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Chair

Mr. Brent St. Denis

Standing Committee on Industry, Natural Resources, Science and Technology

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● (1335)

[*English*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): Good afternoon, everyone. We're going to continue our hearings this afternoon on gas prices in Canada in light of the recent and continuing events.

There's a message from one of my constituents that prices in Blind River are at $1.80 this morning. So it's very timely that we are doing this.

I underline that we are not out to point fingers and to lay blame, but to try to understand better on behalf of Canadians what is going on and what is the relationship among the pieces of the oil chain puzzle.

We are starting out this afternoon with officials from the Department of Finance and Natural Resources Canada.

Mr. Nadeau, will you be speaking for the Department of Finance or will Mr. Trueman?

[*Translation*]

Mr. Serge Nadeau (General Director, Analysis, Tax Policy Branch, Department of Finance): Mr. Chairman, I will take the floor.

[*English*]

The Chair: Okay.

For Natural Resources Canada, it will be Mr. Brown.

The clerk probably asked in advance that you try to keep your remarks to five or six minutes or so. I'll invite you to speak in the order in which I have you.

Mr. Nadeau, we'll invite you to start, sir. Thank you.

[*Translation*]

Mr. Serge Nadeau: Thank you, Mr. Chairman.

My name is Serge Nadeau and I am the General Director of Analysis in the Tax Policy Branch of the federal Department of Finance.

I am here today to give you a brief overview of federal taxation of oil products, in particular gasoline. The recent increases in retail fuel prices have attracted the attention of the media and the public to the subject of the taxation of oil products. I am happy to have this opportunity to explain the federal taxation regime in this area.

Federal taxation on oil products has two components: the specific federal excise tax, applied at a fixed rate to specific oil products, and the Goods and Services Tax, the GST, applied to oil products generally.

I will speak first about the excise tax and then the GST.

[*English*]

The federal government levies excise taxes on gasoline, aviation gasoline, diesel, and aviation fuel. There are no federal excise taxes applicable to other kinds of fuels, such as home heating oil, propane, natural gas, or electricity. The federal excise tax on gasoline and aviation gasoline is levied at the rate of 10% per litre, while the federal excise tax on diesel and aviation fuel is imposed at a rate of 4¢ per litre. Those are fixed amounts that do not—

The Chair: A point of order?

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Yes, I have a question, thank you.

I think, Mr. Nadeau, you said 10%. Did you mean 10¢ per litre or 10%?

Mr. Serge Nadeau: I meant 10¢. I'm sorry.

● (1340)

Mr. Werner Schmidt: It's a huge difference.

The Chair: You've certainly proven that you're listening to the testimony. Thank you, Werner. That was a test for you and you passed.

Mr. Werner Schmidt: Thank you.

The Chair: Mr. Nadeau, please.

Mr. Serge Nadeau: Sorry, that's very important, it's 10¢ per litre, while the federal excise tax on diesel and aviation fuel is imposed at a rate of 4¢ per litre. These are fixed amounts that do not vary with changes in the retail price of fuel. This means that revenues from federal excise taxes are a function of the volume of the fuel that is sold but not the retail price. Accordingly, the recent increases in retail prices for gasoline and diesel fuel do not have any positive impact on federal excise tax revenues. In fact, to the extent that high pump prices cause motorists to drive less and reduce their consumption of motor fuels, federal excise tax could actually decline.

Before leaving the excise taxation of fuel, I would like to highlight an important initiative recently undertaken by the Government of Canada. In budget 2005 the government delivered on its commitment to share with cities and communities a portion of the revenue from the excise tax on gasoline to support environmentally sustainable infrastructure. Beginning in 2005-06, funding for this initiative will ramp up over five years to a total of $5 billion. By 2009-10 funding will amount to $2 billion per year or the revenue equivalent of one-half the federal excise tax on gasoline.

That concludes my overview on the federal excise taxation of fuel.

I would like now to turn to the goods and services tax. The goods and services tax, or GST, is levied on most goods and services in Canada, including petroleum products such as gasoline, diesel fuel, home heating oil, natural gas, and propane. The GST is levied on an *ad valorem* basis at the rate of 7% of the final selling price for goods and services. Maintaining a broad base allows the GST to be levied at a relatively low rate and makes compliance with the tax easier for businesses.

One of the key features of the GST is that businesses are able to claim full refunds in respect of the GST they incur when purchasing goods and services that are used to make taxable supplies. This means that most commercial enterprises are able to claim full input tax credits in respect to the GST they pay on their purchases of petroleum products, including gasoline and diesel fuel.

For individual customers the GST low-income credit is designed to help offset the impact of the GST for those most in need. Because the GST is levied as a percentage of the final price, GST revenues are variable with changes in the final selling price of goods and services. For example, an increase of 10¢ per litre in the retail price of gasoline will lead to an additional amount of GST of roughly 0.7¢ per litre. This additional GST does not necessarily imply that the overall fiscal impact on federal revenue is positive. To the extent that increased spending on one commodity such as gasoline results in reduced consumption of other goods and services, then the net impact on aggregate GST revenues may well be negligible. In addition, increases in the selling price of certain goods, including gasoline and home heating fuels, affect the consumer price index, which in turn results in increased benefit payables by the Government of Canada under programs such as the GST low-income credit, the Canada child tax benefit, old age security, and the guaranteed income supplement.

As a final note with respect to the GST, I would like to take this opportunity to briefly address the issue of tax on tax.

As noted, the GST applies to the final selling price for goods and services. For petroleum products such as gasoline and diesel fuel the final selling price will include the federal and provincial excise and product taxes that are embedded in the cost of the fuel before the retail level. Accordingly, the notion of tax on tax refers to the fact that the GST is levied on the final selling price, including federal and provincial taxes that are imposed on the producer or importer, or at the wholesale level, and that are embedded in the final selling price. The GST is not, however, levied on top of *ad valorem* provincial sales taxes that are levied on gasoline at the pump. In fact, the amount of tax on tax is relatively small.

The average amount of embedded tax is about 25¢ per litre of gasoline sold in Canada, comprised of the 10¢ federal excise tax and an average provincial tax of 15¢. The amount of additional GST attributable to tax on tax is therefore less than 2¢ per litre. In fact, 7% of 25¢ is 1.75¢.

● (1345)

It is worth noting that the amount of tax on tax does not vary with changes in the retail price of gasoline, because it applies to excise taxes that do not vary with the price of gasoline. Leaving the GST on the final selling price is a long-standing approach that greatly simplifies administration of the tax. Rather than having to back out various federal and provincial excise and product taxes, vendors of motor fuels are able to calculate GST on the basis of the final selling price in the same manner as they do for other goods and services they sell.

Similarly, businesses purchasing motor fuel are able to calculate and claim input tax credits on a basis that is consistent with other taxable supplies they might purchase.

[*Translation*]

I will end here and I am prepared to answer your questions.

[*English*]

The Chair: Thank you, Mr. Nadeau.

Mr. Brown, please.

Mr. Howard Brown (Assistant Deputy Minister, Department of Natural Resources): Mr. Chairman, I tabled a statement. I believe it has been made available to you and the other members of the committee. I could read that if you want. Or in the interest of time, I could just make some opening remarks.

The Chair: If you have a summary that's five or six minutes long, that would be great.

Thank you.

Mr. Howard Brown: Mr. Chairman, I'm going to begin by stating something that I think is obvious but that we tend to forget from time to time, and that is that energy is very important to this country. In fact, I think it's fair to say that energy matters more to the Canadian economy than to any other advanced economy in the world. That's partly a reflection of our climate and geography, partly a reflection of our resource endowment, and partly a reflection of our industrial structure.

Given the importance of energy in Canada, it's natural that increases in energy prices will attract a great deal of attention. We're certainly all aware that gasoline prices in particular have increased dramatically in recent weeks. Much, indeed most, of the increase over the past few weeks has been weather-related. It's been due to the damage caused by Katrina and concerns that Rita is going to cause even more damage in the refining sector, and that's caused rather an anomalous situation where gasoline prices have increased much more rapidly than crude oil prices.

If you take a step back and look at longer-term trends, it's clear that gasoline prices move almost in lockstep with crude oil prices. Just as an example, the average price of gasoline countrywide was 73.2¢ in 2003. So far in 2005, it's averaged 89.4¢ a litre, an increase of just over 16¢. Of that, 14.7¢ was due to an increase in crude oil prices. About one cent was due to the GST on the increase, and about half a cent was a result of provincial taxes. In other words, the increase in gasoline prices over the longer term is fundamentally due to an increase in the price of crude oil.

Since January 2002, the price of crude oil has more than tripled. It has gone from $20 U.S. to $60 and more U.S. There are a number of reasons behind this very substantial increase in crude oil prices. Part of it is demand from non-traditional markets like China and India and other emerging markets. Just to give you a sense of how important that's been, in 2001 China and India accounted for less than 10% of world demand, but they represented over a third of the growth and demand between 2001 and the present. Partly as a result of that rapid growth in demand from non-traditional sources, OPEC's spare capacity has fallen from a traditional four to six million barrels a day to less than two million barrels a day at present.

At the same time as OPEC's spare capacity was falling, there were growing concerns in the markets about political stability in a number of important oil producer countries. That led to an increase in the risk premium on crude oil. In other words, people were willing to pay higher prices to ensure supply in the future. That risk premium may have been exacerbated by an increase in activity by non-commercial traders, or speculators if you will. They represented about 3.5% of the crude oil futures market in 2003 but over 20% by the summer of 2004.

Now, I'm sure it's of interest to the committee and to Canadians what government can do in the face of these large price increases. Here I'd note that the Minister of Finance has said that government is looking at ways to assist Canadians. I'm sure that an announcement about those deliberations will be forthcoming in the near future.

In addition, government can help Canadians become more efficient in the way they use energy. This is an area to which we attach a great deal of importance at Natural Resources Canada. If we're more efficient in the way we use energy, not only do we have more money left in the pocketbook at the end of the day, but we'll become more competitive as a country. That's important, given our industrial structure. We'll also be more secure and we'll have important environmental co-benefits. Natural Resources Canada has a number of programs to assist Canadians, Canadian households, and Canadian businesses to become more energy efficient. We also have a wide range of information available free of charge on our website. I'd be happy to provide the committee with the web address at the end of the hearing.

Mr. Chairman, that's what I had to say for opening remarks. I welcome your questions.

● (1350)

The Chair: Okay, thank you, Mr. Brown. Thank you both.

For this round I have Brad, Larry, Mark, and Andy or Jerry, so we'll start with Brad, please. Brad Trost.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chairman.

I have questions for both gentlemen, and I appreciate both of their presentations.

In the Department of Natural Resources briefing, point number 20 caught my eye and struck me as somewhat interesting. I'll read the full statement, so it's all in context:

> As you know, these programs are also a key component of our efforts to reduce the greenhouse gas emissions generated by the consumption of fossil fuels. Indeed, this is a way to respond to rising energy prices in a way that doesn't compromise our environmental objectives by

—and this is what caught my eye—

> dampening the incentive to conserve.

Now, we heard from other witnesses earlier today that the way to push the prices down was to lessen demand. Anyone who has an economics background knows the most effective way that consumers respond to demand is price. So I gathered from his remark that high prices were a good thing. That's essentially what he was arguing. And this statement here says again “dampening the incentive to conserve”.

So I'm gathering from this, and correct me if I'm wrong, that the belief is that high prices are actually a good thing, a necessary thing. A lot of the questions today have been about prices being too high, but maybe the position of the department, the position of the government, is that high prices are good and we shouldn't do anything.

The environment minister has come out with that position. Is that the position of the department, that we need high prices, that taxes are good where they are, and maybe even higher prices would be better to put more pressure on the demand side?

Mr. Howard Brown: I guess I'd respond to your question on whether high prices are good or bad by saying that they're neither good nor bad, or alternatively, that it depends on which side of the market you're on. I think that anybody who is selling a house is delighted when house prices are high; if you're buying, you're perhaps more delighted when they're low.

I think the reality is that the price we pay in Canada for energy, and particularly petroleum products, is fundamentally determined in world markets by supply and demand. The price we see at the pumps fundamentally reflects that global supply and demand balance. Many economists maintain the case that higher prices, other things being equal, will dampen demand. I personally believe that this is true, and I think we've seen many examples of it.

I guess the question is whether it is enough to say that the market will work and people will respond to an increase in prices in the fullness of time, or whether there is a role for governments to assist both businesses and households to respond to those higher prices through information and through assistance. I think the fact that we place as much emphasis as we do at Natural Resources Canada on energy efficiency, and the fact that the government has programs to assist businesses and households, answers the question. The government does believe there is a role here for it, not to replace the workings of the market, but rather to help businesses, small and medium-sized enterprises, and individual Canadians respond to the dynamics of the marketplace.

Mr. Bradley Trost: I basically agree with your statement that world prices dictate, but again, one thing that world prices don't dictate in our cost of fuel is the underlying cost of taxes. Maybe this is why the government has considered a carbon tax, because if they feel prices are generally too low and want the price of gasoline to rise more than it is now, maybe they're quite happy with the situation. Again, the environment minister seems to have indicated that.

This leads me to my next questions, over to the finance department official. Overall you concentrated on the excise tax and the GST tax. Those are the two direct taxes that we see right at the pump. But the Government of Canada gets a lot more revenue from the overall oil and gas industry altogether. With higher oil prices the oil companies are making more profits. The government is not refusing their tax dollars when it comes to corporate taxes. Wages in the oil industry have gone up. There are more and more people employed there.

Does the department keep track? Does the department have some way of calculating the extra windfall the government will be generating in indirect taxes—specifically the extra corporate tax revenue they're gathering from oil companies, refineries, producers—upstream, downstream, it doesn't matter? Do they have some way of calculating what the extra revenue is from the extra employment? I know in Saskatchewan, Alberta, and Newfoundland, and in the Peace River district up in B.C., a lot more people are being hired at much higher wages. Do you have numbers, or can you get this committee numbers to find out what the government windfall is, due to those extra revenues coming in from those streams?

● (1355)

Mr. Serge Nadeau: We don't have accurate numbers of that at this time, but the notion is that we don't expect the impact of extra revenues to be very significant on the positive side. You mentioned that, yes, the government will probably collect more revenues from oil and gas companies because of higher profits. On the other hand, though, as I mentioned in my opening remarks, we'll collect probably less tax in terms of excise taxes because consumption, or the demand for these products, will go down and also because this will have an impact on the indexing of income-tested benefits such as old age security and the guaranteed income supplement and the child tax benefit. As well, it will reduce taxes collected from the personal income tax system because of the higher indexing that will occur because of the increase in the CPI due to higher energy costs.

Mr. Bradley Trost: I have one final question. One of the things we heard about today was a dispute about whether there is enough refinery capacity. One set of witnesses indicated they're barely making a living at it; the other set of witnesses seemed to indicate there is just tons of money being trucked in. Has the finance department looked at what changes in taxation, be it capital depreciation rates, etc., might have on the refinery business in Canada and North America?

It is a North American market. I understand that. But if this committee does determine that is where there is a problem and there needs to be more competition and more capacity in the refining, would we be able to or has the department looked at how the tax system might be able to be used as an incentive?

Mr. Serge Nadeau: The Department of Finance and the government are striving to have, for example, a capital cost allowance that reflects the useful life of equipment, be it equipment in the oil and gas sector or in other sectors. At this time I am not aware of major discrepancies, for example in terms of capital cost allowances as they apply to the gas and oil sector.

Mr. Bradley Trost: But again, the one thing the government could do quickly to influence the price of fuel would be to cut taxes one way or the other. That's the one thing they could do immediately. Correct?

Mr. Serge Nadeau: First of all, one issue is whether or not the tax reductions, for example, would be reflected fully in the prices at the pump.

Mr. Bradley Trost: A tax hike would push down the margins, so if we hiked the taxes, the producers would just drop their margins on the other side, then. That would be the reverse logic, then, if tax cuts don't show the—

The Chair: We're going to wrap up this round.

Go ahead, Monsieur.

Mr. Serge Nadeau: I'm not sure if I understood the question. Are you asking if the government is considering hiking taxes on oil and gas?

Mr. Bradley Trost: No, I was saying that if a tax cut won't cut the prices, then a tax hike won't hike the prices. The same logic could be applied.

● (1400)

Mr. Serge Nadeau: Currently, I think the issue is that there are very wide variations in prices at the pump. For example, I live in Orleans, and between the morning and the evening, there is about a 7¢ to 10¢ variation in the price of a litre of gas, so it's not clear what the influence of reducing taxes would be in terms of these variations in prices. That's what I mean.

The Chair: Mr. Brown, I'll let you finish up.

Mr. Howard Brown: Mr. Chairman, if you would just permit me an observation on the question about supply, I don't doubt that business would appreciate a reduction in tax, but I think that to encourage not only the construction of new refineries but also the other energy infrastructure that this country is going to need, we have to become more efficient in the way we regulate.

