioural changes than where we see trends going. Just as we are seeing $65 prices today, our industry has also seen $10-a-barrel prices. That was below the cost of production and we were losing money. Once you've lost money, of course, you can appreciate your shareholders are very cautious and careful.

Our industry, in the first instance to the increase in price, probably did not react quickly out of a sense of caution. What you are seeing now is sustained levels of activity and prices, but our industry has absolutely responded to the longer-term price signals.

In Canada today we are constrained in our ability to bring on much more in terms of supply because we are facing challenges around finding skilled people to work in our industry, finding skilled trades people, finding skilled operators. We are constrained by infrastructure demands and things like that. So that is the type of policy that we believe requires examination, to provide a better ability to avail itself of the opportunity that our industry does see with these extended prices.

● (1200)

Mr. Werner Schmidt: You produce the tar sands. You're talking about electricity and the distribution of electrical power. All of these require very, very huge sums of money, and they are not something that can be constructed virtually overnight. It takes years to put a refinery on stream, to get a mine working in the tar sands, and to get a distribution system of electrical power. First of all, to generate the electricity takes a lot of time and effort.

So the question I have is, what kind of an energy framework would provide...? Because you cannot as an industry, it seems to me, make an investment of several billion dollars based on price spikes up and down on a daily basis, there must be some kind of sustained secure price level. What kind of government policy, in terms of an energy framework, would help you and the people of Canada to have a secure, sustainable, and affordable source of energy?

Mr. Brian Maynard: The answer is really in your question, because it's around certainty of rules and regulation, it's around enabling and facilitating access to the resource, around addressing skill shortages, around the constraints that we find.... What we're finding is that many of our conventional sources of supply that we have produced require going into more challenging and more costly and more remote locations to bring on that supply. This brings its own set of constraints. We are dealing with issues around the symptom of “not in my backyard”. People don't want to see development around their homes, around their properties and things like that, yet increasingly the supply is being located in those areas.

So it's policy to provide for a reasonable and timely and efficient process to access those resources. It's around being competitive, because just as Canada is being faced with a $65-a-barrel crude price, so is everywhere else in the world, and the demand from areas such as China and India is leading to producers everywhere in the world trying to produce more to respond to that price signal. So jurisdictions themselves, countries themselves, are competing for the value that they see from petroleum development. They are streamlining their regulatory system. They are reducing taxes. They are addressing potential points like that and being very, very competitive.

Many governments are acting no differently from businesses in that sense, in competing for those investment dollars. Those investment dollars obviously go where the greatest rate of return is expected, given a risk reward trade-off. Political stability is important. Prospectivity, geological prospectivity, will be important. Certainty and stability in regulatory and political and policy regimes will be important. Facilitated and easier access to resource will be important. So policies in that regard, policies that address those issues, will be important for governments to do.

Mr. Werner Schmidt: My final question, Mr. Chairman—

The Chair: Very quickly, Werner.

Mr. Werner Schmidt: If the government's policy were as you've just described it, and if it were an effective and efficient policy, would that help to reduce or eliminate or flatten out the price spikes we have at the present time?

Mr. Brian Maynard: I would love to be able to say that if my members had a regulatory system allowing them to bring on another 500,000 or a million barrels a day, it would be the answer to the price situation we are facing, but no, it is not.

We have to recognize that Canada produces approximately two and a half million barrels a day. Worldwide production is roughly 80 million barrels a day. We represent 3% of global supply. So I don't want to create a set of expectations that if we removed every impediment and if we could hire everybody we could, we would significantly impact world prices. No.

But the situation is that we are in such an extraordinary time worldwide and demand is so high worldwide, everybody needs to bring on more supply to bring the price down.

The Chair: Thank you.

Thank you, Werner.

Jerry, please.

Hon. Jerry Pickard: Thank you very much, Mr. Chairman.

Since taxes have been mentioned a couple of times, I would like to clarify what the federal taxes are.

We have two types of federal taxes: the GST and an excise tax. The excise tax is 10¢ a litre and has remained that for 10 years. There's been no change. So when the price was 50¢, the excise tax was 10¢; at $1.30, the excise tax is 10¢. That has not changed.

There have been stories about increases in the GST. From the increases that I'm aware of, the GST has probably increased approximately 2¢.

We have two programs to deal with the increase in the GST. One is a rebate that we give to low-income Canadians; we guarantee that as the GST goes up, low-income Canadians get a rebate on the GST. So we protect low-income Canadians with that policy.

We also took the 2004 tax level on the GST and said that it would be the maximum level that the federal government would take on the GST. Any dollars that go beyond that, we are putting into medical supplies, into programs that will help hospitalization and health care across this country, and into programs that will make sure we deliver proper goods.

On the 10¢ excise tax that I mentioned, we have committed to the municipalities to build infrastructure to make certain that mass transportation needs...which would reduce costs of fuel.... All of those types of programs are going to fall under a program using excise....

So the federal government has cut its excise tax basically by 50% over a five-year period. We will only have 5¢; the rest will go back to municipalities as a new deal for them. People will get the benefits from that. I believe the country will be more efficient as well with those programs in place.

That much being said, I think we have a capacity problem. And for that capacity problem, I guess you're talking about programs that government can do, but how do we move forward, making certain that we do meet the needs not only of today but also of the future with our general capacity?

I know that Canadians are very skeptical when it comes to oil companies making much larger profits than they have in the past. Those profits have gone up dramatically in the last year or so.

