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Chair

Mr. Brent St. Denis

Standing Committee on Industry, Natural Resources, Science and Technology

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● (1810)

[*English*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): I'm going to call to order this September 22, 2005, evening session of the Standing Committee on Industry, Natural Resources, Science and Technology.

We are very appreciative that a number of organizations have offered delegates to our sessions today on the recent—unusual, we think—retail price hikes in gasoline, the expected problems this winter on heating fuel, and the effects on fuel prices in the wake of the recent Hurricane Katrina in the gulf and possibly in the next day or two with Hurricane Rita approaching the shore of the gulf coast of Texas. It's very timely, if sad, that we have so many people in trouble over these terrible hurricanes, but it gives us an important occasion to look at and try to understand better what's happened, so you've been invited here.

I want to say thank you to the clerk and the clerk who helped her, Pierre Rodrigue, and Dan, and all the clerk's staff, for helping set up this day's session on pretty short notice, and to all my colleagues, who have been most cooperative. We have a very tight time within which to have our study, so I appreciate that you've come here for about an hour and a half altogether.

In relation to the orders of the day, the agenda, I'm going to ask each of you to present for a maximum of five minutes, please, so that we'll have lots of time to ask you questions. If you miss saying something in your presentation because I had to cut you off, you can be sure you'll have a chance in the question and answer period to mention something you didn't get a chance to mention. I won't speak any more; we're going to get right down to business.

Having thanked you, I'm going to ask David Rolfe, president of the Canadian Federation of Agriculture, to start us off. Again, if you could try for a maximum of five minutes, we'd appreciate that.

Mr. David Rolfe (President, Keystone Agriculture Producers, Canadian Federation of Agriculture): Thank you. It's certainly my pleasure to be here this evening to present to the committee. I have just one correction, though. I'm not president of the Canadian Federation of Agriculture; I'm standing in for the president of the Canadian Federation of Agriculture.

The impact of increasing fuel prices on agriculture is certainly severe. We're in a harvest mode in agriculture, and it's unfortunate that this price spike happened at a time of maximum fuel consumption. The combines are rolling, the harvest equipment is rolling, and it comes at a very unfortunate time.

To give you some statistics on fuel consumption within agriculture, the latest data we have are for 2003. The consumption of diesel fuel within agriculture was 2.25 billion litres during 2003; of gasoline, it was 1.52 billion litres. As you can see from the significant rise in fuel prices that we're experiencing, the impact on agriculture will be great.

We also have some additional numbers, using the latest Statistics Canada census data on farm numbers. The increase in fuel costs to the industry will be $757 million. If we look at the number of farms in Canada and the income per farm family, the income in 2003-2005 will be $3,734 per farm. That's a minute number; it's a very significant number, because we're in a period of depressed commodity prices. We're in a period of escalating input costs, and the impact on farms is going to be significant.

The estimated income was $3,734 per farm family. If we take the fuel increase into account, the increase in fuel costs will amount to $3,369, thereby swallowing up most of that farm income and essentially leaving producers without a bottom line, which will be very unfortunate.

But the increase in fuel—the increase in diesel, the increase in gasoline—is just the beginning of the picture for agriculture. Those are direct fuel costs, direct fuel consumption issues within the industry; there's also the bigger picture that we need to take into account. We're also experiencing a rise in natural gas and propane costs. As we move into winter months within agriculture, significant heating costs arise for livestock production, for horticulture production, for vegetable storage, and that's certainly going to be hard to deal with in an industry with very tight margins.

We also have to look at other issues. Everything that comes into the farm or goes off the farm has a trucking expense to it, and those trucking expenses have fuel surcharges attached. In western Canada most of the grain moves by rail; there are surcharges attached there.

It's very difficult for the industry to pass on those costs. Most other industries have some form of surcharge that they're able to put on. The airline industry, the freighting industry, or any other consumer good will generally have a surcharge attached to it because of the fuel issue. Agriculture is in a somewhat disadvantaged position when it comes to putting on any kind of fuel surcharge. For example, it would be very difficult to put a fuel surcharge on every bushel of grain, every hog, or every steer that left the farm, so it puts us in a difficult position.

As we move into fall and into spring of 2006, we are looking at the possibility of higher fuel prices and higher costs for inputs. Production of fertilizer, for example, especially of anhydrous ammonia and urea, is a huge consumer of natural gas. That will cause some extreme difficulties pricing-wise, input-wise, when it comes to putting the crop in the ground in 2006. Prices have skyrocketed to almost unprecedented levels, and given the depressed state of agriculture and the unfortunate inability to pass on any extra cost, it's certainly going to create some very difficult circumstances for the industry as we move through the winter months and into the spring of 2006.