I think it's probably the number one disincentive to invest in Canada. When you look at the kind of massive investment in energy infrastructure we need over the next 20 to 30 years, this is really a critical question. Are we going to have the power plants and the pipelines and the transmission lines and the refineries and so on?

You'll be aware, of course, that the government launched a very important smart regulation initiative last year, and I think it's very important that we in government live up to the promises we made there.

I hasten to add I'm not talking about weakening regulation. Regulation has to be effective. I think all Canadians want assurances that the environment is being protected and that the safety of workers is being protected and so on. Costly regulation is not the same thing as effective regulation.

The Chair: Thank you, Mr. Brown.

Paul.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you very much, Mr. Chairman.

Thank you for your presentations. Over the past few years, we have lived through some rather unusual situations relating to sudden increases in prices. We have just be through one, and a hurricane may be about to put us through another. You say in your text with respect to energy that prices will remain vulnerable to upward pressures and will be much higher than last year.

Does the federal government have an action plan to deal with this new reality? Of course, we could be taken by surprise once or two in such a situation, but if we are taken by surprise a third time without reacting, some people will think that we are not doing our jobs.

What is the government action plan, other than just waiting?

[*English*]

Mr. Howard Brown: As I mentioned, prices for crude oil are determined on world markets. Clearly, it's very difficult and probably undesirable for the Government of Canada to try to change that market dynamic.

The best way for Canadians and Canadian businesses to weather these price shocks, these very substantial increases, is to become more efficient in the way we use energy. It makes us more secure to these kinds of shocks. It makes us more competitive and more prosperous. It's good for the environment.

As I mentioned, we have a number of programs—

[*Translation*]

Mr. Paul Crête: Of course, that must be done to make it as effective as possible, but if another situation of this kind should arise, the rest will not be done. You say that it is not to Canada's advantage to take action at the international level. I am not telling you to control prices in Canada in contract with the rest of the market. However, couldn't this problem be raised by the Prime Minister, at a G8 meeting, for example?

Finally, I would like to know what the government's action plan is regarding these new situations. In my opinion, the price of gasoline means that the rest of the economy is currently being held hostage. People are going bankrupt as a result, and the situation is serious. I would like to know what your findings are regarding action to be taken, either in your department or in the Department of Finance.

[*English*]

Mr. Howard Brown: Faced with high prices, there are fundamentally three things you can do: you can increase supply, you can reduce demand, and over the longer term you can try to transform the nature of the market. The government is taking action in all three of those areas. I've mentioned energy efficiency programs, for example. I've mentioned the importance of smart regulation in encouraging supply in Canada. And we have a very active science and technology program.

At Natural Resources Canada, we feel there's room for expansion of those programs. And it's natural for a department responsible for this to feel that way. We've had initial discussions with the Department of Finance, and they will continue.

In addition to those ongoing policies to promote supply, reduce demand, and transform the market, the Minister of Finance has said that the government is looking at ways to assist Canadians in the short term in responding to this shock.

● (1405)

[*Translation*]

Mr. Paul Crête: Here, you tell us about everything you have already done, and that is what brought us to the present situation. We already have very high refining profit margins. In the text, you give a very good description of the new market reality, but what, in the next chapter, will allow us to win out in the face of it?

At present, independent truckers and forestry workers are going bankrupt. The effects of this price rise have been transferred directly onto their shoulders, and no action has been taken to ensure that the wealth is redistributed. It is like it had been moved. If this were only from temporary, the situation would be less serious. However, as you yourselves say, it may very well continue. Prices are going to remain high.

It would perhaps be interesting to see what the Department of Finance intends to do.

Mr. Serge Nadeau: First, we can say that prices are no longer at the peaks reached earlier; there has been a drop.

Mr. Paul Crête: It is the same old story. However, prices go up again every two years. They hope public opinion will have had time to cool off and then start all over again.

Mr. Serge Nadeau: Over the past two weeks, since Katrina, let's say there has been a good drop.

Mr. Paul Crête: Gas is still 25¢ or 30¢ more than at the beginning of the year. That is a 30 per cent...

Mr. Serge Nadeau: Gasoline is certainly more expensive now than at the beginning of the year. However, it would perhaps be reckless to take permanent action on the basis of a spike in prices that lasted about three weeks or a month.

Mr. Paul Crête: The increase since the beginning of 2005 has varied from 78¢ to $1.05, $1.10, $1.35 . If we put that over one year, we cannot say it is temporary.

Mr. Serge Nadeau: First of all, most of the increase did take place over the past month.

Secondly, the Minister of Finance mentioned that means would have to be found to provide short-term assistance, at least to facilitate adaptation to the new price rises. However, this could be done in several ways. The minister announced...

Mr. Paul Crête: Excellent proposals have been made.

Mr. Serge Nadeau: In fact, I do have them here with me. However, the fact is that various alternatives must be examined very carefully, since we are, in this case, taking about hundreds of millions and possibly billions of dollars.

Mr. Paul Crête: There are two perspectives. You will have to change the situation in the long term and the short term. Can we redistribute wealth sufficiently so that there are negative effects?

It is a bit like during the Dirty Thirties, when there was no social assistance or employment insurance. They were brought in later in order to avoid such situations. Would there be some means of introducing measures that would have the same effect?

A big trucking company can guard against such situations since it has contracts that protect it for six months or a year. But the ordinary truck driver or forestry worker does not have such contracts. So would we have some way of doing that?

Mr. Serge Nadeau: As I said, the Minister of Finance is looking into the possibility of providing assistance. However, will it be for everyone or only for those with low incomes? That remains to be seen. Will there be assistance when all is said and done? The Minister of Finance will have to decide. I cannot speak for him.

Mr. Paul Crête: Then, the Minister must come and answer that question.

[*English*]

The Chair: Okay. Thank you very much.

Larry, and then Brian, please.

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

Mr. Brown, I have just one question. It has three parts, and it will probably take you the whole time to answer it.

I'm slightly concerned about three things that have come out in the discussion this morning. First, all anyone has talked about today to solve the problem of supply is refinery capacity. It is a fine topic of discussion, but the Government of Canada, in its policies, programs, and energy framework, is investing in a lot of other things on both the supply side and the demand side.

On the supply side there's ethanol, wind, bio-diesel fuel, micro hydro, solar, and other renewables. On the demand side—and it's very important—some governments forget the demand side, and we're doing a lot of work there. We're helping thousands of Canadians reduce energy in their homes. There are information programs on tire inflation, fuel efficiency of vehicles, and energy-saving appliances. I'd like you to just comment on any of that.

The second thing that concerns me or I'm interested in is that during this price crisis some Canadians are suggesting that we just nationalize industry. We have enough oil in Canada to supply ourselves. Just use it and have low prices. I wonder if you could comment on that and give us a bit of history of the results of the national energy program, when a similar procedure was put in place.

On the last thing, one point came out consistently this morning from all the witnesses. The biggest margin, the biggest hike in prices recently—not in the long term.... As you said, the long-term prices just went up and down with the crude, but the recent high pricing was at the wholesale level, the refineries. At the retail level there was very little change. At the tax level there was very little change. But there was a huge change—I think my colleague got the refiners to agree that it was about 80%—in the wholesale prices, which went up dramatically.

I wonder if Mr. Nadeau or Mr. Brown has a comment on whether there's anything Canada might do about that dramatic increase in the wholesale refinery pricing.

● (1410)

Mr. Howard Brown: Do we have until 2:30 to respond?

The Chair: Not in Larry's turn.

Mr. Howard Brown: You mentioned policies the government has in place to promote supply, and indeed we do have a number of them. Budget 2005 announced a quadrupling of the wind power production incentive to, I believe, $4 billion in total assistance to promote the supply of clean, renewable wind power. In addition to that, Budget 2005 also announced a renewable power production incentive to promote the supply of other clean technologies—biomass, and so on. In addition to those, we have an ethanol expansion program in place to promote renewable biofuels. So we have put a fair amount of money on the table to promote these non-traditional sources of supply.

I know I'm repeating myself, and I'm doing it intentionally, because I think it is very important. I think the most important thing and the most effective thing we can do to promote the supply of energy in this country is to be more efficient in the way we regulate. We need to remain at least as effective, or more effective than we are now, but we need to be more efficient in the way we do that.

With respect to demand programs, I have to confess I'm not an expert on this. It's actually my colleague, the assistant deputy minister of energy programs, who is the expert, but I do have a list here and I can give you a bit of a flavour of them. We have in place, for example, a program called EnerGuide for houses, which provides grants for energy efficiency renovations to home owners. We have a fleet vehicle initiative, which provides information, training, and workshops to managers of large vehicle fleets on how to become more energy efficient. We have an EnerGuide for vehicles that provides information on fuel consumption. We have an EnerGuide for industry that provides industry with energy efficiency information for equipment such as motors, pumps, transformers, compressors, boilers. For lighting products, we have a commercial building incentive program, and so on. So there's a lot of activity on the demand reduction side.

[*Translation*]

Mr. Paul Crête: Mr. Chairman, I invoke the Regulations.

Mr. Nadeau said just now that the price of gas had dropped. However, in Quebec, it is presently at $1.67, and in certain towns in Ontario, it is at $1.80 today. Yet, the price of crude is still $68, lower than the price that prevailed when Katrina struck.

[*English*]

The Chair: It's not a point of—

[*Translation*]

Mr. Paul Crête: That is a relevant piece of information, since it has just been stated that prices had dropped. Today, there was an increase...

[*English*]

The Chair: It's not exactly a point of order, but it's interesting information nonetheless.

Larry.

Hon. Larry Bagnell: He hasn't answered my two questions yet, the national energy program and retail.

The Chair: Okay, two minutes.

Mr. Howard Brown: I think it's fair to say that in the assessment of most analysts the national energy program, although an interesting experiment, was not particularly good for the country. It certainly reduced exploration, the development of reserves, and it seriously hurt the Canadian energy-producing sector. Were we to propose something like that today, I think it would provoke a federal-provincial crisis of massive proportions.

On refinery margins, I think people understand just how destructive Hurricane Katrina was in the southern United States. It took out refinery capacity roughly equivalent to the entire Canadian refining sector. That's a massive shock to supply. When you reduce supply like that, prices will go up. That's in the nature of markets. So I think in the short term there's very little we can do about that. After Katrina, we did see prices starting to come down quite quickly, which shows that the industry is actually quite good at putting capacity back into place. We would expect something similar to happen after the latest hurricane, depending on the level of damage.

Over the longer term, the best thing we can do to promote more reasonable prices in energy is to promote supply and to be more efficient in the way we use it.

● (1415)

The Chair: Thank you, Larry.

Next, John Duncan and Michael Chong are going to split a slot, so we'll be fair with you. Go ahead, Michael.

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

My questions are for Mr. Nadeau. I'll ask them all at once so that you can respond.

The first question is that you implied in your presentation to this committee that rising gas prices wouldn't increase government revenues. I know that you had the word “necessarily” in there. The fact that the word is in there implies to me, at the very least, that there won't be an increase in government revenues as a result of the rise in gas prices. Frankly, it doesn't seem believable to me. So one of my questions is whether the finance department is telling this committee that the rise in fuel prices this year won't have a positive impact on government revenues. If that's the case, I'm not sure it's something I believe. Maybe you could convince me otherwise.

The second question I have is that you seem to be fairly dismissive of our position of axing the tax on tax. You said it's only 2¢ per litre.

I'm not sure if the committee is aware, Mr. Chair, but last year in Canada alone 20 billion litres of diesel fuel were sold; 2¢ on 20 billion litres of diesel fuel is $400 million in taxes that have been collected from Canadians that wouldn't otherwise be collected. I don't think it is a minuscule amount.

My last comment is that this position or paper essentially seems to be an attack on our position. I'm not sure if this paper was something that came out of political offices of the government or if it actually came out of the finance department. I'll just leave it at that.

Mr. Serge Nadeau: On your first question, about the impact on revenue, it's not clear if the impact is going to be significant. That's what I meant.

On the plus side, what you have is an increase in revenue from the corporate tax on oil and gas companies. It's clear that it's going to be positive; they are making more money and they will pay more tax.

Also, there might possibly be an increase in GST revenues, but that's not clear at all. Of course, the GST revenues from each litre are going to go up, but the consumption of gas will probably go down. Let's face it: if it's at this cost now, the consumption will go down. In addition, in terms of GST, the fact is that people are spending more now on gas and will spend less on other goods. So overall, the revenues coming from the GST are not clear. On the positive side, the only clear impact is the increased taxes from the gas and oil companies, generally speaking. On the negative side, though, excise taxes are going to go down. The fact is that people are going to buy less gas and oil and what not, so the excise tax revenues are going to go down from that point. As well—and this is very expensive—the increase in gas prices will increase the CPI, the consumer price index. The consumer price index is used to index uncontested benefits, such as the GIS and what not. Also, it's used to index the personal income tax system, meaning that less personal income tax will be collected than otherwise will be the case, all other things being equal.

If you put all of this together, possibly it might be positive, but it's not going to be as big as what I sometimes read in the newspaper and what not. It's not at all clear how significant it's going to be.

● (1420)

The Chair: Thank you, Michael.

Mr. Serge Nadeau: I would like to address the tax on tax question, which is quite important here.

On the issue of tax on tax, sure, because of the billions of litres of gas that are sold, it means a substantial amount of revenue. But the fact is that it's only 2¢ per litre. When gas is at $1 a litre, well, 2¢ is not that significant.

The Chair: John, I'll let you have the other half of that first round.

Mr. John Duncan (Vancouver Island North, CPC): In the same vein, it's very clear that the difference in your forecast revenues, based on 38 billion litres, in terms of GST and excise tax, when you go with actual sales to date and the new pricing, shows that the windfall to the government is over $300 million. I think it's very unfortunate that you would dismiss it as something that's not even important.

You also go to a greater length to suggest that all of this should be left alone for the reason that it's a simplified way to apply a tax. Another simplified way to apply a tax is to have it based on a price per litre, which is what some provinces and jurisdictions do. I find there is a lot of non-finance editorial comment in this document that I consider to be rather provocative. I would ask for comments on that.

The other question is this. Why did you go out of your way to talk about a measure that will come into full effect three years from now, that is only statutorily enabled for one year, and that is not in any way tied to the excise tax on fuel, and portray it as if it is? Nothing to do with the proposed municipal transfer or the transfer of the pooling of 5¢ a litre has anything to do with the level of taxation. Once again, you've used a suggestion here that would promote the government's smokescreen, wherein by somehow reducing fuel taxes, that would all be threatened. It's completely irrelevant to the exercise.

The Chair: Thank you, John.

Do you want to try to respond to that?

Mr. Serge Nadeau: Again, I think that one part of the question was about the tax on tax. This represents a lot of revenue from the government. However, it's only 2¢ per litre, so for the customer this is not that significant.

In terms of the program....

Mr. Geoff Trueman (Chief, Sales Tax Division, Tax Policy Branch, Department of Finance): If we could go back to the tax on tax for a minute, with respect to the example on diesel fuel, it's certainly interesting to note that the tax on tax on diesel fuel is actually less. The federal excise tax rate is 4¢ per litre, and you have an average provincial rate of 15¢ to 16¢. The tax on tax is 1.4¢. Another factor is that at least 80% of diesel fuel is purchased by commercial users and is subject to ITC claims.

The Chair: I'd like to cover the new deal that John raised.

Quickly, John.

Mr. John Duncan: As a comment, I thought that your job, as the Department of Finance, was to delineate what something is or isn't, not to minimize it, make editorial comment, nor all of the things that not only your briefing has done, but that you are doing in your own commentary. I thought you were the Department of Finance, not the PMO, if you know what I mean.

The Chair: Your point has been made.

We'll conclude with Mr. Nadeau.

Mr. Serge Nadeau: As an economist, I can see that 2¢ on $1 is not significant. I think that's a fact. Whether or not the government decides to remove the tax on tax, it's not up to me to decide. I'm only saying that, from a dollar point of view and from the government's point of view, it represents big dollars, but from a consumer's point of view, this is not big.

● (1425)

The Chair: Is there a quick comment on the new deal? Mr. Duncan had mentioned the future program on the transfer of dollars. Is there any comment on that?

Mr. Geoff Trueman: I think that the government has committed significant new money to cities and communities to help with sustainable infrastructure, totalling $5 billion over the next five years. Regardless whether there is an actual link or dedication of the gasoline tax revenue, certainly the amount that is being shared is ramping up to the equivalent of 5¢ per litre, which is one-half of the federal excise tax revenue base.

The Chair: You're going to have a chance again.

Next is Brian, please.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

About a year ago we disposed of about 19% of Petro-Canada's shares. I believe it was around $64.50 per share. Is that correct?

Mr. Howard Brown: I'm sorry, I don't know off the top of my head.

Mr. Brian Masse: Okay.

I understand that as of the end of August, they were trading at $91.90 per share. For our 49.4 million shares, we acquired $3.2 billion. The difference now is quite significant; it's about $1.4 billion that we've lost out on. Can you provide the logic of why we sold at that time, and within less than a year we've lost one-third of the value we could have had if we sold today, or alternatively kept it?