There's a need for more refining in Canada. That's clear. You've pointed out that we only do 3% of world refining. What is it that the government can do and what is it that industry can do to increase refinery capacity in Canada so that we don't have that glitch, where every time there's pressure on refinery capacity the price goes haywire?

● (1205)

Mr. Brian Maynard: Again, any questions on what we can do to encourage refinery capacity are best left to my friends at the CPPI.

Again, to increase production capacity, from a tax perspective, the GST is an input for my members. We effectively don't pay the GST; it and the excise tax are applied on the retail or wholesale margins. The taxes that my members pay, of course, are royalties to the provincial governments that own the resource, and we pay corporate income tax. Those are the primary taxes we pay. It would be those things that would encourage my members to increase capacity or to increase their investment in production of crude oil and natural gas. It's that limited suite of opportunities around those.

But let us be clear: those are not inconsequential. For our industry here in Canada compared with that worldwide, Canada is a relatively high tax jurisdiction.

Hon. Jerry Pickard: Canada exports a fair amount of our production to the U.S. and other areas. Would it be better, or is there an opportunity within the industry, to divert some of our exports to domestic service when we see the demand or the price skyrocketing domestically when we export a fair amount of capacity?

Mr. Brian Maynard: The price we export at is exactly the same, as you know, as the price we sell it for in Canada. I would equate it to setting up a small store on the side of the street and selling toothpaste. If I have to sell my toothpaste on one side of the street for $1.20 and I can sell it on the other side of the street for $1.80, I know where I'm going to sell my toothpaste and where I'm going to set up my store. Expect my members to operate exactly like that. If government said we are going to set aside 20%, 50%, or 70% of production for Canadian purposes, the Canadian marketplace, as you pointed out, is such a small proportion of our production that we will go somewhere else where we can get $1.80 for the toothpaste.

● (1210)

The Chair: Thank you, Jerry, and thank you, Mr. Maynard.

We're going to thank and excuse you, and we invite to the table the Canadian Independent Petroleum Marketers Association; the Independent Petroleum Retailer Association of Canada; and the Association québécoise des indépendants du pétrole.

The first questioners will be Michael Chong, Paul Crête, Denis Coderre, and Brian Masse.

I believe we'll just go in the order of the agenda, and everybody will have their fair share of time. But I ask each of the presenters to stay close to the five minutes, as the clerk requested on our behalf.

I believe we have Jane Savage, who will speak for the Independent Petroleum Producers; Mr. Esmail, for the Independent Petroleum Retailer Association; and Sonia Marcotte, for the Association québécoise des indépendants du pétrole.

Ms. Savage, we'll ask you to start, please.

Mrs. Jane Savage (President and Chief Executive Officer, Canadian Independent Petroleum Marketers Association): Thank you very much.

Thank you for the opportunity to be a witness at this hearing into gasoline prices. My name is Jane Savage, and I have been 25 years in the downstream oil industy, in the areas of refining and marketing of petroleum products. Currently I am the president and chief executive officer of the Canadian Independent Petroleum Marketers Association.

We applaud the efforts of this committee to get to the root of how gasoline and fuel markets operate in Canada and how this ultimately impacts consumers. We at CIPMA hope we can contribute positively to this goal.

CIPMA represents independent fuel marketers. These are independent business owners who buy their fuel mainly from Canadian refiners at wholesale prices and then market their product and service offerings to Canadians. Independents are generally family owned, multi-generational small and medium-sized enterprises. They have built their reputations by being solid local businesses that reinvest profits into their local economy and local charities. Brands you may recognize include Mr. Gas, MacEwen, Canadian Tire, Pioneer, Wilson Fuels, Can-Op, McDougall Fuels, etc.

Independent fuel marketers inject competition. We've had a lot of discussion here this morning about competition, and I would like to talk some more about that. We inject competition into what would otherwise be a one-dimensional retail gasoline market. Historically, through efficient operations and innovative product offerings, independents have moderated the price that Canadians pay at the pump. However, independents are increasingly at risk because the retail margin is being squeezed as major refiners enjoy increasingly high refining margins. Competition is at risk.

In our view, competition is the key for gasoline and heating oil prices to be as low as possible for Canadian consumers, if we make the assumption that we retain an open market with the rest of the world. For competition to thrive, our business climate must encourage, not discourage, the participation of small and medium-sized enterprises. This is critically important in this industry, the gasoline and fuel industry.

Refinery wholesale gasoline markets in Canada are woefully lacking in competition—please note that I said “wholesale”. Dominated by a handful of refiners, wholesale market prices move in lockstep, with little price competition between those refiners. Because wholesale prices underpin retail prices, consumers pay. So unlike retail markets, where price competition exists thanks in large part to independents, it is in the public interest, in our view, that wholesale markets be scrutinized.

The market power exerted by refiners was demonstrated in spades during the price run-up resulting from Katrina. Even though any of these refiners—or for that matter, all of them—could have moderated their price increases to reflect their advertised alternative to export that product to the United States during that price run-up, only one refiner did this and it was only in one market. That was Suncor in Toronto, and it was very short-lived—for about a day and a half they stepped out of line.

Unfortunately, I don't have my copies translated, and I apologize for that, but I have some figures here that show the impact on the Toronto market when Katrina blew through. In this figure you can see that Toronto rack prices moved extremely fast relative to U.S. benchmark markets, and retail prices sat just above those wholesale markets as we marched through that period. In four days, in fact, 30¢ a litre was jammed into Toronto's wholesale gasoline market. No moderation and little price competition was apparent, even though, in our view, we feel that it was possible.