So it's not only the fuel we burn in the equipment; it's also the compound effect that other industries have on passing back costs to the very basic industry, which is primary agriculture. It's certainly going to cause some difficulties as we move forward.

● (1815)

The Chair: Thank you very much. I appreciate your being right on time with that.

If I failed to mention it, you may already know this is being televised on CPAC across the country, so you have a chance to advise not only us of your feelings and your understanding of the situation, but your constituencies as well, and the public at large.

With that, we'll go to the Canadian Federation of Independent Business and Mr. Garth Whyte.

Mr. Garth Whyte (Executive Vice-President, Canadian Federation of Independent Business): Thank you, Mr. Chair, and I want to thank the committee and the clerk and staff for helping. They've been very helpful. We've had a week's notice from them. I think they put a pretty good package together for you. I hope you have this document in front of you, because I'm going to refer to it.

We are not experts on fuel prices, but we are experts on small-business issues. We represent truckers who are seeing their profits disappear. We represent manufacturers who are seeing their shipping costs increase. We represent hoteliers who are worried about fewer guests. We have farmers as members; as David told you, they use fuel to harvest their crops and fuel to ship them. We represent retailers. As you know, we have 105,000 business owners, and many of these people are worried not only about their businesses but their employees. Here's what they're telling us—I have a picture overview here and I want to walk through it very quickly.

The first of the three pages basically talks about the importance of small business and mid-size business to the Canadian economy; they're 45% of the GDP and 60% of total employment. The second page I refer to is our business barometer; unfortunately we won't have it until next week, but it's an incredible indicator of what's happening in the economy. We're holding our breath on their hiring plans, but basically this shows that optimism was going down before these fuel prices.

I do want to focus on graph 4 in this, where we ask, “Based on your expectations, your performance in the past 12 months, what has worsened?” This was done in June. This is before this certain crisis. It was before Hurricane Katrina. You will see that 78% identified energy prices as the most significant factor impacting their businesses. This was before the need for this committee.

All the next graph shows is that many of our business owners expect to increase their prices by less than 2%. Only 31% said they were going to increase prices by more than 2%. They cannot pass on a lot of these costs.

Now let's get right to the fuel tax issue. I'm referring to page 6. We asked, and we have 10,000 responses. We cut it off on September 2, 2005. When we asked, “Should fuel taxes be reduced to control rising energy prices?”, 74% said yes, 21% said no, and 5% were undecided.The next one, on page 7, shows this in every province. It's interesting to note that Alberta has one of the highest responses, with 80% saying the fuel taxes should be reduced, compared to Ontario, where 70% at the time said they should be reduced. You can see the rest as it goes down.

The next one is what I hope the committee will find interesting. We asked, “What impacts are current fuel prices having on your daily business profitability?” We did this for the committee. We have 1,800 responses. Of those, 83% said their profitability has been reduced; almost one out of five—19%—said that their businesses were losing money.

Then—not surprising to some of the other panel presenters—who is being impacted the most? If you notice, the blue represents the businesses losing money as a result; 32% in the transportation sector say they're currently losing money. Now, this is before the spikes that we're going to talk about today. In the primary sector, agriculture, hospitality, and the retail trade industry, one out of four is saying they're losing money, and that's at around $1 per litre.

The next one is “How sustainable is your business operation if fuel prices stay at today's levels?” That price is not at $1.05, not at $1.20, or not at where it's at in Stoney Creek, where a reporter told me it's at $1.99. They were asking around $1. In answer, 45% said they can deal with the current fuel prices with only minor adjustments; 52% said they're going to have to do major adjustments to cope; 9% of that 52% said their businesses may not be able to survive if prices stay at today's levels. By sector—and this is what David was saying—24% of the respondents in the agriculture sector said their businesses may not be able to survive if prices stay at today's levels. In transportation, one out of five said that their businesses will not be able to survive. Primary is at 17%, and you can see the list as it goes down.

● (1820)

The next one is on page 12. Should there be a multi-year tax cut plan? This is our first recommendation. A lot of uncertainty has been created by high fuel costs, but if we came in with a five-year multi-year tax cut plan that looked at fuel as well as personal income taxes and corporate income taxes and lowered the costs generally, 77% of the respondents—and we had 15,000 respondents—said that's one of the strategies that you should consider.