Mr. Serge Nadeau: That's very difficult for us to talk about. Let me just say, as an investor—

Mr. Brian Masse: How is it difficult?

Mr. Serge Nadeau: Well, one never knows what's going to happen with the market.

Mr. Brian Masse: Well, you're off by 30%, though, in less than a year.

Mr. Serge Nadeau: Yes, but let's just put it this way. In fact, I wish I would have known what would happen with Petro-Canada or some of these other companies. The same thing applies to the government when the time comes to sell assets. One doesn't know they will be such—

Mr. Brian Masse: There were earnings less than we warned at the time.... Earnings posted right after that were significantly higher within a month after the sale. Isn't there some sense of responsibility that we're out $1.3 billion less than a year after we sold our shares?

Mr. Geoff Trueman: I think the other point to be noted—

Mr. Brian Masse: That's the largest sell of capital that we've had in this nation.

Mr. Geoff Trueman: If you go back further in time—two or three years—you may also see that there were many calls on the government to dispose of its shares at an even earlier date, at a lower price. Certainly we don't presume to have any greater prescience or foresight than the average investor, but it would also be important to take an historical perspective and go back and look a little further in time and see if there were calls on the government to dispose of shares at an even lower price.

Mr. Brian Masse: Yes, some parties did call; we weren't one of those. The reality is we're now out billions of dollars because we sold too early.

At any rate, I want to move on. I thought there would be some sense of responsibility, though, because the department did advise to sell the shares. That's the largest disposal we've had in Canadian history. That is a perspective to keep. We've lost, within a year, a billion dollars that could have gone to energy retrofit programs, tax reduction, or whatever else it might be, regardless of such.

I am interested, though, in your point number four, in terms of speculators. This is one thing that hasn't been talked about much, and I'm glad you've put this in here. It hasn't been discussed a lot.

You note quite specifically that 3.5% was involved in speculation in the past; now it's up to 20%. How do we get out of that? It's literally off the backs of industry and consumers in terms of speculation; it has nothing to do with finding, discovering, processing, marketing, advertising, or competition. Speculation is a complete sponge off the system and also creates the anomalies that are, quite frankly, coming from Ontario. This driving-up of the Canadian dollar is wiping out manufacturing opportunities, and speculation is part of it. How do we get hold of that? What are your suggestions? How do we reign in speculation in Canada and abroad?

Mr. Howard Brown: I think that question goes slightly beyond my responsibilities as assistant deputy minister for energy policy, but I will try to respond; I think it's an important question.

There's a lot of controversy about what role speculation plays in financial markets as well as in commodity markets. The word "speculator" actually comes, I think, from the same Latin root as "spectacle". It means people who take a view. If markets are going to operate efficiently, you need people who are willing to take a view, who provide liquidity, who will say things are happening that, for example, will make prices fall in the future, and they're willing to bet—because otherwise, if the prices don't fall, somebody has to make the transaction.

I'm not aware of anything in the literature, either popular literature or academic literature, that would lead one to believe that the presence of non-commercial traders in the market has had a bias on the price—in other words, that the presence of non-commercial purchasers has, in a fundamental way, either increased or decreased the price from where the fundamental should be.

It is possible that they may add to volatility, and it is possible that over the short term they may drive prices off fundamentals, but if you look through that over the longer term, it's very hard to see evidence that speculators have distorted prices, and I think that applies to financial markets like foreign exchange markets and equity markets as well as to commodity markets.

● (1430)

Mr. Brian Masse: It seems a little bit different from what you have here on paper. I give you credit for noting this; it just hasn't been talked about.

I'm going to read from this specifically, because I think people need to know this about speculators.

> By the summer of 2004 their level of participation had increased six-fold to 20%. This has brought more than $20 billion of new money into the oil market, skewing the fundamentals that previously underpinned prices. In the NYMEX and London's IPE (International Petroleum Exchange) about 200 million barrels of oil are traded per day. This is more than twice the world's actual crude oil production.

This must have an effect, though, at the end of the day on how much people pay at the pump.

Mr. Howard Brown: Yes, there are many people, including people who work for me, who believe that the increase in non-commercial traders has quite a role in driving up prices recently. I think it's very hard to establish that definitively in any kind of scientific, statistical way.

The point I was trying to make is that.... Let's assume it's the case that the entry of these non-commercial traders has driven prices up because they have a mania for high oil prices. If that's the case and prices get out of line with the fundamentals of supply and demand, they're going to lose their shirts, because the prices will collapse. Commodity markets, as well as financial markets, move very quickly and move a long way and typically overshoot the other way.

In other words, if you have a bunch of people who know nothing about the market, eventually they're going to get theirs, and I think that has been the evidence in the financial market.

Mr. Brian Masse: I think it's something we need to delve more into. I appreciate at least its being noted here. I would suggest, though some people are losing their shirts over it, some people make lots of money over it, but that is going to drive the actual cost up for consumers, and especially for those people who can't even buy stocks to begin with because they're just getting by.

Thank you, Mr. Chair.

The Chair: Thank you, Brian.

We'll finish this round with Andy Savoy, please.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you, Mr. Chair, and thank you, gentlemen.

I'd like to go back to the issue of tax on gasoline and the guarantee that a tax cut, as proposed by some, would in fact be reflected at the pumps. I've given you background that I had mentioned previously. New Brunswick tried this, by three cents, in the early nineties, and there was no evidence that in fact it was reflected in the price at the pumps. I've spoken with a minister who was an energy minister at the time. They thought that three cents was lost in the marketing chain, basically.

We know that in 1999 there was an example of another province, Alberta. The treasurer of Alberta at the time, who is at present the foreign affairs critic for the Conservative Party, investigated this. I quote from him. He said: “If we look at lowering the gas tax, what kind of guarantees have we got that the gas retailers are also going to drop the price, or are they just going to fill in the ditch?” He obviously studied it, and they decided not to lower the prices.

So I question this theory that there's a guarantee that lowering taxes is somehow going to be translated at the pumps. I'd like to see an objective evaluation of that position.

On the finance side, can you tell us and ultimately Canadians that a reduction in gas tax will ultimately be reflected at the pumps?

Mr. Serge Nadeau: It's doubtful to economists that a reduction in tax would be fully transmitted at the pumps. Part of it may be reflected at the pump price, but any public finance textbook will tell you that part of it.... Except under special circumstances, typically both the consumer and the producer would benefit from the tax reduction.

But here, I think one of the key issues is that in the context of very volatile prices, when you drive to work in the morning the gas price is $1.07, and when you drive back in the evening the price at the pump is 99¢. This is what happens to me every day. Then what difference would a 2¢ reduction in tax make? It wouldn't make a big difference in these variations.

● (1435)

Mr. Andy Savoy: So you're saying that, as the present foreign affairs critic for the Conservative Party said at that time, they do "fill in the ditch" to some extent, and there have been case scenarios where they have filled in the ditch—probably the reason why he decided not to go with lowering the gas tax provincially.

You're saying you can't guarantee that the tax reduction is going to be passed on.

Mr. Serge Nadeau: There's no guarantee that the price would be reflected fully. I'm saying that typically part of it would be reflected and the other part would not; that's all. That's what the typical economic model would predict.

Mr. Andy Savoy: If you reduced that tax and it went partly toward reducing a price, and maybe part of it filled in the ditch, as the foreign affairs critic of the Conservative Party said, contrast that with the present situation of where that tax goes and the benefit, ultimately, to infrastructure in Canada.

Mr. Serge Nadeau: That's what happens. For example, the tax revenue goes into a consolidated revenue fund, and that's used to finance whatever programs the government decides.

Mr. Geoff Trueman: Clearly you raise an excellent point, and there are really at least three steps to it. We'd have to consider whether the full amount of a reduction would be passed through to the consumer at the pump. Maybe yes, maybe no. Would that amount be meaningful or even noticeable, given where the price of gasoline is now and the daily price fluctuations that we're seeing? Would a 2¢ or 3¢ per litre reduction really be meaningful to consumers? Thirdly, would that benefit go to those who need it the most? Certainly the high price of gasoline affects all Canadians, but there's no doubt that it affects some Canadians more than others, and there are probably those who could use a reduction more than other Canadians. Those are the three steps, in terms of looking at a possible reduction in gasoline taxes.

The final point is certainly that with the level of tax now and the revenue that is brought in by the federal excise tax on gasoline, they are an important part of the consolidated revenue fund. They go to support a broad range of programs and services that are valued by all Canadians. As an example of that, we've seen the ability of the government to announce new money as part of the infrastructure program, on the basis of the gasoline excise tax revenue. So I think that's the type of thought process we have to go through.

Mr. Andy Savoy: Thank you.

I'll pass on my last question and share my time with my honourable colleague.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): Thank you very much, Andy.

This idea of taking the tax away because a price has variations and fluctuations reminds me of kind of the consumer model. Does that mean if the price of cars goes up we take the tax off cars? Does that mean if the price of clothing goes up we take the tax off clothing? Does it mean that if the price of commodities goes up, the way government should deal with it is to remove the tax?

I know energy is an important driver for the whole economy, but at the same time it doesn't make a lot of logical sense to say a tax that has been levied for well over ten years and hasn't changed is going to make a significant difference in what's happening in the industry.

Could you explain what effect removing the tax actually has on any commodity in this country?

Mr. Serge Nadeau: You're making a very good point, in the sense that the prices of other goods sometimes go up. Prices are going up, and the same questions could be asked. Why reduce tax on these goods? Or this time around, why reduce tax on gasoline because the price goes up? That's a very valid question.

I think I missed the last part of your question.

● (1440)

Hon. Jerry Pickard: I'm looking at what happens to our whole economy if we just take the tax off any commodities that go up, and sell the commodities cheaper. That seems to be the argument I'm hearing.

Mr. Serge Nadeau: If the government has certain expenditures and makes certain commitments and we cut taxes on certain goods, it means that tax will have to go up on other goods, or you will have to increase personal income taxes or corporate taxes. If you want to have a balanced budget, that is what it means. That's another concern here.

Also, one objective of the GST is to be very broad-based so that the rate is kept relatively low. If you were going to exclude certain goods, then the rate would have to go up.

The Chair: Thank you, Mr. Nadeau.

Gentlemen, thank you very much for your time.

We're going to finish this round and suspend for 30 seconds while we invite the Competition Bureau delegation to appear.

The Chair: I'd like to call everybody back to the table please.

We're pleased to welcome Ms. Sheridan Scott, the head of the Competition Bureau. Thank you for being here. You have colleagues with you.

The clerk probably asked you to try to keep your presentation to five or six minutes, giving lots of time for members to ask questions.

The speaking order by members that I have right now is Paul Crête, Denis, Werner—

● (1445)

Hon. Jerry Pickard: What happened to my request?

The Chair: There's going to be time for you anyway. You took part of...I thought that was the time you took. We'll get you in anyway, Jerry.

Is this a point of order?

Hon. Jerry Pickard: Yes, this is a point of order.

I've been looking at times and I see the Conservatives had the most time questioning in the committee, followed by Liberals, followed by the Bloc and the NDP. The Liberals, who compose a fairly large number of members in the House and members on this committee, are pretty restricted in the amount of time they're getting in questions. I think there's an imbalance.

The Chair: What I advised members at the beginning was we have to look at the whole day when it's over. I would suggest if you have a problem when the day is over that you might want to raise it at our first business meeting. Today is only half over, so it's not possible to make a reasonable calculation of time distribution at this point.

Hon. Jerry Pickard: I have made a reasonable calculation, and we are at about one-third of the time of questions.

The Chair: What are you proposing?

Hon. Jerry Pickard: I propose that we alter the system so that at least the Liberals get a fair opportunity for the number of people they have on this committee.

The Chair: I believe you'll find by the time the afternoon is over it will have balanced out quite well.

We're going to continue. We're using the order that we always use.

Paul is not here, so we're going to jump right to Denis Coderre.

I'm sorry, Ms. Scott's presentation. Pardon me, Ms. Scott, please.

Ms. Sheridan Scott (Commissioner of Competition, Competition Bureau): Thank you, Mr. Chair and members of the committee, for inviting me here today to discuss the Competition Bureau's role with respect to the issue of gasoline prices.

I am accompanied today by Richard Taylor, deputy commissioner for the civil matters branch; and Peter Sagar, deputy commissioner for the competition policy branch.

I am certainly aware of the concerns that Canadians have with record high prices for gasoline. This Tuesday I had my regular meeting with eight different consumer groups and this topic was at the top of all their lists of key consumer issues. In the wake of Hurricane Katrina, the Competition Bureau has closely followed wholesale and retail prices to ensure they are consistent with current market forces and not the result of anti-competitive acts. In light of the volatility in gas prices, we will continue to follow them closely.

We are doing this in the context of the bureau's overall objective to ensure an efficient and competitive marketplace that provides consumers with competitive prices and encourages companies to innovate and offer new product choices. We administer and enforce the Competition Act, which includes criminal provisions against price-fixing and price maintenance, and civil provisions dealing with mergers and abuse of dominant position, among others. All of these provisions apply to gasoline and other petroleum products markets.

[*Translation*]

And they are behind several complaints that we have received.

As a rule, the Bureau receives two types of complaints regarding gasoline prices in particular. Generally, consumer complaints are about the high price of gas and allege that there is collusion or joint abuse of their dominant position by the big oil companies.

In this respect, the complainants often point at the large price increases, the identical prices, the simultaneous price changes or the excessive profits as evidence of this behaviour.

Complaints from retailers may also relate to the high prices when suppliers force them to maintain specific prices or inflate prices in an anti-competitive manner. This is what we would consider price maintenance.

Regarding the high prices, I would like to add that I have also heard a large number of complaints about excessive pricing. However, the existence of high prices and profits, including those that occur during conditions of market volatility, is not contrary to the Competition Act. Only prices that result from agreements concluded between competitors to artificially fix or inflate prices are forbidden under the criminal provisions of the Act relating to conspiracies. These provisions are strictly applied at all times.

In contract with these complaints about high prices, we also hear complaints about prices that are too low. These complaints relating to price discrimination, predatory pricing or squeezing of profit margins, come from independent retailers who have the impression that the integrated oil companies are engaged in activities to prevent them from competing on the market.

● (1450)

[*English*]

The bureau reviews all of these complaints that may fall within the Competition Act and has always been prepared to investigate and take enforcement action pursuant to the act whenever appropriate. And we have acted. Bureau investigations have led to 13 trials concerning price-maintenance cases related to gasoline or heating oil prices, and eight of these trials have resulted in convictions. To assist in this work we have the tools to investigate anti-competitive conduct that may arise in the petroleum sector or in any other sector of the economy. Our investigative tools include the subpoena power, the power of search and seizure, the ability to wiretap, the immunity program, and the whistleblowing provisions of the act.

The bureau has also dealt with competition problems that could arise from proposed merger transactions. For example, in 1990 we asked Imperial Oil to divest a refinery, terminals, and hundreds of retail gasoline outlets throughout Canada following its merger with Texaco. More recently, in 1998, Petro-Canada and Ultramar abandoned an attempt to form a joint venture following a challenge by the bureau.

Since 1990, the Competition Bureau has conducted five major investigations related to the gasoline industry and each time issued a comprehensive report describing our findings. In these we found no evidence to suggest that periodic price increases resulted from a national conspiracy to limit competition in gasoline supply or from abusive behaviour by dominant firms in the market.

Indeed, following each price spike, market forces caused prices to return to historic levels. For example, our latest examination found that increases in retail gasoline prices in the spring and summer of 2004 did not result from a breach of the Competition Act but resulted from low inventories of gasoline in North America and worldwide increases in the price of crude oil. We found no evidence to suggest that the rapid rise in retail gas prices resulted from a national conspiracy to fix prices. In fact, based on our experience and recent analysis, we have formulated three general observations about the movements of gasoline prices.

First, the crude price has a major effect on gasoline prices, as it typically accounts for between 70% and 75% of the ex tax final selling gasoline price. In 2005, crude oil prices per barrel have increased by 44%. A number of these statistics are set out on charts that we have appended to our presentation that you can look at later if you wish.

Second, since crude prices are determined internationally, we have observed similar effects on prices in Canada and around the world in 2005.

Third, Canadian wholesale prices normally track those in the U.S. closely. These findings are consistent with the results of numerous studies conducted by our counterparts throughout the world who have generally arrived at the same conclusions.

This is just a sample of our recent activities in relation to the gasoline sector. I have appended to my notes a complete list of actions since 1986. This list is also available on our website. Consumers can also find a fact sheet about gasoline prices on our home page.

But that is the past, and you're interested in the present, and for good reason.

[*Translation*]

It would seem that the rapid price increases following Hurricane Katrina may be attributable to a number of factors, including increases in the price of crude oil — the main cost component of a litre of gasoline, insufficient stocks of refined product, and speculation. Thus far, information available to the public indicates that the rapid price increases in Canada result from the significant shortfall in refined gasoline supplies in the United States as the result of damage to production facilities caused by the hurricane. However, before the jump in prices, it is important to ensure that the prices are the result of market forces and not actions contrary to law. The Competition Bureau therefore continues to monitor this market closely and to analyse fluctuations in oil prices in Canada and abroad, particularly in the United States.