It is important to note that when wholesale prices rise with such force—and indeed, prior to this dramatic rise—independents are rendered useless in their bid to moderate prices for consumers. One can see that consumer prices sit just above wholesale prices, leaving almost no margin for retailers, while at the same time refiners and refiner marketers take home massive profits.

During the weeks from the week of August 30, 2005, to the week of September 6, 2005, using Michael Ervin's numbers—Michael Ervin is a consultant who works out of Calgary—the total Toronto pump price rose 26.3¢ a litre. Crude accounted for 2.4¢ a litre, retailer margin accounted for a 0.5¢-a-litre increase, taxes accounted for 1.7¢ a litre, and the margin for refiners accounted for 21.8¢ a litre.

● (1215)

In fact, thus far in 2005, getting outside the little narrow window of Katrina and expanding to look at all of 2005, we see similar things. Another chart shows the margin for refiners has grown from about 5¢ a litre at the beginning of this year and is sitting now, post-Katrina, at just over 15¢ a litre. During that same period, retailer margins have fallen.

With this evidence, we implore this committee and all parliamentarians to focus on refining margins and refinery wholesale prices, which drive these margins, and not be unduly distracted by the relatively minor impact of taxes. Specifically, we request a full investigation into the wholesale pricing practices of refiners. We request the conditions that created this level of control, including the lack of common carrier pipelines or terminals allowing refiners to share products, terminals, and indeed sales data, be scrutinized in the context of creating an environment to maximize competition.

My last point is this. In addition, reiterating what was stated at the April 6 meeting of this committee, although a good first step, Bill C-19 does not go far enough in creating a business environment in Canada that fosters competition. The gasoline industry exemplifies this. We submit that the competition laws in Canada should be at least on par with those of the United States, creating an environment where efficient small and medium-sized enterprises are allowed to compete with larger, deep-pocketed firms, providing price competition for the benefit of all Canadians.

Thank you very much.

The Chair: Thank you, Ms. Savage.

Mr. Esmail, from the Independent Petroleum Retailer Association of Canada.

Mr. Tajdin Esmail (Chairman, Independent Petroleum Retailer Association of Canada):

Thank you very much.

First of all, I would like to thank you all for allowing me this opportunity to address you. My name is Tajdin Esmail, and I'm the chairman and the founding member of IPRA.

IPRA was founded in March of 2004. Its main objective has always been to represent the interests of the small independent gasoline retailers in Ontario and to provide a platform for them to combat the anti-competitive pricing practices of the majors. As a matter of fact, most of the independent gasoline retailers and the public at large believe that there is collusion and price fixing taking place in the oil industry. The fact that all the majors post identical prices within specific areas supports the notion of the existence of such collusion. On the other hand, the identical retail prices posted by all the majors may perhaps be due to the outcome of applying identical mathematical formulae rather than collusion. Let me explain—and I'll speak about the greater Toronto area in general.

In the GTA, for example, at the present time the retail pump prices are restored every day at around midnight to exactly 6.5¢ above the posted wholesale rate price for that day. For example, the rate price before GST on September 20, 2005, was 91.1¢ per litre. If the current margin of 6.5¢ is added to that, and then GST is added to the total, the resulting price would be 104.4¢ per litre. This was exactly the price posted by all the majors on September 20, 2005. By applying this formula on any given day, one can predict with 100% accuracy what the retail price restoration for the following day will be, provided that the margin does not change.

I would like to point out, however, that this margin of 6.5¢ per litre is not the norm. Previously, for the past several months, the margin was 3.5¢ per litre. Thus, in the wake of Hurricane Katrina the majors have introduced—just at the retail level—a new Katrina premium of 3¢ per litre.

It should also be noted that previously, when the margin was pegged at 3.5¢ per litre, the majors were also dropping the prices every single day, to a point where the retail prices were substantially lower than the wholesale prices charged to the independents. Consequently, many independents could not survive.

I've started compiling a list of business failures for the Competition Bureau. At the present time, after consulting just a few resources, I have identified 43 independents that went out of business. The actual number of business failures is much higher than that.

What are the causes of high gasoline prices? The crux of the problem is as follows. The global demand for oil is growing at an unprecedented rate. A very limited number of vertically integrated oil companies exercise total control over all aspects of the petroleum industry, from the production of crude oil, to refining, to distributing, to wholesaling, and even to retailing the refined products to the final consumers.

The refineries also exercise total control over wholesale and retail prices. At the wholesale level there is absolutely no competition, as all the refineries post identical wholesale prices. At the retail level the prices are also restored to identical levels every day.

There are no alternate sources of supply, so the independents have no choice but to purchase products from the existing refineries and to operate within the margins dictated by them.

In the absence of any competition, these refineries are able to manipulate and split their margins between the refining and retailing operations in a manner that ensures that they rake in huge profits in their refining operations and at the same time impose significant barriers to entry by squeezing the margins at the retailing end.

And finally, there's a lack of refining capacity that causes sudden spikes in the prices of refined products each time there is a glitch in the system. In the meantime, any secondary oil shortage, be it due to Hurricane Rita or any other hurricane, political uncertainty, or terrorist attack, would give us a nasty test of what oil dependency really means.