Then our remaining recommendations are that the gas tax should be lowered overall. We're wondering why the provincial and federal gas tax take should be between 40% and 50% when it's around 20% in the United States. We're wondering why, and we think you should eliminate the 1.5¢ per litre gas excise tax aimed at reducing the deficit when we haven't had a deficit for several years. We think you should eliminate the tax on tax. Why should we have a federal excise tax, then a provincial sales tax, and then have the GST on top of them? We agree—I think the committee was pressing for this—that the Competition Bureau should monitor closely the developments in the industry for any evidence of price fixing or price gouging. We feel that more power should be given to the Competition Bureau just to monitor the industry. We do not want to force anything on any industry, but sometimes they're restricted by unfair competition, and we need someone in government to just look at this and find out what's going on.

Thank you, Mr. Chair.

The Chair: Thank you very much.

All of you have done a lot of work in a short period of time to help us out. We appreciate it.

Mr. Graham Cooper, the Canadian Trucking Alliance.

Mr. Graham Cooper (Senior Vice-President, Canadian Trucking Alliance): Thank you, Mr. Chairman. I will give you, I hope, a brief overview of our industry and how the current pricing situation is affecting us. I'll try not to inundate you with too many numbers. Let me just give you a bit of a snapshot.

Diesel fuel costs in general represent the second largest component of the trucking industry's cost structure. The numbers vary, depending on the kind of trucking operation, but in general, next to labour, fuel is the largest single component of the cost structure. About 20% to 30% of a truckload carrier's costs are accounted for by fuel.

Forgive me if I throw some terms out that you may not be familiar with, but for a less-than-truckload carrier, which is typically a carrier that operates a terminal network and carries a number of small loads, the fuel component will be somewhat smaller as a percentage simply because they have other large costs, such as the operation of the terminal network.

There are about 600,000 heavy trucks in Canada, approximately 280,000 of which are what we would think of as highway vehicles, the heavy class 8 vehicles that would haul between cities, between provinces, and internationally.

There are about 10,000 motor carriers in Canada, depending on how you count them. It's never an exact science, but it's in that order of magnitude. Those carriers carry about 90% of consumer products domestically and, as I'm sure you know, over two-thirds of Canada-U.S. trade.

Specifically with respect to fuel pricing, when the first, or should I say perhaps the latest, round of price spikes began in around 2001, the motor carrier industry had, for the most part, contracts in place with their clients, their shippers, that didn't take into account or were unable to react quickly enough to changes in fuel pricing. Since that time, the majority of trucking companies in this country, and indeed in the United States as well—and in Europe, I might add—have put in place a system of fuel surcharges. Basically what that does is track the price of fuel, refer it to a base price at a point in time around 2001-02, and adjust the freight rate.

To give you an example of the impact that is currently having, the surcharge for fuel for a domestic truckload operation, which is the truck that carries typically one load for one client to one location, is in the order of about 25% of the freight rate.

Let me give you an example of what that means in real life. It varies, of course, depending on commodity, depending on distance, and those kinds of things. Just hypothetically, I've picked the example of a load of household appliances.

If you take a situation where domestic appliances—refrigerators, dryers, or whatever they may be—are travelling from southern Ontario to the Montreal area, that truckload, which is about 50 appliances typically, depending on the size, will move for anything between about $800 and $1,000 in total. That's before the fuel surcharge.

If we take the $900, which is around that midpoint, a surcharge of 25% obviously would be $225—in other words, $4.50 an appliance. That's just the fuel component of that appliance delivered to presumably its wholesaler.

I must add that none of these surcharges that we're talking about go to the carrier's bottom line. Reference was made a little earlier when Garth was speaking about the razor-thin margins that our industry operates on, has for years, and probably will always do so, at least in the foreseeable future, because of the level of competition and other factors. In some cases the surcharge the carriers are charging to their clients is not even enough to cover the increases in fuel, particularly when we're seeing high volatility such as is the case today. Certainly the surcharges provide the carriers with a degree of protection, but it's not ironclad. Certainly the volatility exacerbates that kind of situation. So you could find situations where, for example, the carrier surcharge was put in place on a Tuesday, and by Thursday he's losing money.

● (1825)

I'll wind up my initial comments there, Mr. Chairman, and I'll be happy to take questions later.

The Chair: Thank you.

I know in my own riding in northern Ontario there are lots of logging truck operators, and they're feeling the pinch, as all your members are. Thank you.

We'll go to Clifford Mackay from the Air Transport Association of Canada.

Mr. J. Mackay (President and Chief Executive Officer, Air Transport Association of Canada): Thank you, Mr. Chairman.

ATAC represents commercial aviation in the country, and that includes about 300 members, ranging from very large and familiar carriers like WestJet and Air Canada down to your local flight school and all shades and descriptions in between.

I want to focus my comments today on three things. I want to give you a bit of contextual information as to what this situation means to our industry and our customers, talk a bit about the government's role in it, and provide a couple of recommendations to you.