Despite the Bureau's efforts, consumers are clearly not convinced that the market is functioning properly. During my meeting with the various consumers groups on Tuesday, they told me that their members had difficulty understanding the cyclic movements of gas prices. For example, why do prices rise and fall so often? Why are they nearly identical within a city and why is it that they can differ significantly from one city to another at the same time?

The industry could obviously provide the public with the relevant information to ensure greater transparency regarding how gas prices are set.

● (1455)

[*English*]

There is some room for improvement in my backyard.

As I indicated earlier, the Competition Act provides the bureau with a broad range of tools to investigate anti-competitive behaviour. Bill C-19, which is currently under review by this committee, will strengthen the current law to effectively deter anti-competitive practices in all industries, including the gasoline industry. In terms of complaints dealing with high gasoline prices, Bill C-19 addresses joint dominance issues. The proposed legislation will increase deterrence by adding an administrative monetary penalty, to a maximum of $10 million. This is significant as there are currently no financial consequences for abusive dominance or joint abusive dominance cases.

In terms of low price complaints, Bill C-19 will decriminalize the pricing provisions and place them under abusive dominance, where they will be subject to the new administrative monetary penalty provision and a civil burden of proof. I would welcome the opportunity to return before this committee and reiterate my support for this vital piece of economic legislation.

In closing, I want to stress once again that should the Competition Bureau obtain any evidence of actions contrary to the Competition Act, we will not hesitate to take appropriate action.

Again, I appreciate the opportunity to appear before you today. We would now be pleased to answer any questions you may have.

The Chair: Thank you. We're going to start with Marc, then Denis, Werner, and Dan.

[*Translation*]

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

In your introduction, you said that an excessive price was not necessarily an illegal price. Is it absolutely necessary that there be illegality for you to intervene? What exactly is the relation between an excessive price and an illegal price?

Ms. Sheridan Scott: My mandate is set out in the Competition Act. The action we can take is defined in this Act. Excessive prices are not illegal under the terms of the Act.

Mr. Marc Boulianne: Mr. Chairman, I will share my time allotment with Paul.

Mr. Paul Crête: Good afternoon, Ms. Scott.

Ms. Sheridan Scott: Good afternoon, Mr. Crête.

Mr. Paul Crête: The last time we met, we were discussing changes to the bill to amend the Competition Act. You told us that you had been studying whether your powers to conduct investigations should be broadened.

Regarding the matter we are dealing with here today, can you make any recommendations? Should the existing bill in fact be broadened as quickly as possible, so that we can carry out wider investigations and thus do what your counterpart in the US has decided to do today, to carry out an investigation of gasoline prices and refining margins in particular? I am referring to the American authority...

Ms. Sheridan Scott: Yes, that is the FTC, the Federal Trade Commission. But as I understood it, according to the reports, they are doing exactly the same work as what we are currently doing.

As you know, we carry out investigations. We monitor price fluctuations very closely. I believe that, according to the article, they said that they were investigating whether monopolistic acts had taken place. They do not have any authority regarding excessive prices.

Mr. Paul Crête: The text says:

> [Translation] The Federal Trade Commission investigation aims to determine whether illegal action affecting refining capacities or other unlawful forms of behaviour have led to price manipulation.

Are you telling me that you do the same thing, that you are investigating the question of profit margins to find out whether they are being set in compliance with the Competition Act?

● (1500)

Ms. Sheridan Scott: Before asking my colleague Peter to comment on this matter, I would just like to say that from our point of view, the question of whether profit margins are excessive does not fall under our mandate. I do not know whether it is the Americans' mandate, but I do not think so. I believe that their mandate is like ours, to examine whether monopolistic acts have taken place in the market. This is exactly what we are doing.

Mr. Paul Crête: But the monopolistic action could relate to fixing the refining profit margin?

Ms. Sheridan Scott: No, that would be more like collusion, price-fixing, abuse of a dominant position, as indicated in our Act.

I have just read today's paper, so I do not know exactly what their mandate is. I know that they have the same kind of mandate as we do, that is, they have no authority over excessive prices.

With respect to how we examine and investigate margins, this is always within the context of monopolistic acts.

If you want further details, before answering your first question, I could ask my colleague to add some remarks.

Mr. Peter Sagar (Deputy Commissioner of Competition, Competition Policy, Competition Bureau): I thank you, as well as the committee members.

We have very close links with the Federal Trade Commission. I have already sent my economists to visit them to see what they are doing about fuel and gas. Indeed, we are doing the same thing as what they have already done. They have just announced the holding of another investigation. We are going to ask them what they are going to do. Will it be a formal investigation with formal powers, or will it be another study like the one we are doing?

Mr. Paul Crête: I think you have signed an agreement with several international agencies lately. Does this mean that you could work together with the Americans? Since this is a North American market, it would be useful for the commissioners in the countries concerned to be able to carry out the investigation together.

Ms. Sheridan Scott: We must always look to see whether there is a possibility of illegal action here, in Canada. If this is the case, we want to carry out investigations here. If we find anything applicable to the United States, we could base our action on the agreements that we have signed. According to the law, there are several obligations to meet before requesting information, in particular confidential information.

Of course, there are exchanges of information based on agreements between agencies or existing treaties between the countries.

Mr. Paul Crête: Is there any possibility of a common investigation?

Ms. Sheridan Scott: I would not say common, but we work hand in hand. So, there are exchanges of information.

With regard to the subject at hand, we do not have the details that would allow us to ask them to provide us...

Mr. Paul Crête: If possible, could you tell us about them, when you have the information, not necessarily verbally, but in writing or otherwise, so as to know whether this investigation affects you?

Ms. Sheridan Scott: We would have to ask whether here, in Canada, there is evidence of monopolistic acts, whether there are things that would permit us to institute proceedings here and see whether the United States have something applicable in their hands.

Mr. Paul Crête: The refining profit margin is set on the New York market, and the same rule applies in Canada. The fact that it is fixed in New York should not normally prevent you from investigating it.

Ms. Sheridan Scott: We monitor it here because we have access to this information. In general, this is public information.

If you would like to know a bit more about what we do with this information, my colleague Richard could add some details on how we use this information in our studies on refining margins.

Mr. Paul Crête: I hope you have not forgotten my first question.

Ms. Sheridan Scott: I have not forgotten. I have an answer.

Mr. Richard Taylor (Deputy Commissioner of Competition, Civil Matters Branch, Competition Bureau): If there were a conspiracy or agreement among the major refineries to reduce Canada's gasoline production capacity, this would be a conspiracy. Indeed, the companies are the same, for the most part, in Canada and the United States. We can obtain information in the United States and use it here.

Mr. Paul Crête: That is related to my other question. It means that there may not be a conspiracy — I do not claim there is one — but there is a market to investigate. Under the present act, you do not have this mandate. Would you wish to have it? Are you going to make recommendations in this sense?

Ms. Sheridan Scott: Let's get back to the question that you asked during our last appearance. We were completing the investigation and we were preparing to come back before this committee to present the results of the comparison we had made.

I believe that we had said that we would make a comparison with other places, and we wanted to see whether it was important to study questions of procedure, for example according to the Charter of Rights and Freedoms, in the context of Bill C-19.

● (1505)

Mr. Paul Crête: Do you intend to recommend that the mandate be broadened? Can you give us the result, since it has an important relationship with the study day on gas prices? In fact, you are part of the tools that the government can use to ensure that the market is working properly. The collusion aspect is already well regulated. However, I wanted to know if you thought it appropriate that the mandate under the Act be broadened.

Ms. Sheridan Scott: First, we intend to come back before the committee to present our results.

Secondly, the work we are now able to do is quite detailed. I have the impression that people believe we do not have the power to carry out sufficiently detailed investigations in this sector. It is certain that we do have the power to interview people participating in the market. In fact, that is what that we did for the study we have just published. We have many contacts in the market. We know this market because of merger applications, for example, and the complaints we receive. Therefore, we know the contacts in the market very well. We can contact members of the industry who provide us with information. It must be said that we received quite a lot of information during the investigation we carried out past year.

We also have the possibility of accessing databases collected by companies in the private sector, such MJ Ervin & Associates and Bloomberg Financial Markets. We subscribe to their data and we analyse them. Doctor Frank Roseman has hired experts to carry out market analyses for us.

So, a great deal of data are now available. However, if there are no monopolistic acts, we cannot force people to provide information. However, if we want to use these tools, we must obtain a judge's approval before exercising these powers.

[*English*]

The Chair: Merci. Thank you, Paul.

Denis Coderre, please.

[*Translation*]

Hon. Denis Coderre (Bourassa, Lib.): I will continue in somewhat the same vein. First of all, I would like to congratulate you on your bilingualism. I think other institutions and departments would do well to follow your example in how to answer. I congratulate all three of you.

I am not one of those who think we should just keep on adding structures and get away with it; just saying we will create another group. In fact, my first question is a bit structural. Do you have all the capability you would like? I know money is always short, .

In fact, there is a major problem of perception. I think at some point, they are going to have to stop taking us for suckers. I listened to the other stakeholders and nearly ended up with the impression that it was the consumers' fault that prices had gone up, as if these were historic mistakes. There is a reality on the ground: when we speak of justice, there must also be the appearance of justice. Therefore, the Competition Bureau, in my opinion, is essential in several regards, first of all, to your independence.

Secondly, you are probably able to explain a bit to us what collusion is. Independent dealer associations have come to see us, and I must confess you that I was quite sensitive to the question of refining as such. We get a bit of a gut feeling that if an independent investigation into excess profits took place, and defined the word "excess," we could perhaps realize that there are people who are beginning to talk among themselves. If you listen to them, the average citizen says that prices always seem to go up on Thursdays and before the summer holidays. So, we have the impression that everybody is talking.

In fact, the question is very simple. At the present time, do you have the capacity to carry out in-depth analyses and take action on this matter? You spoke of Bill C-19. I hope it will be passed. Do some points still need improvement? Do you require a formal complaint from the committee asking you to carry out an investigation into refineries and see whether the problem is speculative, North American, and whether we can blame it all on Hurricane Rita, or Katrina, or the next one?

Do we have to examine in greater detail what is happening on the refining side in relation to the profits that might result? We are not against profits, but are they are excessive? Therefore, we would need economists and people from the Competition Bureau. This would perhaps enable us to find out whether there actually is collusion or abuse on the part of a group of refiners.

● (1510)

Ms. Sheridan Scott: There are two aspects to consider: financial resources and human resources.

As for financial resources, we have received, temporarily, an additional amount of eight million dollars. For the moment, things are going well in this regard. On the other hand, there is more and more pressure on us. In short, it remains a question of financial resources.

With respect to human resources, Peter has a very good team working for him. Some of its members have doctorates in Economics. Many economists and lawyers are working on implementation, including some who are working for Richard. We can also hire people, outside experts. We are carrying out an investigation of both the wholesale and retail. We published our report on retailers and the prices in effect past year.

Richard might add a few words about this. He is supervising several efforts that will help us understand a little better how things work in the sector. The question, as you said, is whether we are dealing with monopolistic acts. In the context of this study, we can observe price movements and how the market develops. We may then have grounds for believing that the law is being contravened. Doing this kind of investigation is no problem.

It would perhaps be useful to ask him to add details. Indeed, two or three studies are being conducted that could be pertinent to your question.

Mr. Richard Taylor: We have investigated this industry five times over the last fifteen...

Ms. Sheridan Scott: We must speak of the wholesale market.

Mr. Richard Taylor: The wholesale market In Canada follows the one in the United States, obviously. We have carried out a large number of studies that show this. Now, we are doing an analysis to ensure that the situation is indeed the same.

Ms. Sheridan Scott: I was alluding to two studies. One of them consists in studying the independent dealers market. We are making a kind of analysis of the changes, how they are structuring their businesses, for example, with the arrival of the box stores like Wal-Mart and Canadian Tire. This is a change that is coming, even though it is not completely new. We are keeping track of this study, which deals quite fully with these questions.

Hon. Denis Coderre: What do you say to the average citizen who has paid $95 to fill up? This question is easy to understand. The kind of car is perhaps at issue here, but that is another story. The reality is that prices have risen in an appalling and indecent fashion. We get the feeling that all the oil companies are in cahoots.

We can always carry out a study, but how can people believe that there is no collusion among oil companies? They weren't born yesterday.

Ms. Sheridan Scott: It is certainly a challenge.

Hon. Denis Coderre: I would like the Competition Bureau to do more than just carry out an investigation. What can we do so that the commissioner will have the powers and the bite necessary to tell these people that they are going too far, that they have reached the limit?

An investigation must be carried out to determine whether it is excessive. The fact remains that in this speculative market where everybody passes the buck, in the end, it is always the consumer who pays. You said that civil provisions could be applied in a case of abuse of dominant market position. This is perhaps not a monopoly, but it is an oligopoly that is really hurting us. The big fish swallow up the little fish and, in the end, the small independent dealers lose out because they do not have the financial resources. Where is the thin red line?

Ms. Sheridan Scott: There are several aspects to this question. I come back to the fact of trying to determine whether there are monopolistic acts, because that is our mandate. We have certain tools, including economic tools, as Peter mentioned, that allow us to carry out an analysis in this sense.

Bill C-19 will be useful for us. When evidence is presented before the court, it will be at the civil level. However, it is not our mandate to determine whether prices are excessive because of market forces. If you are concerned with maintaining a lower price even in the absence of proof that we are dealing with monopolistic acts, it is rather a matter of regulation.

● (1515)

Hon. Denis Coderre: In fact, someone is filling his pockets. For example, if we go off on vacation for three days and have to pay an extra 10¢ for gasoline, we wonder whether it is because of generalized collusion. People want to know.

What can you do to prevent it?

Ms. Sheridan Scott: We have an immunity program. People come and tell us what is going on and what they know; and thus provide the evidence we are always searching for. We then carry out investigations to attempt to understand price movements, to see whether we can interpret them according to monopoly laws or market forces.

[*English*]

The Chair: Merci, Denis.

Werner Schmidt, please.

Mr. Werner Schmidt: Thank you, Mr. Chairman.

Thank you very much for the elucidation you've provided so far.

I would like to ask a number of questions.

First of all, it seems to me that you deal primarily with price fixing, price maintenance, and abuse of dominant position. In your brief I think you indicated that there hasn't been a concentration of refining capacity in Canada. You also indicated that on a couple of occasions you have investigated wholesale pricing. You also indicated in your brief that the Canadian prices follow almost exactly the wholesale prices in the United States. You also indicated that there is a global market in crude.

Is there any anti-competitive behaviour that leads into the tracking, in the first instance? When a Canadian price follows that of another country, is there in fact assurance on your part that while there may not be anti-competitive behaviour in Canada, there is anti-competitive behaviour elsewhere and it spills over into Canada?

Ms. Sheridan Scott: Our responsibility in the administration of the Competition Act would not allow us to take action with respect to anti-competitive behaviour that would take place outside of Canada.

Mr. Werner Schmidt: Yet you are prepared to accept the crude oil prices being determined by the global market.

Ms. Sheridan Scott: That's one of the observations we have come to. We have done five comprehensive studies. Peter could go into some detail on these studies, if you wish, but it's pretty clear from extensive statistical analysis and econometric data that this is the reality. These are simply factual observations that we're providing.

Mr. Werner Schmidt: I understand that. There seems to me to be some kind of a gap here between accepting that and having done investigations there and being satisfied that's okay, but you're not prepared to take the same position when it comes to other wholesale prices as determined in Canada.

Ms. Sheridan Scott: Peter, do you want to add some details on the work we've done?

Mr. Peter Sagar: I think what you were asking about is whether or not cartels formed around the world are affecting Canadian prices, without being in Canada, and what we might do about that. Is that the essence of your question?

We have done extensive work with competition authorities globally. In fact, we have a number of agreements with them to help us address global cartels. We just signed an agreement with Japan, for example, and we have extensive agreements with the United States. If we suspect that a cartel operating in another country is affecting us, we will certainly work through those authorities to see if we can get it resolved.

We have found in our various studies that the market is increasingly global both for crude—and we've seen that since the OPEC days—and for refined products. In particular, our studies show that in eastern Canada it's a market that's largely defined by Canada, the United States, and increasingly Europe, because we're buying refined products from there. In west and central-western Canada, there tends to be more of an independent market, and Vancouver is, once again, linked to the world markets. That's a function of transportation costs and production facilities.

Mr. Werner Schmidt: Earlier this morning we heard that you were, as a competition bureau, not accepting certain kinds of complaints on the grounds that there was no evidence or there was insufficient evidence. What do you consider to be evidence for a complaint to be registered and dealt with by your bureau?

Ms. Sheridan Scott: Did you say someone said that earlier today?

Mr. Werner Schmidt: Yes.

Ms. Sheridan Scott: I'm not sure what the circumstances were, because quite frankly, if people bring evidence before us, we proceed to look at it.

● (1520)

Mr. Werner Schmidt: Without exception?