What we are now faced with is an escalating problem that is affecting the global economy to such an extent that there is an urgent need to address the issues I've outlined. Building new refineries is just one answer. With oil at almost $70 per barrel and oil company profits at record highs, there may be some incentive for more refineries to be built. But building new refineries would take several years. Furthermore, building new refineries alone will not guarantee lower prices, unless accompanied by other initiatives to deter anti-competitive pricing behaviour.

● (1220)

First and foremost, the balance caused by the refineries' ability to manipulate margins must be dealt with. One option would be to enact laws that would prohibit the oil companies and the refineries from operating retail stations but would still allow them to own stations as long as they contract them out to independent dealers. Another option would be to enact divestiture laws requiring all companies to sell off their retail operations, so all the retail operations are at arm's length and given equal treatment. I believe that some of the states south of us have implemented these laws.

I submit that enacting such laws, together with increasing refining capacity, would prevent the refiners from selectively squeezing regional margins. This in turn would foster efficiency and healthy competition that would benefit all Canadians by creating and enabling a business environment that would inevitably lead to lower prices at the pumps.

Thank you.

● (1225)

The Chair: Thank you, Mr. Esmail.

Sonia Marcotte, Association québécoise des indépendants du pétrole.

[*Translation*]

Ms. Sonia Marcotte (President Director General, Association québécoise des indépendants du pétrole): Mr. Chairman, ladies and gentlemen, I would first like to introduce those accompanying me: Luc Harnois, Vice-Chair of the Board, Chair of the Economic Affairs Committee at AQUIP, and Vice-President of Groupe Harnois; Gary Garcin, member of the Economic Affairs Committee and CEO of Groupe Pétrolier Norcan; René Blouin, Senior Advisor for the association. My name is Sonia Marcotte, and I am the CEO of AQUIP.

We would like to thank the committee members who invited us to come and present our position on these important issues. Today we want to talk primarily about the increases in fuel prices that are raising such a hue and cry among consumers. These legitimate questions call for a factual explanation to explain exactly what is causing these increases in gas prices. A look back will show how we reached the point where we are paying more than one dollar a litre for fuel. These increases are due to the combined effect of the excesses of the crude oil market and the refining market.

Since Katrina passed, the value of crude oil has not fluctuated significantly; it is the margins demanded by the refiners that have rocketed up and produced the increases in gas prices that are overwhelming consumers.

Refining margins were recently around 10¢ a litre, which was already excessive; now they have soared to around 40¢ a litre, which is simply extortionate.

That is why consumers are now captives to and victims of the strategy of concentrating refining activities first implemented in the 1980s.

Mr. Gary Garcin (Member of the Economic Affairs Committee and President General Manager of Groupe Pétrolier Norcan, Association québécoise des indépendants du pétrole): It is good that you know that the past 18 months have been marked by ruptures in supply that affected independent distributors and even truck drivers, who had trouble supplying their fleet of trucks properly. These harbingers indicate that the supply problem is real and should become even more acute in the coming years. It is further exacerbated by the closing of the Petro Canada refinery in Oakville, which deprives Ontario of more than 100,000 barrels a day of petroleum products.

Independent importers must navigate a treacherous commercial sea that threatens to swamp them if things don't change.

Knowing the purchase price of cargo of imported finished products is child's play that the local refiners are turning into a dangerous game. Under the circumstances, and given the outrageous refining margins they are collecting, the refiners can easily destabilize the independent importer, and that is precisely what they are doing when they set the wholesale price under the import price.

There is no questioning the essential role of the independent importer, who is the local refiners' only real competition. It is essential that the refiners' unfair tactics not be allowed to eliminate the only independent importer remaining in Quebec. Norcan plays an irreplaceable role; the state must intervene.

Mr. Luc Harnois (Vice Chairman of the Council, President of the Economic Affairs Committee and Vice President of Groupe Harnois, Association québécoise des indépendants du pétrole): The American Congress is currently studying a bill to encourage an increase in production in order to deal more effectively with the increase in demand between now and 2026.

As we can see, as well as being a profitable investment, the prospect of building new refineries in Quebec, and elsewhere in Canada, would guarantee Quebec consumers, and independent oil companies, an uninterrupted supply and would maintain a downward pressure on prices.

Canada can help initiate a movement to allow new refineries to be created and, if necessary, increase the number of companies involved in refining.

In recent weeks, there have been interesting suggestions for ways to find a solution to this problem of artificial scarcity that has sent prices soaring. Among them, we find the idea of a special tax on refiners' excessive profits interesting. However, if all that does is increase government revenues, it seems to us that, collectively, we are not much further ahead. This idea thus deserves to be expanded by setting constructive and promising objectives.

● (1230)

Mr. René Blouin (Senior Advisor, Association québécoise des indépendants du pétrole): We propose that the revenues from this special tax be put in a fund. We propose that part of the fund be allocated to companies that decide to become involved in refinery-building projects; another part could be allocated to lower-income consumers.

As we can see, as well as being a profitable investment, the prospect of building new refineries in Quebec, and elsewhere in Canada, would guarantee Quebec consumers, and independent oil companies, an interrupted supply and would maintain a downward pressure on prices. There is no question that these are considerations that respond to energy security concerns in which elected officials must take an interest.

Thank you.

[*English*]

The Chair: Excellent. Merci beaucoup. Thank you very much, all of you.

With questions, we have Michael, Paul, Denis, Brian.

Michael Chong, please.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

This meeting, I think, is going to be a phenomenal waste of time if the government doesn't act on our recommendation to reduce fuel taxes. I heard some of the testimony here that said we shouldn't focus on fuel taxes—and that has me very confused—but rather we should focus on some of the alleged anti-competitive behaviour that's going on in the gasoline and fuel market. That's also got me confused. There's nothing like people conflating the issues and spinning innuendo on what the reality is out there, and I think that's simply irresponsible.

I think this whole meeting, in large part, is a complete smokescreen for the government. The fact is, we have rising energy prices and nothing has been done about it. I was listening earlier to some Liberal members who were conflating the issue by alleging anti-competitive behaviours, implying that the industry is engaged in these anti-competitive behaviours and that this is the reason for rising energy prices. The fact of the matter is, folks, what we have here is oil at $70 a barrel. That's the reason for rising energy prices.

There are a lot of people who have alleged anti-competitive behaviour over and above that. Well, I'm also confused. Every study I've seen over the last number of years, and I think there have been 20 done, has not shown any, any, any anti-competitive behaviours in the gasoline market. So I'm confused here as to why people are alleging that this is going on, when in fact all the empirical evidence is to the contrary.

I will get to my question in a minute. All of this leads me to believe, Mr. Chair, that what we have here is simply a smokescreen for government inaction. There is a real problem here with rising energy prices, and that is that manufacturing, especially in Ontario, is getting squeezed. The fact is, we're losing manufacturing jobs in the province of Ontario and that's due in part to the rising dollar, which is due in part to our massive energy exports and our booming energy sector. On the other side of it, they're getting squeezed by rising energy costs, whether that be everything from electricity to fuel and the like. This inaction here, the conflating of the issue here, is putting these very jobs in the industrial heartland at real risk.

So before I get into my question, I finish by restating the point: the problem here is, obviously, rising oil costs and that the government can do something about it. I mean, 40% of pump costs are taxes. The government can do something by reducing the tax burden on this and making sure the economy doesn't stall.

My first question for the panellists is, how can you say we shouldn't focus on fuel taxes and that we should rather focus on anti-competitive behaviour when fuel taxes make up 40% of the pump costs? From all accounts that I can see, margins both for refiners and retailers make up 12% to 15%. It seems to me that we should be focusing on reducing what is the biggest chunk, other than crude costs, of gasoline prices; that is, taxes. I'm confused why we would waste our energy trying to reduce and conflate the issue about alleged anti-competitive behaviour here when in fact the biggest problem, the biggest chunk that we can act on, is fuel costs. That's my first question.

● (1235)

The Chair: Ms. Savage, I think you wanted to respond. Go ahead.

Mrs. Jane Savage: First of all, let's stick with facts. I'm not sure if I heard an accusation there that perhaps there weren't facts coming from this panel.

First, the investigations into anti-competitive behaviour that have taken place thus far in the oil industry are completely focused on the retail side of the business. The retail side of the business is very competitive because of independents operating there.

Mr. Michael Chong: No, I understand that. My question was, what evidence do you have? You alleged anti-competitive behaviour going on in the wholesale market.

Mrs. Jane Savage: That's right.

Mr. Michael Chong: What empirical studies can you point to that have been done by economists that point to anti-competitive behaviours that are going on in the wholesale market?

Mrs. Jane Savage: All we're asking for is an investigation into the wholesale market. We are asking—

Mr. Michael Chong: Fair enough, but it was alleged.... I might have misunderstood the testimony, but I—

Voices: [*Editor's Note: Inaudible]*

Mr. Michael Chong: What I heard in testimony here was that there was anti-competitive behaviour going on in the wholesale market. My simple question is, where is that information coming from? What studies can you point this committee to so that we can take a look at that?

The Chair: We're going to ask the witnesses that very question.

Ms. Savage.

Mrs. Jane Savage: We are suggesting in our submission here that the Competition Bureau and parliamentarians sponsor an investigation into the wholesale level of gasoline pricing in this country.

To answer the question specifically, the evidence for that comes from the way the markets behaved, as I pointed out, during the.... When Hurricane Katrina blew through, it just amplified how the markets work. The Competition Bureau has done many studies—at least six, I think—on the retail markets. We're not suggesting that be repeated. We suggest a whole new study be done on another level, at the level of wholesale, which underpins retail markets.

There is only a little sliver of price difference between wholesale markets and retail markets. It's all underneath wholesale. And with only a handful of refiners, I think it's incumbent on our officials to protect Canadians and do this investigation.

[*Translation*]

Ms. Sonia Marcotte: As regards what has happened in the refining industry, I think that we must look at what has caused the price of gas to go up. Let us look for example at the United States. That market directly influences prices here, in Canada. For the past 20 years in the United States, there has been a streamlining of refineries, of industry players.

For example, in 1981, 189 companies operated 324 refineries. Twenty years later, in 2001, there were only 65 companies left, that operated 155 refineries. Of these 65 companies, the 15 largest control almost 80 per cent of production capacity, or 79.3 per cent. We noted that the mergers, acquisitions, and closures of refineries had given rise to a situation where concentration created artificial scarcity. Today, we are victims of this artificial scarcity. This is one phenomenon that must be dealt with. Taxes are not causing the price of gas to increase; this is due to the situation created in the refining industry.

For our part, we are proposing the creation of a fund by way of a tax that could be collected on refiners' excessive profits. Part of the fund could be allocated to companies or refineries that decide to become involved in building new refineries. That way, we could increase the number of refineries. It would be a long-term process, but it must be done to lessen concentration in the refining industry.

[*English*]

The Chair: Thank you, Ms. Marcotte.

Thank you, Michael.

Paul, please.