Ms. Sheridan Scott: We begin to look at them to see if there's something that we wish to....

Every single communication that comes in goes through a triage process, and we follow up on them.

Could you be a bit more specific? Maybe you could tell me which witnesses were talking to you.

Mr. Werner Schmidt: It had to do with the Independent Petroleum Retailer Association, but the question is a general one, because it applies not only to the Independent Petroleum Retailer Association. That very same complaint has been given to me by a variety of other people as well.

Ms. Sheridan Scott: We have a number of complaints before us by independents with respect to possible predatory pricing, and I can assure you that we're pursuing them. Section 29 of our legislation precludes us from sharing details about our investigations; those have to be conducted in private. But we have a number of these investigations going on right now.

I guess one of the unfortunate things is that in one case we are asking some of the industry participants to provide us with data. Industry participants often have the very data we need to make our case before the Competition Tribunal, but if the complainants are not willing to come forward with the evidence in their possession that would be directly relevant to the issue, it makes our life more complicated,

Certainly in the case of predatory pricing, we have taken complaints—not in the gas sector, because we've not had sufficient cases there to allow us to proceed.... But with respect to Air Canada, for example, we took that case before the Competition Tribunal. We were successful in the first of a two-phase hearing; the tribunal accepted our arguments about avoidable costs. So there's no reluctance to take cases when we have the evidence.

I think if you're referring to the case of some of the independents, we need as much information as we can get to allow us to build our case that we would take to the tribunal.

Mr. Werner Schmidt: Well, that's a given. I can certainly understand that.

Ms. Sheridan Scott: As you know, as public officials we certainly can't act without evidence. So we're constantly asking people to help us in our—

Mr. Werner Schmidt: But that's not my question; I know that's the case. We all know that. That's a given.

But when somebody comes to this committee and tells us that their case was not allowed to come forward, that the bureau refused to deal with it because they did not provide them with evidence.... There are two kinds of evidence here. If they have evidence they're not prepared to give you, then obviously they're not entitled to have service. But if they have evidence they've given you and you've rejected that evidence, what would be the situation?

Ms. Sheridan Scott: I'll pass it to Richard, who's responsible for this area. He looks after the predatory pricing complaints.

Mr. Richard Taylor: Under the specific provision of predatory pricing, we must show that competition is, or is likely to be, lessened as a result of the predatory pricing. So the first thing we normally do is ask the company that is alleging predation to demonstrate to us that they are indeed adversely affected by somebody else's low price. There really is no other place for us to start.

We have done that, and I understand that some of the independents are going to come forward with that evidence, and I can guarantee to you that we will look at it. I believe we have done that. We have asked for the information, and when we receive it we will look at it and not hesitate to act on it.

The Chair: Would you wrap up, Werner?

Mr. Werner Schmidt: Oh, I'm sorry. I have so many questions on this. It goes beyond me.

This one is a very simple one, which I'm sure you can answer very quickly. It has to do with your workload. Do you have enough resources, human resources in particular, to do the job?

Ms. Sheridan Scott: Again, as I was suggesting earlier, there is a financial resource issue and a human resource issue. The financial resource issue is the more important; it's what allows us to hire the experts and what not. We have very good expertise in this area of gasoline prices. In terms of financial resources, we continue to be challenged. We have a huge workload. We have a triage process we have to use, because we can't get at each and every one of the complaints that comes through the door. It's not possible.

Mr. Werner Schmidt: Do I have to stop?

The Chair: Thank you, Werner.

Dan McTeague, please, and then I have John Duncan and then Jerry Pickard.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Madam Commissioner, thank you for being here today.

It seems as if I've done this before and we've been down this road in the past, but I want first of all to point out that almost every report, almost every inquiry—and this is really for the media's sake and for those listening—has dealt with the issue of retail. Unfortunately, I think we've missed the forest for the trees. We should be looking at wholesale, and that's exactly what many members on this committee are now starting to focus on.

We know what crude is; it's public. We know what retail is; that's public, and you've done goodness knows how many inquiries. We also know, Madam Scott, that the initiatives that I've taken, that the committee's taken, that a number of Liberals have taken, that members of this committee—Bloc, New Democrat, some Conservatives, when they were Progressive Conservatives—have taken, were to make some fundamental and fulsome changes to the Competition Act. The reason for that wasn't what Dan McTeague had to say, but what Peter C. Newman said in his book *Titans*, that it was the first time in Canadian history that an act of Parliament was written by the very people it was meant to police.

I'm wondering if you can give us an illustration, given that most of these complaints were based on gasoline stations, and tell us whether or not you have great concern, as I do, in looking at supply questions on almost every commodity of energy that is almost identical to where we were this time last year. Prices are more than double for the purposes of gasoline. Does it not bother the bureau that you have identical prices in every given region of the country and that those prices can be established somewhere, 40¢, 50¢ a litre—perhaps it's even happening today—and that there's no competition at that level?

I understand you've recommended some changes here in terms of predatory pricing. Mr. Schmidt and I worked on that many years ago. That's why in his province the British Columbia commission of inquiry in 1996 said, for goodness' sake, fix the Competition Act and the predatory pricing.

Mr. Taylor was talking a little earlier, in response, about the test that's required when it comes to proving a case under predatory pricing, but what you're not saying is that the test is substantial and is almost impossible to prove under the criminal burden. So one of the suggestions you've looked at and supported is to make changes within the Competition Act. I know there are people out there, the Terence Corcorans of this world from the *Financial Post*, who think we shouldn't be making changes to the Competition Act. You've made a number of recommendations in which you've supported what I've done. None of those was done, and today we have this inquiry by this committee because a lot of good things that we worked on over the years were never implemented.

Are you not concerned about parallel pricing at the wholesale level in every region in the country and the decline in the number of refineries that occurred under the Competition Act?

● (1525)

Ms. Sheridan Scott: I'll ask Richard to make a few comments on that, because this is an area we look at all the time. We're constantly considering what's going on, and, again, there are a number of these proposals before this committee in the form of Bill C-19. We have the opportunity to come back and possibly address some of these issues, such as the civil burden of proof, which will give us greater flexibility.

In terms of following the wholesale industry, Richard could provide a few comments on that study that we did and published quite recently and other work that he's engaged in.

Mr. Richard Taylor: Yes, thank you.

There's a lot, honourable member, that you've dealt with. I'll deal with the first thing about our studies.

I heard this morning from one of the witnesses that our investigations in 1986, 1996, 1999, 2003, and 2004 into rising gasoline prices did not deal with the wholesale market. Well, they did in fact. You can't look at retail prices without looking at wholesale prices. They're so inextricably linked. I'll just quote you from our press release from 2004: the spike in retail and wholesale gasoline prices in the spring of 2004 resulted from market forces, not price fixing or collusion.

Hon. Dan McTeague: Was anyone suggesting it was price fixing? I've assumed this industry is monopolistic at the wholesale level, so you don't need collusion or price fixing. That's another important point.

Mr. Richard Taylor: I just want to correct the fact that we have looked very closely at the wholesale market. Indeed that is the place we normally start.

Hon. Dan McTeague: On that point, and it's a very important point—a point of clarification, Mr. Chair—I notice in all of your information that you've given to committee here, you use M.J. Ervin and Associates. M.J. Ervin is a benchmarker for the oil industry. I'm sure we're going to hear from them. How reliable is your information in coming to these conclusions when you're using the industry's own people to come out with the conclusions on the industry?

Mr. Richard Taylor: I'm not aware of any inaccuracies in M.J. Ervin's information. We check it. We also use the Energy Information Administration out of the U.S. We use the International Energy Agency, the OECD body, and we do verify with third-party information that we obtain from the industry. Unfortunately, that's confidential.

Hon. Dan McTeague: [*Technical difficulty—Editor*]

Mr. Richard Taylor: I was in the Energy Information Administration website this morning, and as of today, it's below the five-year average. I shall provide that for you.

Hon. Dan McTeague: [*Technical difficulty—Editor*]

I want to tell you that we are very concerned, as we have been for some time. It's the reason this committee universally accepted the idea of an independent price monitoring agency—not to roll back prices, because that's not our jurisdiction, but because we should have analysis and figures and information that's provided objectively, not from someone who works in the industry. The person may be very good and very qualified, but it does nothing to diminish the perspective that your information may be somewhat tainted if you're using the industry to provide you with information, as evidenced by the Conference Board study. There, of course, you didn't have enough money to do all the things you wanted to do, but there the focus was on retail.

Again, how do you explain similar prices at the wholesale level of gasoline, which are driving up 5¢, 6¢ a litre above the United States ex tax? How can you not conclude that there is a problem? Or is it that your act is so prohibitively built and constructed that you couldn't see an anti-competitive act if it hit you on the head?

● (1530)

Mr. Peter Sagar: One of the joys of looking at markets is that markets that are very competitive feature prices that move in the same way in different places, subject to transportation differences. That's what we found is the case with wholesale prices for gasoline.

It's also the same thing you might find in a totally monopolistic market. In our case, when we look at these things, though, we can see that there are differences. Prices moves. Margins shift according to demand.

You have to understand these wholesale prices are being heavily driven by the lockstep movement of crude prices, which are determined on world markets. When you have a driver like that pushing one single price, you might expect to see that sort of result. We are also, however, looking very closely at this to make sure it is not the result of collusion. That's why we continue to do the analysis, watch the movement of prices, look for unusual movements in margins. That's the job we're doing.

But the fact that prices move in markets in lockstep is a function of a world in which goods are traded fairly fluidly around the world.

Hon. Dan McTeague: Mr. Sagar, your bureau and many of its allies and friends have talked about things that need to be changed: amendments, for instance, in the area of conspiracy—I know there are many details in this—amendments that I started back in 1996 on predatory pricing.

Given that you have a very unfortunate track record in being able to make any prosecutions unless it's of a very small company, would you be inclined to think, or at least allow the perception to be left, that Canadians cannot rely on a strong competition act because of the flaws that are inherent, which your Competition Bureau over the years has recognized are in need of change—including Bill C-19, which has yet to be passed?

Ms. Sheridan Scott: With respect to the amendments to section 45—you're alluding to the price fixing provisions—those are still very much a subject of analysis inside the bureau. We intend to bring those forward as soon as possible for consideration. It's just quite a complicated area. We will continue to amend and modernize this legislation—that is very important—and based on this committee's report. We certainly take it as a blueprint and are moving ahead, beginning with Bill C-19.

Hon. Dan McTeague: On a point of order, Mr. Chairman, I didn't hear anything on their track record on predatory pricing.

The Chair: That was more of an editorial comment on your part.

Hon. Dan McTeague: No. I want to know how many prosecutions they've had.

Ms. Sheridan Scott: As I indicated, we've taken the Air Canada case to the tribunal. It was a two-stage process, the first stage dealing with avoidable costs, and we were successful there. The litigation was discontinued because of changes in the marketplace, but we were very hopeful in bringing that case as well.

Hon. Dan McTeague: How many?

The Chair: Thank you.

John Duncan, please, then Jerry.

Mr. John Duncan: Thank you to the chair and to the Competition Bureau.

I can understand Mr. McTeague's sensitivity about Terence Corcoran, since in the article he's referring to, Mr. McTeague was called a “vacuous economist” by Mr. Corcoran.

I have a concern, and that is, we have a member of the Privy Council and a parliamentary secretary to the Minister of Foreign Affairs who is behaving as if he's not speaking for Paul Martin and the government when he asks his questions. He's behaving as if he's a bystander in these affairs.

The Chair: Actually, that's a point of order, John, but, you know....

Mr. John Duncan: It may be, but I was looking for an opportunity to do this.

The Chair: Having done so, I'll invite you to continue with the witness.

Hon. Dan McTeague: Mr. Chairman, I have point of order. I think that is completely out of order. If Mr. Duncan doesn't like my being here, that's one thing. I'm a duly elected member of this Parliament.

Mr. John Duncan: You substituted in. That's fine.

Hon. Dan McTeague: He has several members—

The Chair: Order.

Hon. Dan McTeague: Mr. Chairman, I just want to clear the record. He has made some comments here that I think are very unfortunate and have nothing to do with our witnesses here.

The Chair: Okay, thank you very much, John. I'll invite you to pose comments and questions to the witnesses. You've made your points—both sides.

● (1535)

Mr. John Duncan: This is not a normal substitution. Mr. McTeague used his Privy Council privilege to impose himself into committee and then used the argument that he's not a member of the cabinet.

The Chair: The substitution for parliamentary secretaries is the same as for members, so it's the same procedure, and he is duly a member of the committee. Anyway, both members having made their points, I invite you to ask questions of the witnesses.

Mr. John Duncan: My question for the witnesses—I'm sorry to have this sidebar on you—is from the last time this committee looked at fuel pricing and looked at the role of the Competition Bureau, when we recommended that the Competition Bureau receive significantly more resources. We have since heard that you are challenged in terms of financial resources. Can you give us an indication of what your budget was in 2003 and what it is today, in terms of differential? What would be a target request that would allow you to do the job the way you'd like to do it?

Ms. Sheridan Scott: I'd have to get back to you for 2003. I wasn't at the bureau in 2003, so I wouldn't have that starting point. What I can tell you is that additional resources of $8 million were provided in 2004—three years' worth. That will end in 2006. They would have originated in 2003-04; they'll go to 2004-05—we're in that year now—and we'll finish in 2005-06. So as of the end of March 2006, that temporary funding will be exhausted.

We're hopeful that it will be renewed again, but it's a concern of ours, because, quite frankly, we need at least the $8 million to continue to function at our present level, and we have agreed to absorb any additional financial impact that Bill C-19 would have on us—and Bill C-19 will have a financial impact on us.

To get back to the issues before this committee, we are hopeful that Bill C-19 and the change of a criminal standard to a civil standard in predatory pricing will enable us to do our work with greater flexibility, and more cases will come in that we can look at under the civil standard. We had calculated it would cost us maybe an additional $2 million, and we will be trying to absorb that by redirecting resources inside, to put them on these cases rather than other cases.

There are going to be other continuing pressures on us. Electronic marketplaces are making our investigative work much, much more complicated. It is much more difficult to investigate in the Internet marketplace, the electronic marketplace, than it is in the marketplace of bricks and mortar. This is a concern, but, as I said, it will depend enormously on whether that $8 million is renewed.

Mr. John Duncan: Thank you very much.

Mr. Chong has a question.

The Chair: Okay.

Mr. Michael Chong: Thank you, Mr. Chair, and thank you to the witnesses for appearing in front of our committee.

I noticed in your comments that you noted consumers are not convinced the gasoline market is functioning well. I find that interesting, because every study I've read seems to empirically corroborate what you're telling this committee; yet whether it be consumers or certain members of Parliament, there seems to be a lot of hot air and rhetoric on the subject out there. How do we punch through that rhetoric to convince certain consumers and certain people it is an efficient market that's working properly, so that we can move beyond the debate about anti-competitive behaviours and collusion and price fixing and the like and actually go to the substantive debate about taxation, energy policy, and the like? Have you any ideas for the panellists here as to how we can punch through the rhetoric and the hyperbole and move to a more substantive debate that actually will make a difference to the average Canadian?

Ms. Sheridan Scott: Absolutely. I'm a big fan of transparency. Transparency is one of the basic principles of the bureau. We have five defining principles. I believe it would be useful to have more information available to consumers about how prices are moving. How do they move? What does the cycle look like? How are days different one to the other, weeks one to the other? I think there's maybe a greater role for industry to play here in terms of sharing that type of daily information. One example I find fascinating is that Shell, in Australia, has a very comprehensive website that covers off daily price movements, comparisons of commodity prices—comparing gasoline to other commodities—where Australian prices are in terms of the world, and what a consumer pays as a percentage of the overall price that's devoted to crude as opposed to tax. I think this information is very useful to consumers.

● (1540)

Mr. Michael Chong: Is there anything that you've considered doing differently in terms of getting the message out there, communicating to Canadians the facts of the matter here, the facts of the market, so that we can move beyond this hyperbole about collusion in the marketplace?

Ms. Sheridan Scott: We take that role very seriously, I must tell you. If you go on our website, you will see that the part of our website dealing with gas prices is quite comprehensive. We share all the information we can share. You will see an explanation, answers to the basic questions we hear from consumers, and certainly the eight consumer representatives I met with on Tuesday—I have a regular meeting with a group of eight—said that they believe this would be useful if just more information were available, more than we are in a position to provide right now. Some of the information we receive is confidential. It's a subscription series, so we're not in a position to share that. Other information that is publicly available we share. If you go on our site, you will see that we do a link into the site that Richard referred to, the American site where they have quite a bit of information. We try to get out as much as we have within our hands that is not confidential.

I think there might be a role for industry, like Shell in Australia, to share some more of this information. We all have a role in trying to help consumers understand what's going on.

The Chair: Thank you, Ms. Scott.

Jerry, please.

Hon. Jerry Pickard: Thank you very much, Mr. Chair, and thank you, folks, for coming.