Mr. Tajdin Esmail: May I say something, Mr. Chair?

The Chair: Very briefly.

Mr. Tajdin Esmail: Basically, all I would like to say is that as an independent retailer, when I see that oil companies are raking in huge profits—and most of the profits are raked in through wholesale rather than retail margins—I believe there is something wrong out there.

The Chair: Michael.

Mr. Michael Chong: I want to thank the witnesses for answering the question. I would like to go on record here to say that what we have heard in testimony today is that in fact there is no hard evidence of anti-competitive behaviours going on in the wholesale market, that there may be anti-competitive behaviours going on and that the committee should investigate, but the fact is that taxes make up the largest chunk and there's something we can do today about it.

● (1240)

The Chair: Point made.

Okay, Paul.

Thank you.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman.

I would like to reassure the witnesses: no member believes that committee work is a smokescreen. They believe that the work can be useful, and that is why we do it. The motion we moved to have the committee sit received unanimous support. We wanted to hear proposals, and each of you has made such proposals this morning. We are hearing about an investigation on price-fixing, about separating oil companies from retailers, about the Competition Act. The United States has just tackled the issue. This morning, we learned that they have just initiated an investigation into the US markets.

The suggestion of imposing a tax is of great interest to me, and I would like you to get us more details. This will also answer the question I put to oil industry representatives—representatives of the major oil companies. I asked them what kind of solutions they would suggest. They talked about having the market operate properly. Your tax could constitute an advantage for the oil companies. If I understand correctly, their situation can be compared to that of wood producers who engage in forest management: if they do the work, they do not have to pay the tax.

Could we do something to ensure that, in five or ten years, we have additional refineries in Canada, and go some way towards finding a solution? Is there anything we can do about the amount of gas available during speculative periods?

Ms. Sonia Marcotte: I think that a special tax on excessive profits would be redistributed to refineries that decided to increase the refinery pool, to set up more refinery units and additional refineries to help the market. Obviously, this is a long-term process, but we need to consider it.

Mr. Paul Crête: Would the tax be associated with the company's overall profits? Could it not be related solely to refinery margin profits, ensuring that the US does not invade Canada to buy gas? Is that approach possible, or do you think the tax should be on overall profits ?

Ms. Sonia Marcotte: We did mean excessive margins, but I do believe the government would do well to establish a committee of independent experts to study the issue and determine what excessive profits for a refinery would be.

Mr. Paul Crête: For example, if a petroleum products monitoring office were established, as we have requested, this could be its first task.

Would a reasonable profit before a tax was imposed be 6¢, 7¢, or 10¢? A reasonable margin might be 7¢, but could you set it at around 10¢ before the tax kicks in to ensure that the tax really did apply to excessive profit?

Ms. Sonia Marcotte: We say that a refinery is doing well when it takes a margin of 4¢ to 6¢ to process crude oil into gasoline. That is considered reasonable. However, we could consider excessive profit to begin as of 10¢.

Mr. Paul Crête: I would like the representative of the Groupe Pétrolier Norcan to clarify his question—I am very concerned by the fact that your existence might be jeopardized if nothing is done. Tell me something about your company, and tell us what repercussions the current situation will have if it persists.

Mr. Gary Garcin: Norcan is a private company with four equal shareholders. One is Suncor Energy, a silent shareholder. The other three are independents made up of gas station and heating oil networks. They include MacEwen Petroleum Inc., from Eastern l'Ontario, Pétro-T, a Drummondville independent that also covers Quebec, and the Federated Coop, which retails under the Sonic name. We also sell to most independents, including Pétroles Crevier, Loucar outlets, or the Groupe Harnois.

We are almost exclusively importers, because at present we are not in a position to buy products from local refineries. Now that PetroCan has shut down in Ontario, Quebec's need for products is greater, and imports also come in through another refinery in Quebec.

When we import products, we are always a risk for local refineries because we frequently do not have a reasonable profit margin, not even to cover our expenses. Our operating costs are 0.5¢ a litre, and all refineries know that. Sometimes, when we are their client, we have to give them financial statements and they end up knowing everything about us.

However, on average, we can rarely clear 30 to 40 points a litre after operating expenses. In other words, if for one year we get 0.5¢ a litre after all expenses and before tax, in comparison with the huge refinery margins, we are very happy. We are a private company, and our role is to supply independents.

● (1245)

Mr. Paul Crête: I have one last question.

Ms. Savage, you are asking for an inquiry on the fixing of wholesale prices in Canada. We know that under the current Competition Act , this is not part of the Competition Commissioner's mandate. In your view, who should conduct that investigation?

I think the investigation might be a good idea, but before we ask the government to go ahead we should know who will conduct the investigation. I have seen this happen before: the Competition Office tells us that the minister is dealing with it, but when we ask the minister he tells us the Competition Office is dealing with it.

What is your view? Would you like the government to task someone with this?

[*English*]

Mrs. Jane Savage: First of all, I'm surprised to hear that the Competition Bureau views this as not being their mandate. This surprises me. The Competition Act reads very clearly that it is the intent of the Competition Act to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy in order to provide consumers with competitive prices and product choices.

[*Translation*]

Mr. Paul Crête: We will need proof there was collusion, or something close to it. Evidence equivalent to legal evidence would have to be submitted. We would then see whether such evidence was available. However, this is difficult because we are told there is no collusion, and that there is insufficient evidence to initiate an investigation.

[*English*]

The Chair: Merci, Paul.

Final comments before we go to Denis and then Brian.