I want to congratulate you on the efforts you've put forward in the last several months. The Competition Act has been a difficult issue to deal with. I know we don't have a lot of opportunity to do prosecutions and succeed, and there are some barriers within the act that cause that problem. The onus of criminal proof rather than administrative monetary penalties is important. I'm not sure the public realizes that difference. Since you're here at this committee and since this meeting is being televised, I thought maybe we should focus on Bill C-19 and some of the strong aspects that it will bring to your role in looking at the operations of competition in this country.

First, I would like a further explanation on the difference between criminal prosecution and the administrative monetary penalties. I also would like to get your opinion on where that will help you move forward and do your job better, make sure that you can analyze situations in another way, and help you with the onus of proof.

Ms. Sheridan Scott: I'm going to ask Richard to add some comments because he's been involved in a number of these investigations, both on the criminal side and on the civil side actively before the tribunal.

I would say, by words of introduction, it's more difficult to take a criminal action because you have to demonstrate beyond a reasonable doubt, so if there is some other reasonable explanation, one will not have a conviction. With respect to civil matters, which is what is being proposed in Bill C-19, it's on a balance of probabilities, so it is not as high an onus that one has to meet in terms of persuading the tribunal or the court, depending on which body you're in front of, to agree there's been a contravention.

If we're taking a criminal action, we go before a criminal court. If we take a civil action, we go before a tribunal that has expertise in this area. When we make out these cases, we must bring quite complex economic information to bear, and it's very helpful when we're before a tribunal that has as one of its members an economist, in addition to legally trained people. That's helpful in our ability to explain our case.

Bill C-19 has another very important provision in it and that's the introduction of administrative monetary penalties. Right now, if you were engaged in predatory pricing, even under the civil standard, and the tribunal found that you had contravened the legislation, all that would happen is the issuance of a cease and desist order. The tribunal would say, stop engaging in that behaviour. The administrative monetary penalty increases the deterrence in the legislation and will allow us to address the fact that there may have been a company that would have benefited monetarily from engaging in this behaviour. So it's not like a criminal fine; it's like an assessment of the impact that this action has had, and it increases the deterrent value.

Richard may have some comments about actually bringing those cases before the tribunal.

● (1545)

Mr. Richard Taylor: My observation has been that the predatory pricing and price discrimination provisions under the criminal sections as they are currently are an inherent economic test of whether somebody has been hurt and why they've been hurt because of below-cost pricing by a significant company. It's very difficult for a judge to understand those concepts. A specialized tribunal that deals with those day in and day out would be much more likely, I think, to be able to grasp the subtleties incumbent in those provisions.

They are not like price fixing. Everybody can understand why price fixing is illegal. Everybody understands it's fraud. When you come to predation, there's a fine line between very vigorous competition, which you don't want to deter, where prices are driven down to cost, and predation when you cross over that and you end up charging below-cost driving competitors from the market. That's for a specialized tribunal to understand.

Ms. Sheridan Scott: One wouldn't want to chill the positive impact of great competition where prices are driven down low, but where there is an anti-competitive element to it—that is, competition will disappear because of it, be diminished or lessened—then that's an issue for us.

Hon. Jerry Pickard: The second question I would like to pose to you has to do with vertical integration of the oil and gas industry, and it has been suggested that the wholesale, retail, and refining side of it, all being done by one corporation, creates an overview in the industry whereby it's very hard to say where the problems are within that structure.

I think the independents this morning proposed a suggestion, and it may be way out on one side, but I'd like your comment on it anyway. It is this. What if the refiners and those who set the wholesale price were not in the retail business and we would separate those corporations one way or another? Would that have an impact on competition in the country?

Ms. Sheridan Scott: I'm going to ask Richard to add a few comments to this one because he actually appeared before a provincial committee that was looking at this issue about a year ago. I think it's important to remember that many industries in this country have vertical integration for a number of reasons. It brings about efficiencies in operations, for example. It allows for synergies and an ability—

Hon. Jerry Pickard: I'm not advocating; I'm looking for your response to that.

Ms. Sheridan Scott: In terms of that in the oil and gas industry in particular, I'll pass the mike over to Richard.

Mr. Richard Taylor: There's nothing inherently wrong with vertical integration. There are very many industries in Canada that are vertically integrated, and over time it's been proven to be good for reducing risk and increasing finances and the like.

The problem happens when a large company that is vertically integrated uses profits from one sector to try to predate downstream where there are independents that aren't integrated and don't have that pool of money. This would be contrary to the Competition Act. It's the predatory aspect of it, not the fact that you're vertically integrated, that is an issue. We are currently conducting a study in the Toronto market to determine just how much the majors are also supporting their retail sales and whether or not those retail sales are, on the face of them, profitable. We're also getting great cooperation from many of the major independents, who are also helping us with that.

Ultimately, we want to determine whether or not those retail operations are profitable or not selling below cost on the face of them.

Ms. Sheridan Scott: I'd like to add another observation that is interesting as well. In Nova Scotia they were actually looking at what is called a “divorcement” law. This is a law that would force structural separation.

When we were before that committee we pointed out the results of a study in the United States. They have a naturally occurring experiment there. Some of their states allow vertical integration and others don't, and the federal trade commissioner, our counterpart, did an assessment of the implications for what consumers pay. They found that consumers tend to pay 2¢ to 3¢ more a litre in states where there is no vertical integration.

● (1550)

Hon. Jerry Pickard: Consumers pay 1¢ to 2¢ more during normal flow, but how do the variations, the spiking, and all those other factors, get affected when you have a market that would seem to be a little more stable, or does that change anything within the market flow?

Mr. Richard Taylor: Are you talking specifically about price—

Hon. Jerry Pickard: I'm talking about separation of retail from wholesale and refining.

Mr. Richard Taylor: I'm not aware of any studies suggesting that the prices are more stable or less stable.

Hon. Jerry Pickard: Okay, so you have no idea that there are fluctuations?

Mr. Richard Taylor: I certainly know that the regulation in P.E.I. and Newfoundland, for instance, obviously evens out or takes away the spikes in prices. Their regulation of gasoline prices is another type of regulation, which they have imposed.

The Chair: Thank you, Jerry.

Just before we say thanks to these witnesses, Brian, you're in line for the next witness. We had split your time half and half before, so if there are no disagreements, do you want to take a couple of minutes with these witnesses? Then you'll start, Mr. Ervin.

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

I want to touch on page 5 of your report, where you mentioned that you intervened in the Petro-Canada and Ultramar joint venture. At the same time, you noted on the next page that the "increase in concentration refining level in Canada had ceased".

Are you not concerned then that...? We've had witnesses here today who acknowledged that...Petro-Canada closed out, eliminating a competition issue. We heard from other witnesses related to the procurement of their sources.

Second, other witnesses said they didn't see any more refining operations in North America, I think, 25 years on the horizon. Does that not give you some concern that we're not going to have more refining capacity, especially as OPEC and Canada and other nations pump out more barrels per day?

Ms. Sheridan Scott: I'm going to ask Peter to respond to that.

Mr. Peter Sagar: Thank you.

It's evident from the Hurricane Katrina situation that we are now at a point where we have reached optimum use of all of our refining capacities, virtually globally. And that is a concern. It means that any disruptions get magnified, and I think that's why we saw that big spike post Katrina. There's just no extra room; it's like an elastic band that's been stretched to the limit.

So yes, we would dearly love to see more refinery capacity added, but we are also seeing a situation where the industry is using its existing resources very efficiently, so it's a trade-off.

Mr. Brian Masse: Isn't that a competition issue, though, in the sense that we're closing refineries and eliminating the options for independence? And there's vertical integration in terms of.... I know that Petro-Canada is now shipping in from a competitor some of their stuff, and they have expanded some of their own operations. How is that good for the consumer?

Mr. Peter Sagar: Well, it's good for the consumer if the investment in those resources is being more efficiently used. That's good. But sure, it's tighter. That particular refinery, I understand, had some difficulties meeting environmental regulations and producing the gas efficiently. It was shut down.

Mr. Brian Masse: Right, and they could actually have invested in it and improved it.

Mr. Peter Sagar: That's an economic choice that gets made in every sector of the economy every day, and we don't regulate the capacity in sectors.

Mr. Brian Masse: No, but what it did do is eliminate a competition aspect for at least some of the independents, as we've heard.

Thank you for your comments.

I have one other quick question. In your previous investigations, have you examined what happened with oil and gas industry issues in natural disasters? Have you examined that before?

Mr. Richard Taylor: It wasn't a natural disaster, but we did look.... The major petroleum inquiry that took place in the late seventies and early eighties was really in response to the Arab oil embargo of 1973 and the deposing of the Shah of Iran in 1979, which had huge impacts, very similar to what we have been seeing recently.

Mr. Brian Masse: So is it fair to say that this is new ground that we're on, in terms of the past investigations?

Mr. Richard Taylor: In terms of natural disasters, we've never seen anything quite like this in terms of the significance of the impact.

Ms. Sheridan Scott: Certainly some of the observations by our expert in the most recently published report would be relevant to our assessment of the impact of the natural disaster.

Mr. Brian Masse: Sure. We can look at those reports and that, but they're out of context to what's happening now.

Ms. Sheridan Scott: Right. I'm just saying that his general observations might be useful, but we've not seen something like Katrina, followed by a Rita—as I don't think we're out of this yet.

The Chair: We noted the time. Thank you, Brian.

Thank you very much, Ms. Scott, Mr. Taylor, Mr. Sagar. We're going to excuse you.

We'll take a 30-second suspension and invite to the table Michael Ervin of MJ Ervin & Associates, and Pedro Antunes, the Conference Board of Canada. So we'll have a 30-second suspension.

● (1555)

The Chair: I'd like to call us back to order.

I'm pleased to have with us Michael Ervin of MJ Ervin & Associates and Pedro Antunes of the Conference Board of Canada. Thank you, gentlemen.

The clerk probably asked you to keep your remarks to about five minutes. That will give us adequate time for questions.

Brian has a little more time, then we're going to go to Marc, Brad, and Andy.

We invite Mr. Ervin to start first.

Mr. Michael Ervin (President, MJ Ervin & Associates): Good afternoon.

Thank you for your invitation to appear before this committee on the subject of petroleum prices.

I appear not as an industry stakeholder but as a consultant whose sole focus is upon the downstream petroleum industry. My firm, MJ Ervin & Associates, conducts ongoing and project-oriented research into petroleum markets, including the regular monitoring of retail pump prices in Canada, wholesale petroleum prices, crude oil prices, and a number of other industry price and performance benchmarks.

We conduct this research and market reporting on behalf of a variety of clients. Not surprisingly, a number of our clients are the very oil companies who are the object of much of our data gathering. This sometimes leads to the suggestion that doing work for this industry does not allow us to be truly objective industry experts. So from the outset let me state that my firm does not represent or advocate for the petroleum industry. This industry is but one of a range of clients to whom we provide consulting and research services. For example, we have recently completed an engagement with the State of Hawaii's department of consumer advocacy, assisting them as a stakeholder in their recently activated petroleum price controls. We are also working as project partners with Halifax-based consulting economists Gardner Pinfold in assisting the Province of Nova Scotia to evaluate regulatory options to address the concerns of small rural dealers in that province, while also considering the consumer interest.

I expect that this committee's interest today is focused upon two general questions. First, what has led to the recent significant increases in pump prices across Canada and are those prices fair? Secondly, is there sufficient ongoing monitoring of gasoline and home heating fuel prices such that an effective watchdog role is being fulfilled?

In the short time available for this brief, I would like to focus on the ongoing monitoring of prices rather than the immediate pricing situation. I expect that others will have addressed that matter in some detail, although I would be pleased to share some of my observations and views on this in response to any questions.

The monitoring of an industry as vital as the Canadian petroleum refining and marketing industry is essential in order for governments to provide a solid, factual basis for policy development. It is essential to the petroleum industry in order to provide critical measurements from an independent, objective, and knowledgeable third party. Of course, it is essential to consumers in order to provide them with an assurance of fairness as they go to fuel their vehicles or heat their homes.

Accepting the need as a given, what then ought to be monitored, and by whom? For several years until 1994, the answer to both of these questions was embodied in the reports issued by the Petroleum Monitoring Agency, under the auspices of Natural Resources Canada. The PMA was not a particularly effective monitor of fair retail gasoline and heating fuel prices, however, for two principal reasons. First, the PMA monitoring reports encompassed both the upstream and downstream sectors of the petroleum industry in Canada and largely concentrated on upstream monitoring. Second, the PMA did not report any of the most fundamental price and margin metrics that we now take for granted, such as refiner and marketer margins.

Part of the reason for this deficiency lay in the fact that the concept of wholesale rack prices had only begun to emerge in Canada in the early 1990s. The subsequent widespread use of rack price as a market-driven indicator of wholesale price levels allowed for the delineation of the downstream sector into its two principal subsectors of refining and marketing.

The measurement of gross margins in key Canadian markets of the refining and marketing sectors of the downstream industry are probably the two most fundamental and important answers to the question of what ought to be monitored. They are key indicators of refiner and marketer profitability and viability, and they can be effectively measured and reported on a daily basis.

Are there other measurements of price fairness out there? Of course there are, many of which, like refiner and marketer margins, our firm regularly tracks and reports upon.

This leads me to the question of who ought to fulfil the role of monitoring downstream petroleum prices. I feel that our firm's name is becoming closely associated with that role. Since taking over the tracking of retail and wholesale petroleum prices from Natural Resources Canada several years ago, we have expanded the number of monitored markets from about 15 to 45.

● (1600)

We have made current price data available to the public and a broader range of data available to paying subscribers via the Internet. Because many of these services are provided on a user-pay basis, the cost of this monitoring to the taxpayer is virtually nil.

The quantity, quality, and frequency of downstream industry price and margin data and related analysis available today far exceed what was provided by the PMA. Nonetheless, there is a need to expand pump price monitoring from a weekly to a daily frequency. The need for this is becoming increasingly clear: pump prices are far more volatile than they were in the past.

There is also an opportunity to increase the number of monitored markets in order for more small markets to have the same monitoring capabilities and benefits as larger markets currently do. The reporting of daily fuel prices, both retail and for heat and fuel, in over 100 cities and towns across Canada is not an unreasonable goal.

In order to do this we will be looking at new ways to collect price data, and this will involve the cooperation and support of the industry, perhaps support that is nurtured by a well-defined set of voluntary industry reporting guidelines, developed in cooperation between the industry and governments at both federal and provincial levels. These guidelines could very well encompass not only retail price reporting standards but also standards for reporting other key price activity, as well as metrics associated with supply and demand patterns.

In closing, as we enter an era of pump prices in excess of $1, the need for meaningful petroleum price and performance monitoring by one or more competent and objective organizations has never been greater. I feel that our firm has been effective at recognizing and responding to that need, and with some cooperation between industry and government we can continue to play an important and expanded role in assuring fairness in Canada's downstream petroleum markets.

Thank you.

● (1605)

The Chair: Thank you, Mr. Ervin.

Mr. Antunes, please.

Mr. Pedro Antunes (Director of National Forecast, Conference Board of Canada): Thank you very much for inviting me here. I suspect I will probably be the odd man out here today in terms of the witnesses you've seen.

The Conference Board of Canada four years ago was asked to do a research study on the gasoline markets by Industry Canada and Natural Resources Canada as an independent voice in the industry, basically because we didn't have any stake in assessing this issue previously to that. As well, the Conference Board, if you're not familiar, is an independent, non-policy-prescriptive, and not-for-profit organization. We like to think of ourselves as a think tank, and we maintain a certain arm's length from policy and industry decisions.

The report that came out four years ago was called *The Final Fifteen Feet of Hose*. I didn't bring copies with me, but they are available on the Internet, if anybody is interested in seeing the report. I also didn't bring any copies with me because I had a look at a more recent report that was done by the standing committee itself, the fifth report. Of course we see similar arguments once again, and I didn't feel it was worthwhile to double the amount of information on some of these topics.

I would like to highlight some of the findings we made in that study and perhaps talk a little about some of the issues we see in the energy markets overall in Canada and in the world today.

Let me just go back to our study. It was quite an in-depth research study. We consulted with industry stakeholders before the research in pre-consultation interviews, and once we put together the numbers and the analysis, we finished off with a number of post-consultations with the stakeholders again before the report was put together. The intent was really to get assessments of what the problems were and what perceptions were out there in the industry with respect to the gasoline industry, and to offer I think an independent voice on the results.

As I mentioned, we have not tracked this over time; this is not our mandate. We do track industry developments, but just in the sense that they affect the overall economic outlook. In fact, my role at the Conference Board is in the forecasting group, and that is how I track the energy prices.

In terms of the main findings, I'll just highlight a few very simple ones. First, we found a very tight relationship between crude oil prices and average retail prices in Canada ex tax, adjusted by the exchange rate. Empirically we found that a 1¢ increase in the oil price world-wide ended up leading to a 1¢ increase at the retail level on average. The amount of time that takes is of course variable, but we found on average about a month would be the lag time.

The other one that's often talked about is whether price movements are asymmetric. In a sense, that means that when oil prices are going up, do gasoline prices follow quickly? And when oil prices come down, do they come down just as quickly? We found that statistically the timing of the movements and gasoline prices and the size of the movements were the same. So the retail market seems symmetric.

The Chair: Excuse me, Mr. Antunes. A 1¢ per litre of world crude oil roughly is 1¢ per litre at the pump? That's not per barrel but per litre?

Mr. Pedro Antunes: Per litre, yes.

The Chair: Okay, thank you.

Mr. Pedro Antunes: Adjusted again for exchange rates.

The other finding, which I think has been talked about today, is that rack or wholesale prices move in tandem with those in the U.S. There's been a lot of discussion about that. We basically asked the majors and the regional refineries why that is, and they basically told us they track very carefully what's going on across the border when setting their own bulk terminal prices. They want to absolutely avoid import substitution and losing market share.

Another point is that retail margins came down over the 1990s. We think this is in line with the increases in the throughput and the rationalization we saw in the retail industry. Then there's the cross-sectional data. We looked at data across cities as well to look at differences in retail gasoline prices across regions, and we found that prices are really similar across regions if you account for throughput, the amount of sale per station. Transportation costs as well would explain those differences. Occasionally you do get price wars, but we found that the differences would dissipate in short periods of time.

We also talked about this: major and regionals may or may not cross-subsidize operations between upstream, refinery, and retail levels—some of this vertical integration. We don't know whether that happens or not. It's very difficult to assess that, and in fact it could disadvantage independents in the retail market. One point on that, however, is that I don't think there are any laws against cross-subsidizing within this industry. In fact, it's probably a practice that's ongoing.

Another point was that the environmental regulations that differentiate gasoline between regional markets is an issue of concern and could be an impediment to competition. At the time, of course, the regulations were increasing.

In terms of some recent observations and things that this committee might consider, we have seen a break in gasoline prices and oil prices recently. Of course, that's been brought about by reduction in capacity in refineries. I think this is a relatively new phenomenon we're seeing. Perhaps this is something the committee may wish to consider and study in more depth.

Oil prices are at the moment carrying a significant risk premium, not only due to the effects of Katrina, Rita, and the hurricanes now going on in the gulf, but also in terms of the whole oil supply chain. It's a very risky and—how should I say it? Basically world supply and world demand are in fairly good balance at the time. When you have such an inherently risky supply chain, with oil coming from all parts of the world, any small impact can have an impact on prices.

● (1610)

The Chair: Could you wrap up, if you don't mind? You have two minutes.

Mr. Pedro Antunes: Sure. The final two points are that the cost of building the refineries is high, environmental regulations have been increasing, and we have not seen a lot of new capacity come on stream, as far as I know in the last 10 years.

I would also point this out. The recent run-up in energy prices has been in tandem with the strong appreciation in the Canadian dollar. Where U.S. consumers are feeling the brunt of much higher oil prices, we're at least being somewhat balanced by a higher exchange rate. In other words, the exchange rate has come up 30% and it has taken something off of the U.S. price of oil.

The Chair: Thank you, Mr. Antunes.

Brian, we'll let you finish up your time slot.

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

I'll start with Mr. Antunes. One of the things I'm coming to a conclusion on here is that right now.... Let's take, for example, the 25% of gulf coast refining operations. What happens if they're not rebuilt? We have here in Canada 95% utilization right now. The industry doesn't seem to be bothered or to care about increasing that capacity; there's zero redundancy in the system. How can we continue to build an economic model based upon that vulnerability? In terms of your work, you talked about looking at the industry, but now wearing your other hat, how does it affect the overall economy? There's speculation involved as well too, but doesn't that seem like a poor economic model to have so much at risk because there's zero redundancy and no vision to increase capacity?

Mr. Pedro Antunes: I think it's definitely a problem. I think I mentioned that in fact refinery capacity has not increased lately. I think there are issues around environmental regulations and the cost of putting together a refinery. At the time, anyway, it costs over $1 billion to put a refinery in place.

[*Translation*]

Mr. Paul Crête: But it is still quite profitable.

[*English*]

Mr. Pedro Antunes: There are costs in fact, and there are environmental issues and environmental processes that have to be gone through before capacity is increased.

● (1615)

Mr. Brian Masse: You could have upgraded the Petro-Canada site.

Could you please just answer the question: is it not an incredible vulnerability for the rest of the manufacturing and consumer-driven Canadian economy to have 95% of capacity now and no vision to increase that capacity?

Mr. Pedro Antunes: It's a tough question for me to answer.

As an economist, what you tend to think is if the retail margins are there and there's profitability in the industry, you would see some capacity come on line. Of course, other costs would prevent that. Those costs could be things such as capital investments, regulation, and concerns over future regulations, including Kyoto, etc.

Mr. Brian Masse: I guess that means we're defeatist in terms of creating an increase in refining.

Mr. Pedro Antunes: You're also talking about world capacity. If you look even in the U.S., we have not seen a lot of new capacity come on stream. It's an issue worldwide, I think.

Mr. Brian Masse: It's not just here, I agree.

Mr. Pedro Antunes: Another issue is the refining capacity. I think we have enough capacity on light oil. More and more of the oil that's coming out now is heavier oil, heavier grades, and the refining capacity for those grades is not as great. Thus, we're even seeing a divergence in price between heavier grades of oil and lighter grades of oil. As an economist, you would think somebody's eventually going to build a refinery to treat heavier oil.

Mr. Brian Masse: That's a good point. We haven't talked about different grades.

Mr. Ervin, I can't get into a lot of questions. I have a quick one, though. It's in terms of your postings. Do you post the profits of the different oil companies? Do you post the CEOs' salaries and shareholdings? Do you post that? I know we've had record profits and we've had increased CEO profits from different organizations; I don't know about all.

The complaint I get from, for example, a cab driver from my community, or a truck driver, is that they can't afford to pass those costs any more. The industry and the CEOs seem to be doing some good profit returns. I'm only using five or six examples, but I don't have any of that. Do you post that information?

Mr. Michael Ervin: No.

Our price monitoring service really relates to simply that—price. We post retail pump prices. We evaluate them in terms of the ex tax price, the underlying wholesale prices, and a range of crude costs that relate to those. We also look at the margins, which are basically the consequences of the price levels. We don't report on corporate profits; those are certainly available from the corporations themselves. That is outside the scope of what we do.

The Chair: Thank you.

I believe Marc and Paul are sharing a time slot. Is that correct?

Marc, are you going to start?

[*Translation*]

Mr. Marc Boulianne: Thank you, Mr. Chairman.

I would like to speak to Mr. Ervin. I believe that as regards the principle, your presentation is in line with to the Bloc's proposal: to establish a monitoring office or structure. Such an agency could have played a role in the present crisis. Both the public and the Canadian Association of Petroleum Producers are increasingly in agreement on this. It is therefore vital, and I will come back to this. But first, I have a question I would like to ask you on the merits.

In your presentation, you spoke of price fairness indicators. You mentioned two items in this regard: the profit margins of refiners and retailers. What would be a reasonable margin for refiners in your opinion?

[*English*]

Mr. Michael Ervin: When we look at the history of refiner margins over the course of many, many years, we've seen that range go from the 15¢- to 18¢-per-litre range in the early 1990s, down to about 10¢ or 11¢ per litre in the mid-1990s, and in the last couple of years we've seen those margins trend back upwards again. That overall pattern of high margins in the early 1990s, down to a low in the mid-1990s, and then up again reflects a pattern of refinery utilization rates where, in the early 1990s, utilization rates were low, and that, from a simple financial point of view, we theorize, caused more refiner margins to manifest themselves.

As demand for petroleum products increased through the 1990s, they reached I think an optimal point from the consumer's point of view at a point in time where refinery utilization rates were just below 90%. That represented, really, optimal refinery utilization but still some spare capacity that would alleviate, or at least mitigate, any disruptions in supply North America-wide.

When we look at refinery margins and compare them to annual reports put out by refiners and marketers, we see it's really only in the last two or three years that refineries have been cited as being profitable. So I think I can say, assuming that those reports are honest—and it would take a great deal of separate research to validate those claims in the annual reports—assuming that those claims of lack of refinery profit are valid and accurate, margins at that time in the order of 10¢ or 11¢ per litre would be indicative of lack of refiner profitability. Again, that's based on a simple comparison of what the margins were at the time, using our methods for calculating and quantifying those margins and comparing them to, admittedly, reports that are put out by the oil industry itself.

● (1620)

[*Translation*]

Mr. Marc Boulianne: Between 1999 and 2004 there was a change. You speak of certain numbers. Do profits of 9¢ or 11 ¢ in 2004 constitute reasonable profits? We know this is excessive. It is a very big profit.

[*English*]

Mr. Michael Ervin: I can't really describe margins in terms of whether they are reasonable or excessive. They are driven by market conditions. Certainly it's fair to say that margins we have seen in the past several months are far in excess of simply meeting costs at the refiner level. The margins we've seen immediately after Hurricane Katrina and I expect, as we speak, as Hurricane Rita comes ashore, at least as a simple measure at the time of profits, would be...probably "spectacular" wouldn't be a bad word to use.

[*Translation*]

Mr. Marc Boulianne: I would like to return to the proposal that you are making to the monitoring office. I think that it was mentioned today. Just now, my colleague Denis spoke of the question of confidence, of credibility.

Don't you think it would be the role of government, rather than a private agency, to carry out activities relating to the collection and diffusion of data and prices? It would be preferable to have an independent agency. I do not say whether or not we have confidence. You yourself said just now that you had contracts with the companies. We would perhaps be safer with an independent agency.

[*English*]

The Chair: That's a tough question.

Mr. Michael Ervin: I might be a little biased in my answer, of course—

● (1625)

The Chair: Well, you've warned us.

Mr. Michael Ervin: —but I certainly stand behind the product we provide to the public. The methods we use are verifiable. I think the facts of the reporting we've done speak for themselves. The data itself has never been questioned. Certainly the perception of bias has been put out, but it's never gone further than that. My methods and my willingness to show anybody who cares to come into our offices and examine the prices we report.... Our office is an open book.

As to whether there should be a public sector organization doing this as opposed to a private sector one, perhaps. I can only say in response to this that since we have taken it over we have been motivated to offer a better service than the government had offered in the past, either under the auspices of the PMA when it existed or under the ongoing auspices of Natural Resources Canada when they were reporting simply 10 or 12 markets.

We've done better than that, and I think we've done better because we want to provide a service for which in return, of course, we receive compensation. But I feel that we have the ability and certainly the desire to meet the needs of our clients, who include government, industry, and the public.

The Chair: Good, Mr. Ervin. Thank you.

There are 30 seconds, Paul, or we could try to get you on later, at the finish of Marc's time.

[*Translation*]

Mr. Paul Crête: I must say that we are not at all questioning the quality of your work. However, for the public, justice, the appearance of justice, and information are important. Wouldn't a governmental public agency, financed only by the government, enjoy greater credibility, even if it did use your services in some way? Isn't the fact that we have been speaking about it every year for 10 years the proof that the situation is not clear enough?

[*English*]

The Chair: Do you have a final word on that? Very quickly, please.

Mr. Michael Ervin: Certainly we are limited in what we can measure, based on the willingness of the industry to provide it, which is why in my brief I suggest there be some voluntary industry guidelines developed in cooperation with industry and government to basically provide a set of standards upon which industry and government agree. Then, at that point in time, I think there is no need for an agency of the government, if not the government itself, to collect the data; we could certainly do it. There is a great deal of willingness, I believe, on the part of the industry to do it.

But before that, there have to be some standards set. I am aware that there are some initiatives on the part of the industry and the government to do this, and I would encourage it.

The Chair: Thank you, Mr. Ervin.

Brad Trost, please.

Mr. Bradley Trost: Thank you, Mr. Chair.

I'll make one short comment before I get into my questioning.

We are doing this study now when the price of gasoline is high. In many ways, this is the wrong time to do it. Unfortunately, governments—and politicians in general—tend to have a little bit of a problem: we only respond when there's a crisis. Maybe we should have thought this out a long time ago.

We're going to see this winter, with the natural gas price spikes moving up, that our constituents will begin calling us to say the heating bills are beginning to drive them out of their houses. But it's because of decisions we made years ago. Decisions we're making now with the Mackenzie Valley pipeline are going to influence these things in the future.

I made that comment in general; somewhere they have to go in. We should do this not just when there's an emergency, but think proactively, instead of having a government response when the house is essentially already burned down.

Now that my editorial is out of the way, I'll start with the questions.

When I look at this, I think we should get back down to basics. Ultimately, what can we control when it comes to the price of gasoline, to the price of anything?

There's the supply side and the demand side of the equation. Correct me if I'm wrong, but there's not a whole lot we can really control when it comes to the price of gasoline. We can't control the crude oil price, really, can we? Maybe we can do a little bit on marketing margin, but that's pretty tight. Would that be correct? The biggest item that we can do something on would be the taxes. Is that correct? The crude and the taxes are the two largest components. Is that correct?

● (1630)

Mr. Michael Ervin: Yes.

Mr. Bradley Trost: In your presentation you mentioned regional differentiations. There is a little bit of transportation, a little bit of throughput with the various sides—if they sell two million litres a year or 10 million litres a year—and a little bit of regulation and refining capacity. Again, is there anything else we can really control, other than regulation or taxation, to control the price? We'll get to the demand side later. Are those the only two things we can really control and influence in this global market?

The question is for both of you. I'm assuming this will be a quick one, unless I missed something.

Mr. Pedro Antunes: The quick answer is yes. I'd agree, there's not much else you can control.

Mr. Michael Ervin: Hawaii is undertaking legislation to control their wholesale price. Certainly even under that legislation, the regulatory agency has to be mindful of what price they set. At the end of the day—and it's in its very early stages—it remains to be seen how successful it is. If that were tried on a broad basis in Canada, one would have to make a whole bunch of other adjustments in order to substantially bring down the wholesale price. That's what the driver is today, of course, with the hurricane activity.

Mr. Bradley Trost: Irrespective of how we point fingers and blame, the two main places we can move it are regulation and taxation.

Mr. Michael Ervin: Correct.

Mr. Bradley Trost: I will go to one other place that was suggested today, and I'd like your opinions. Again, you may not be the most expert on it. There was some dispute with various witnesses over what part refinery margins play in the price—excessive or not excessive, depending upon which witnesses we were talking to.

It's interesting that refinery capacity has not increased dramatically in Canada in the last few years. We are a North American market. Would you have any comments on how much of an impact could be moved there if there were more refinery capacity in the country? Would the margins be too low? Could there be some degree of impact done there if things were done to increase refinery capacity—possibly refinery competition, as suggested by some of the independent producers?

Mr. Michael Ervin: It's important to understand that a new refinery in Canada, even if it were the largest refinery in the country and in operation tomorrow, would not significantly bring down wholesale prices. That would add to the North American pool of refining capacity.

When we talk about a new refinery, it can be in the United States as well as in Canada. It would not matter where that refinery would be built. It would simply add to the North American pool of refining capacity. It's important to understand the capacity issue in a North American concept and dismiss the idea that a new refinery in Canada would somehow solve Canada's problems.

Mr. Bradley Trost: Is there anything you want to add?

Mr. Pedro Antunes: Well, in principle, yes, if you add enough new capacity, you should increase competition and lower prices. Of course, the amount of capacity you'd need to add, as Mr. Ervin points out, is—

Mr. Bradley Trost: But it ultimately goes back to my underlying point that I am belabouring here slightly, that the only things we can really affect are regulation and taxation. On everything else we're just making a lot of noise, and we're not able to do anything more on the supply side. Correct?

Mr. Pedro Antunes: Correct.

Mr. Bradley Trost: Now on the demand side, what tend to be the most effective ways? The argument has been, let's do more things for conservation. What ultimately are the things that drive people to conserve more? I know that my car is more fuel efficient now than the one I had when I was in university. I drive more, so I'm beginning to eat back some of what I conserve.

On the demand side, what are the practical things that we can actually control? Is it going to have to be a tax hike, like the proponents of the carbon tax—the environment minister and so forth —keep arguing? On the demand side, what will create more efficiencies for consumers and for the Canadian economy? What did you find in your report? What perhaps do you see when you run your metrics or numbers? I know you analyze prices more as causes or reasons, but do you have any comments on the level I mentioned?

Mr. Pedro Antunes: Well, it's a difficult question, because you're asking whether we should do something or not, whether we want to dissuade consumers—

Mr. Bradley Trost: Assume that we would, because that seems to be the government's perspective, that people should use a lot less— and for different reasons. Let's just assume.

Mr. Pedro Antunes: I think we have to be careful, because on the one hand we're basically seeing a bit of a tightening of world supply, if you like, versus world demand, and we're seeing prices rise, and we have not yet seen a lot of reduction in consumption from the U.S. market and the Canadian market in fact.

But you have to assume that at the margin, even though it takes a while.... In other words, consumption of gasoline and energy in general tends to be fairly inelastic, meaning that people don't change their consumption habits very quickly. But if the price hikes we're seeing are drawn out for a longer time period, for sure this will have an impact on consumer behaviour and will reduce energy consumption.