Mrs. Jane Savage: Therein lies the issue. I think you've hit the nail right on the head in that the Competition Bureau says to us regularly, when we bring issues of anti-competitive behaviour to their attention, that we must come with evidence. What we come with is evidence from our jurisdiction of what we see. What we don't have is the enforcement and gathering provisions that the bureau has. The bureau is a very large organization with an enforcement branch as well as a policy branch, and we see action on neither. We see neither enforcement nor effective policy change. We're just confused, perhaps as much as you are, as to how this....

So I don't have the answer to that. How do we launch this investigation? I leave it to you, the parliamentarians, to address that issue.

The Chair: Thank you.

Denis.

[*Translation*]

Hon. Denis Coderre (Bourassa, Lib.): Thank you, Mr. Chairman.

This is my first opportunity to make some comments after having heard from the full gamut of producers and associations, including those representing the independent's sector. We have enough lobbyists here today to have ourselves a party.

At the moment, everybody who calls me feels that they are being fleeced, and that this is an issue which will affect everybody. Is this the government's fault?

My friend appears confused; you must forgive him as his strategy has been blown out of the water. He is quite beside himself: it is no longer the government, but the refiners who are to blame.

Can the situation be attributed to the scheming and conniving of the independent sector? Can it be put down to the alleged collusion? All that I know is that something has to be done. There is a general perception that vacations, long weekends, and whatever else, tend to coincide with a 10 or 15¢ rise in the price of gas. It is as if all the players gave each other the nod. The same thing always happens. The purpose of this committee is to get to the bottom of the situation. Personally, I am not confused; I simply want to understand exactly what is going on. What are the root causes of these price hikes? The producers claim that they are not to blame and that we should turn to the refiners. The refiners, however, state that they are simply following the Americans.

And then, along came hurricane Katrina. The figures tell us that, compared to other years, the supply of crude that we have available is perfectly adequate. We are left wondering whether we are not simply witnessing large-scale speculation. It is impossible to make heads or tails of the situation.

Personally, I am trying to take an objective look at the situation and work out how a taxi driver working 15 hours a day will be able to survive. I appreciate that profit is not inherently bad, as long as it is not excessive. However, I also appreciate that truck drivers in the forestry sector need gas to continue working, yet these shameful prices may result in some of them being forced to grind to a halt. We have spoken of industries which are vulnerable to closure, and the same could be said of certain regions. As members of Parliament and representatives of the people, our role is to ensure a level of fairness.

I would like you to elaborate further both on the matter of taxation, and measures which the government could take. For example, if there were to be a supplementary tax on gas, every rise in the price of gas would result in a certain amount of money going into the pot. This would mean that each time there is an excessive increase in the price of gas, the government could put the money it collected into a fund for the sectors which have been most affected. Would that be a possible means of redistributing the wealth?

You went on to say that a tax should be levied on the refiners, a tax which those refiners able to build new refineries would not have to pay as they would have already paid their due to society. Ultramar owns a large number of refineries whereas some companies have not built any. If we follow that logic, we would be punishing those who had built only a few or no refineries, while thanking the others for their work. Have I understood you correctly?

Lastly, we come to the issue of excessive profits. It is all very well to say that there are excessive profits and that it is the fault of the big bad wolf. It sounds good on the news. It has an impact. But I am trying to understand what is meant by "excessive profits". Basically, you are saying that a group of experts will define what is meant by excessive profit, and that this definition will be taken into consideration in all policies that are to be implemented. In layman's terms, I take this to mean that we will be able to understand why the consumer is paying so much at the pump and what can be done about it. Consumers know that we have to cut consumption. Consumers understand climate change, be it hurricane Katrina or hurricane Rita...

I also understand that we are at the mercy of the environment. As citizens of the world, it is time for us to face up to our responsibilities. What can you do to help us create a just and fair system so that people do not feel that they are being had somewhere along the line?

● (1250)

Mr. René Blouin: First, Mr. Coderre, in response to your earlier remarks, we do not want any additional gas tax, on the contrary. Your colleague has made it clear that there were already enough taxes. We agree with him and will leave that one where it is. That is not what causes price hikes.

Furthermore, when you talked about reallocating the money, you gave the example of Ultramar or other companies which do not have many refineries, but that would not be the purpose of such redistribution. This reallocation would apply to new projects, that is new refineries. The problem that we are facing today, as Ms. Marcotte explained earlier, is structural. It is not a problem we can fix overnight. We can solve the problem by ramping up production. That is the only way to ensure that supply matches demand.

As you have seen, the American Congress is taking an interest in these issues. I would think it appropriate for the Canadian Parliament to do likewise. As you know it would not be in the best interest of refineries should things change, and if you need convincing on this, just take a look at their next quarterly reports. Look under the refineries column and you will understand why it is important to encourage them to change their ways. And to do this, there is no better way than to talk money. Money talks. If we were to grab a significant chunk of their excessive profits and then give them back a sizable portion of this, and if that had the desired effect of making them tackle the structural problem, then we will have served the community and all Canadians will benefit.

● (1255)

Hon. Denis Coderre: But how do you define excessive profits? I agree that you need to take a stand against profiteering? And that is where we are at right now. We do not want to prevent companies from making a profit, you make a profit too. How do we determine at which point profit becomes profiteering? When we work that out, we will be in a good position to do a lot, but how do we get to that point? That is also where the problems lies.