● (1635)

Mr. Michael Ervin: Aside from very intrusive regulations, the one thing that can bring both crude oil and refined product prices down is reduced demand, so that demand falls to a point where the utilization rates in North American refineries get to somewhere below 90% again.

What can affect that reduced demand? I think there are some very exciting technologies—automotive technologies—on the horizon that have the potential for reducing demand. I believe that's one of the reasons that there is lack of interest in building a new refinery, because of the fact these new technologies would really make a new refinery look like a bad investment 15 years from now.

One possibility from a governmental action point of view may be to introduce incentives to invest in hybrid cars, for instance, which people admittedly don't invest in now because of the high cost. Even at today's prices, they do not see the payout. And if there were some sort of incentive for consumers to get into that technology, then we would not only be doing the environment a favour, but we would also be getting this pump price situation addressed.

The Chair: Brad, we're actually way over time.

Let's just try to do a series of short questions.

We'll start with Andy, then Dan, then Jerry.

Go ahead, Andy.

Mr. Andy Savoy: I have a short question.

I know you're an expert, Mr. Ervin, on price tracking and gasoline pricing. Have you noticed a trend in terms of the regional discrepancy or regional differential between Atlantic Canada and the rest of Canada, ex taxes? I've crunched some numbers. It looks like there's been a fairly consistent—at least in the last month—4¢, 6¢, 7¢, 8¢ differential in prices between Atlantic Canada and other jurisdictions. In Alberta, I think it's a little more, at 7¢, and 5¢ or 6¢ in Ontario. Have you noticed that trend, and to what would you attribute it?

Mr. Michael Ervin: Certainly, in looking at numbers in this immediate couple of weeks' time period, we've seen a differential. That really relates to Hurricane Katrina and the fact that the supply region that hurricane affects is the eastern seaboard of the United States and as a consequence eastern Canada. Western Canada has been much less affected, and that's evident in terms of lower wholesale prices relative to eastern Canada. It's also evident in lower ex tax pump prices.

On an ongoing basis, we don't see odd situations such as we're seeing right now. Ex tax pump prices tend to be pretty similar right across the country, with some exceptions. If you look on a market-by-market basis, Toronto, for example, tends to have much lower pump prices in general than Halifax, but the average station in Toronto pumps about eight or nine million litres, whereas your average station in Halifax pumps only four or five million litres. So many markets simply, at the end of the day, wind up with a higher margin in order to produce sufficient revenue to meet the operating costs. In a market such as Toronto, with very efficient throughputs, there is less margin required, and the price basically is bid down as a result of that high efficiency.

The Chair: Is that your short question?

Mr. Andy Savoy: Yes, that's good. Thank you.

The Chair: Do you have a short question, Dan?

Hon. Dan McTeague: Michael, we've not met over the years; I have actually looked at your numbers.

I noted a couple of things. I have no difficulty with your doing your job for the oil industry, but I do have a problem if it translates itself into working for the government, because perception for many of us is reality.

In particular, I take exception to your use of methodologies. I'm in Toronto. We had a refinery up until a couple of weeks ago, but you continuously use Buffalo as the comparison, and you do this right across the country. These are reference points that you use. Why they are etched in stone is only that you've made them that way.

There are notionally no transport trucks coming up to Toronto to drive up prices. If anything, it is the other way around. I noticed your comments about the prices always being similar between Buffalo and Toronto, and yet on August 26, a day around Katrina, we were 2.27¢ a litre higher wholesale in Toronto; on September 2, it was 3.17¢ a litre. These were not reflected in your statistics.

This is where I don't want to get bogged down about whether or not you should or shouldn't. I've said very clearly, if I have to take an oath of office or if as a member of Parliament I have to observe certain conflict guidelines, I think they should be consistent throughout government in terms of transparency.

I take exception to your comments about new refineries and ratcheting down supply with demand. Michael, I think you understand well that this industry has been able to rationalize product not by simply saying demand is higher, but by actually shutting refineries, closing tank terminals, and basically making closed markets right across this country. If demand dropped 10%, there'd be nothing stopping the three companies, or two companies or four companies, that control price identically wholesale each and every day above the United States prices from simply dropping the utilization rates down and rationalizing or dropping another line.

The concern I have is that if you are not prepared to accept that there's a fundamental flaw with this question of supply, what would stop me from coming in, joining Mr. Coderre and perhaps Mr. Duncan, starting our own company and saying “I don't care what the international price of gasoline is; I want to get 100% of the market, and I'm going to drop the wholesale price by 10¢ a litre”? You know full well that without protection, without effective laws, it's quite conceivable that those other three companies will simply meet the demand, or probably go below that and put me out of business, as ARCO did back in 1996-97.

Given all of the dysfunctionality of the market, I don't see how you can make an argument that somehow dropped demand would get us out of this pickle we're in, which is that the refiners are dogs that won't hunt. These are people who will not produce product, and of course we're seeing supply levels, as you've rightly indicated, through the department of energy, which does not use a private sector organization to determine that there is no real basic differentiation in supply this year from last year on almost all energies.

I think you would agree with that, wouldn't you?

● (1640)

Mr. Michael Ervin: I hear a couple of questions there. One is, if you and some of your close friends were to build a refinery and drop the price by 10¢ per litre, you would have the lowest price of wholesale gasoline, I assume, in that scenario. I could also pretty much predict that at some point in time you would not have any gasoline to sell; that gasoline would be sold very quickly. It would be sold not only in Canada, and if the competitors in Canada chose to lower the wholesale price by 10¢ relative to what was in the United States as well, then there would be massive lack of supply to Canadian gas stations. The product would wind up in the United States. You might pride yourself on having the lowest wholesale price, but the consequence would be that there would be no gasoline to sell at that low price. So it would be a semantic notion that you had that price at that level.

Hon. Dan McTeague: Let me understand what you've just said to this committee. You're saying that if I drop my prices of refiner, I wouldn't have more product, but yet there's plenty of crude out there. You would admit that there's plenty going around. In fact, crude rates right across Canada and across North America are at an all-time high. Are you suggesting that it would run dry? A normal circumstance of a free market existing in this industry would mean you would have more supply brought to your refinery. Are you suggesting somehow that there is...?

Mr. Michael Ervin: A refinery can only produce, for argument's sake, and we seem to get into this, 300,000 barrels a day, for example. Yes, that 300,000 barrels per day would find a market, to be sure. It would not necessarily be a Canadian market, however.

Hon. Dan McTeague: Put it in storage, Mr. Ervin, which is what most of them do. Right now you have refineries shutting down as opposed to those that are being built, and as a result, the wholesale prices in places like Toronto are above even the benchmark prices you establish, which are mythical. I have real concerns about that, and it's one of the reasons we're in so much trouble.

The Chair: Thank you, Dan.

We need to be out of this room by 5 p.m. so that the staff can reconfigure the room for our large panels tonight. We need to give them that time, plus you need an hour to have dinner. We have John's motion to do. I see that John has a very short question, and then we're going to thank our witnesses. Also, Jerry has a short question.

John and then Jerry with two short questions.

Mr. John Duncan: We've been spending a great part of the day talking about the price of gasoline as it relates to the pumps. The public concern immediately may be about that, but this winter it will certainly be about the price of heating fuels. Right now in the North American marketplace, the price for natural gas is higher than in most of the rest of the world. I have my own theories and thoughts about why that is so. Most of it has to do with the fact that there has been almost no leadership in terms of an energy strategy for our country, and indeed, in the U.S. there are now new demands that the U.S. do the same and go in that direction.

Do both of our witnesses have some quick observations on heating fuels that would be useful for today's deliberations?

● (1645)

Mr. Pedro Antunes: I think, again, natural gas is also a North American market. Natural gas runs through pipelines, and it's very difficult to run it, even though there have been some developments in terms of liquefied natural gas and being able to ship it. It's very restrained in terms of its availability. I think, yes, a few years ago natural gas was the boom product of the western provinces, and there was a lot of capacity put in, in terms of pipelines and through accessing markets in the U.S.

What's happened recently is that they found a lot of wells, but a lot of the reserves that were available were just not as deep as they might have thought originally. So production of natural gas has not really kept pace with demand, certainly in the last few years. We have seen strong price increases lately.

The other issue, of course, is that all energy, all fuels, are substitutes for one another, so when you do have oil prices increasing, you will eventually have electricity and natural gas prices following.

The Chair: Mr. Ervin, do you have a comment?

Mr. Michael Ervin: I'd only add to that by saying that the situation we're describing with respect to gasoline and the lack of spare capacity to meet demand certainly relates to furnace oil as well. Refiners have to really consider, very carefully, at this time of year and in spring, when and to what degree to basically ratchet down gasoline production in order to start building in heating oil inventory. That's not such an issue in western Canada, but it certainly is in eastern Canada, where there still is a large demand for heating oil. It presents itself as an issue really equal to that we experience with gasoline right now. Certainly the hurricane activity, although much of the immediate focus has been on gasoline prices, is going to manifest itself in terms of higher heating oil prices. As well, the shutdown of refineries in the U.S. gulf coast will have some impact on decisions being made right now in terms of swinging from one product to the other.

The Chair: Thank you.

We'll go very quickly to you, Jerry.

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

I've been very surprised at a couple of comments I've heard from my Conservative colleagues across the way. Mr. Chong suggested earlier that this committee is just a waste of time today and we shouldn't be here. I know you've taken time to be here and to bring us your expertise. I think it's very valuable, and I'd like you to comment on that. But there are a couple of others too.

In this cross-examination a moment ago it was suggested that government should do what they can to control pricing. Do you believe government should be controlling pricing? I think here we have another problem again. They're suggesting—I'm surprised—controlled pricing; that's coming from Conservatives.

Thirdly, they've suggested that the government wishes that consumption be reduced. The fact is that we want every consumer in this country to look at consumption practices and do the best they can. I think that goal is not only the government's but the industry's goal, and everyone else's, I would hope.

I think there are certain elements to the costs, and those are going to remain, and I do think this is a valid exercise, but maybe you could comment on those.

● (1650)

The Chair: The last comments will be from our witnesses before we go to John's motion.

Mr. Michael Ervin: I think this is a valid exercise. The more that people can understand how the markets function and what ought to be done—or ought not to be done, for that matter—is a very important and honourable objective.

I certainly feel that way. I've taken the day to come from Calgary to try to provide some of my insights, such as they are. I really do feel that, for example, the objective of establishing monitoring standards between government and industry is a very critical one to help people understand, because some of these issues simply are ones of lack of understanding, as opposed to negligence on the part of the government or the industry.

The Chair: Mr. Antunes, do you have a comment?

Mr. Pedro Antunes: I would only say that you asked the question, should government control prices? I think the question that was put forward was, how can the government control prices? That's a different issue altogether.

If you were to ask me whether government should control prices, I would say that's a very difficult task to try to do, and it brings up all sorts of problems, not only in terms of efficiencies but in terms of effectiveness and ability to do so and in terms of who will be paying the cost of that.

In terms of whether consumption would be reduced, I think that's an altruistic end. Everybody is looking to reduce consumption, and we're all concerned with the issues facing our environment and our planet.

The Chair: With that, we thank you both, Mr. Ervin and Mr. Antunes, and excuse you with great gratitude.

Members, we have a few minutes of work to do before we can take our dinner break.

Just before we get to John's motion, I would remind you that we have until 6 o'clock. Please be here by 6 o'clock. We have two round tables of an hour and a half each, with an excellent set of panellists, a wide variety of panellists, six for each of the sessions.

Secondly, we left open the possibility of time tomorrow morning, should some emergency or urgent need arise today. Does anybody feel that we need a meeting tomorrow morning?

[*Translation*]

Mr. Paul Crête: No, but we have to vote on the motion.

[*English*]

The Chair: Okay, we can discuss Friday a bit more, but I would say the consensus at this point in time is that we're not meeting tomorrow. We may have future meetings, of course.

John, please put your motion that you had sent around.

Mr. John Duncan: I move that the committee invite the Minister of Finance, Ralph Goodale; the Minister of Natural Resources, John Efford; the Minister of Transport, Jean Lapierre; and the Minister of the Environment, Stéphane Dion, to appear before the committee no later than September 29, one week from today, to discuss how fuel prices are being addressed by their departments.

The Chair: Do you want to speak to it?

Mr. John Duncan: I understand there's an amendment to that, which I consider friendly, to add the—

The Chair: Let's just read that into John's motion rather than debate it as a separate amendment.

I think that's yours, Brian.

We'll just read it into the motion so we can have one debate.

Mr. John Duncan: It's that the Minister of Industry, the Honourable David Emerson....

On that basis, I already offered my arguments this morning that I think they are the individuals who represent the people who can do something about pricing issues and therefore we need to hear from them. This meeting was called on an emergency basis. If it's an emergency for backbenchers, then why isn't it for ministers? We're all going to be here basically from now until September 29th, so it's an appropriate time for them to appear.

The Chair: Jerry, Paul, Brian.

Hon. Jerry Pickard: Thank you, Mr. Chair.

Certainly we're not opposed to having ministers come in and discuss it. We certainly realize that there will be, more than likely, an emergency debate in the House this coming week. We also realize the committee has a timeline and relatively restricted hours to meet next week. It's the first week back in Parliament. There are very busy schedules on behalf of ministers. To set out a schedule for five ministers is probably going to require extra meetings, and I think everybody here should be aware of that, or we can extend that timeline a bit to make sure we have some flexibility in making sure we can accommodate the committee as well as the ministers coming in. I'm not sure if you want to start to line up all five ministers and run through one after the other, if that's the goal, but I think there should be some discussions about how we can fit this in, the timelines in which we're going to do it, giving the ministers notice and giving them time to do some preparation before coming here. I think all of those things are critically important, and what their schedules are at this point in time. So there are several factors.

Possibly I would suggest that we support that motion, but maybe there should be some negotiations, certainly, about September 29 as the day. I just can't conceivably see that easily happening, quite frankly. The committee has two meetings next week, and getting all five ministers lined up and in may logistically be impossible.

● (1655)

The Chair: Let me ask you a question. You hear the parliamentary secretary say there's no disagreement with the notion of having the ministers here, but it's just the timeline. Would you accept a friendly amendment if it was either as soon as possible or there was another date, and then we could dispense with it?

Then we'll go to Paul.

Mr. John Duncan: I have a bit of a problem with leaving it open-ended. It was the Liberal members of this committee who were in such a panic to get us back here on an emergency basis. I brought up this question about the ministers last Friday. I put in my notice two days ago based on not getting a consensus of bringing it into the mix last Friday, and now I'm being asked to write basically a blank cheque to somehow leave it open. I've been around here long enough to know that if we leave wiggle room for the ministers, they'll take it and more. If you're going to change it, let's hear your change. Let's not leave it open-ended.

Hon. Jerry Pickard: I would recommend just so that we have a reasonable timeline—I don't mean to interfere and I don't mean to try to correct things either—but I believe the Bloc, the NDP, and the Liberals were all in favour of coming here today, and it was only the Conservatives who opposed. When we come down to the point, maybe two weeks would be a reasonable time period to organize this. If we extend that to October 3, give it the extra week, I think it will be a lot more accommodating and probably a lot more achievable.

The Chair: Very quickly, Paul and Brian, and then we'll see what you think of October.

[*Translation*]

Mr. Paul Crête: We must agree on the wording: " as soon as possible, September 29 at the earliest. " Therefore, the ministers must be called together as soon as possible, September 29 at the earliest, or in the next few days, the following week at the latest, saying that it is our wish that it be as soon as possible, September 29 at the earliest and possibly four or five days later, at most. In fact, it would be important for the four ministers to be present the same day. Otherwise, we will miss out on an important variable in the puzzle, unless the Prime Minister wishes to come.

[*English*]

The Chair: Brian.

Mr. Brian Masse: I have more of a research question. Last session there was a time where the Bloc and the Conservatives didn't come to committee and there was a question of quorum. The minister was appearing at that time and we didn't actually have a full session, and the minister did spend some time with me.

But I understand that there should have actually been quorum at the time and it should have been recorded. I would like that answer so that if we have any type of a disruption of any sort.... I'm bringing it up specifically so that we get that specifically answered so that it's on the record.

I don't want to go through this again and not have everybody know what the consequences are.

The Chair: The clerk will check into that.

If we just reword the motion to October 3, is that okay, John? Is that the Thursday following? Is that October 3? Whatever the Thursday is.

● (1700)

Mr. Andy Savoy: On a point of clarification, do you want them all at once or individually?

The Chair: No, October 6.

Andy, I don't think you have ministers coming together. They have to come separately, don't they?

Hon. Denis Coderre: It depends on the situation, but usually I never see ministers together.

The Chair: We could have them in a series, but that's a logistical protocol thing. That's a detail over which we have no control—it's either together, or one after the other, or what have you.

But if John is agreeable to making that one week later, October 6, so by October 6 can we deal with...? Would you take that as a friendly amendment?

Are we okay with that? All in favour?

Some hon. members: Agreed.

The Chair: See you at 6 p.m. Please be on time.

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