Mr. René Blouin: As Ms. Sonia Marcotte suggested, I believe there is a panel of experts looking at this issue and how, generally speaking, profitable companies in other sectors do things. So the point is to compare the substantial profits enjoyed by some companies in other sectors with those of the refining industry. This would be a way of drawing a line in the sand, and of having a general understanding of where very substantial profits are on the yardstick after you factor in investment and production costs. In this way, we will be able to determine whether or not it is normal for the wholesale price of an essential commodity like gas to be three, four, five or ten times the production cost, as recently occurred. I do not believe that it is normal. I think that such an exercise really needs to be carried out in a rigorous and scientific fashion. It is for this very reason that we should not throw out figures without having them based on an objective and, importantly, independent study.

We have to be careful when dealing with the oil industry as there are a lot of experts or so-called experts that land a lot of contracts from these companies. We need to make sure that such experts are not connected in any way with these companies.

The Chair: Thank you, Mr. Blouin.

Brian Masse, please.

[*English*]

Mr. Brian Masse: Thank you, Mr. Chair.

One of the most frustrating things for consumers and businesses and I think the general public is the fact that on this issue we seem to have absolutely no ability to have any influence or control.

Some of the testimony we had earlier was interesting. The Canadian Association of Petroleum Producers were asked a question about dual pricing. That's something that actually happens in many countries across the world where you have energy exports at a higher rate than imports. We can't do it because of NAFTA, but I thought their incredible amount of arrogance, from their answer, shows something. The fact that they basically said, "Screw you, we'll send our gas over to the United States, and let industries and consumers suffer" is shocking in its arrogance; that they would let everybody else be subjected to their power, with no consideration for the fact that it would cost Canadian jobs and cost consumers and no consideration for the direction of a country.

I am very frustrated in coming back here. In 2003 we studied this; we spent a lot of time on it. We had a recommendation to create at least a watchdog petroleum monitoring agency—something, so at least there would be some end to the confusion, some ability to have independence, to be able to challenge the system that exists.

First I'd like to ask if your organization supports such a manoeuvre. Second, how else or by what other suggestions can we get greater accountability to Canadians?

I understand from the people in my constituency that they don't mind having to pay prices if they're considered fair, whether it be for oil or gas, whether it be for automobiles, whether it be for groceries. They don't mind that. But what's happening today in my community, where indiscriminately we're paying additional prices.... I can tell you, that gas that's in the ground in the tanks is not at the same price it was refined at, but it is now jacked up 20% to 30%. They're being gouged.

What are the things we can do, in your eyes, that would at least put some accountability on this issue?

The Chair: Ms. Savage.

Mrs. Jane Savage: In terms of accountability, I think that is the key thing. I think Canadian consumers have been, frankly, awfully quiet on this issue. You may think differently. The fact that oil companies are not held accountable to these massive profits on the backs of people who have been devastated by this hurricane, as an example.... In addition to that, from an accountability point of view, again, we remain in some kind of state of shock, I have to admit.

With regard to our accredited competition watchdog, which consumers as well as small business people rely on to give us some assurance that competition in our markets is fair, those people absolve responsibility. They seem to completely.... They say we have to bring the evidence. They say that's not their area.

I think we need to be very clear about what government's role is here, what should government do. As a minimum, we need a very strong competition watchdog, number one, both to enforce the existing act and, where the existing act falls down, as we see, time and time again, to make recommendations to Parliament to revise that act in an effective way.

● (1300)

Mr. Brian Masse: With regard to the Petro-Canada closure, we had discussions with Petro-Canada here today, and they admitted there was actually no refining on the horizon for North America and that we are at capacity. I was surprised by the lack of investment in that facility. We also heard about the fact that we're losing the technical skills and those people. We lost those jobs as well, and the refining sector is gone.

Do you think it had an impact or can have an impact if we continue to increase our refining capacity in Canada to at least be able to have redundancy and security for the industry and also for the industries that are supported by having product available as opposed to having speculation drive the day?

Mr. Gary Garcin: I'd like to tell you what has happened to the independents in Quebec, in particular to the independent importer, with the shutdown of Petro-Canada. Between 2001 and 2004, most of the cargoes of gasoline and diesel that Norcan, which is basically the sole importer remaining in eastern Canada, was buying were from Ultramar. But when Petro-Canada decided they were going to shut down their refinery in Oakville, they turned and made a deal with Ultramar to supply part of the shortage. They also did a deal to cover another part of it with Neste Oil, which is the Finnish company. As a result, we at Norcan find ourselves in the position that we can't get local supply; we have to import it. We're forced to import in a market that is controlled by Ultramar. They know the import costs, because when you're dealing with importers, everybody deals with the same brokers. It's like a mirror; everybody talks to each other. Naturally they know what the operating costs are, and they also set the wholesale price. That's what's happened with the shutdown of Petro-Canada.

Going forward, Petro-Canada will do bottlenecking and expansion of their refinery in Montreal. Ultramar will probably do an expansion of their refinery in Quebec City, which will probably occur over the next two to three years. What that will cover is only the shortfall in refining capacity we have today, and that increased capacity will probably just cover the increased demand. So we're still going to be in a situation of being an importer of gasoline to eastern Canada.

Mr. Brian Masse: Thank you.

The Chair: Thank you very much, and thank you to our witnesses.

We'll break for lunch and reconvene here as close to 1:30 as we can. I'll be in my chair at 1:30 at least, and I hope everybody else will be here. We'll discuss John Duncan's motion and the question of tomorrow at 4:30, at the end of this afternoon's session.

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