Let me start with the context. As it is for the truckers, fuel for our industry is the second largest cost we have. Our largest cost is labour, and by far our second largest cost is fuel. In the last couple of years, just to give you some prices, fuel for us has increased from around $29 U.S. a barrel to $38. Now, of course, we're sitting well above $50. Some recent estimates on a global basis have indicated that if the average fuel prices this year are in a range about $57 U.S., our fuel bill globally will be $100 billion, which is twice as much as it was 12 months ago. The same situation applies here in Canada, because we're subject to the same pressures no matter where we are in the world.

What are we trying to do to cope with it? Our larger companies, such as Air Canada and WestJet, have both introduced two rounds of surcharges in the last few months, but like the truckers, I must say that does not recover the full cost hit by any stretch of the imagination. They're also pursuing fuel hedging strategies and other kinds of strategies to maximize their efficiency in every way they can. But notwithstanding all of that, it's still starting to eat into profitability in a major way.

In Air Canada's case, every $1 rise in the price of oil takes $28 million off the bottom line. Air Transat recently announced that their profits are going to be significantly diminished as a result of fuel, and Clive Beddoe this week indicated that while he expected WestJet to be profitable this quarter, it is not an easy quarter by a long shot. If you look more globally in the United States, two more of the majors went into chapter 11 in the last week, and fuel prices were what tipped them over the edge.

So these are very significant problems for us.

I need to mention the smaller carriers. They have even fewer options and operate on even thinner margins than many of the larger operators in our industry. They cannot hedge. They don't have the financial capability. They don't have the operational flexibility to try to do these things, so they take it right on the chin. You heard earlier about small business in general. Well, it's no different in our industry.

The cost of crude alone is not the only cost driver for us. I have to tell the committee that federal and provincial governments add special aviation fuel taxes on top of what we're already facing. Federally, air service providers pay an extra 4¢ a litre for jet fuel, and depending on which province you're in, that can range from 1¢ to 5¢ a litre across the country in various places. To give you a sense of the magnitude of that, since 1999 the federal government has collected over $300 million in federal fuel taxes, and this year our best estimate—and I must underline it's an estimate—is that it's going to top well over $100 million in further taxes.

From our point of view, the idea of the federal government reaping a windfall profit in the middle of this catastrophe frankly doesn't make much sense. It's even more irksome when you look back in history and understand that the fuel tax was introduced by Michael Wilson specifically for the purpose of fighting the deficit. Prior to that there was no fuel tax in the aviation business.

So what's to be done? We believe the Government of Canada should focus on its stated objective to improve Canadian competitiveness and economic efficiency. However, to do so we think the government has to abandon its short-term thinking on maximizing tax profits and pursue a policy more conducive to fostering growth, efficiency, and innovation.

In the aviation sector, I can tell you that $100 million of additional cost is a huge number for us. It means higher costs for flying, fewer options, and simply more pressure on an already fragile situation. The real question for us is whether the government is prepared to reduce some of these fuel taxes.

The Standing Committee on Transport, as early as last spring, specifically recommended a moratorium and a phase-out of fuel taxes, along with other provisions to improve the competitiveness and efficiency of the industry. So far, the decision seems to be to continue collecting the full fuel bill, to the detriment, in our view, of Canadian travellers and shippers, who rely on a healthy and efficient industry to connect not only themselves but also their customers around the country and the world.

● (1830)

We would respectively suggest, however, that a more visionary and sustainable approach would be for the government to recognize that it is improper to tax the inputs of doing business—and most economists will tell you that in spades. If you're going to tax anything, tax the outputs, the profits and wages. This approach more closely aligns the interests of both industry and government.

The current approach, on the other hand, sets the government up as the winner and the industry and Canadian travellers as the losers. It is simply not tenable to maintain that situation in the long term, and it runs counter to the announced competitiveness and innovation agendas of the government.

Thank you very much, Mr. Chair.

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

[*Translation*]

I now turn the floor over to Ms. Isabelle Durand, from the association Option consommateurs.

Mrs. Isabelle Durand (Acting Assistant Director, Option consommateurs): Thank you.

The Chair: You may speak in French or in English.

Mrs. Isabelle Durand: I'll speak in French.

Canadian consumers are disturbed about rising gasoline and heating oil prices. They suspect the industry of abusive practices. They feel powerless and have high expectations of public authorities. Consequently, we thank the Standing Committee on Industry for agreeing to hear from us this evening.

As you know, Option consommateurs is a consumer association whose headquarters is in Montreal, but that has long taken an interest in national issues, particularly energy, on which we have spoken out in various capacities for more than 10 years.

Governments, particularly the Canadian government, can act. First, we need a rigorous analysis of the situation, then the ability to implement long-term policies and short-term support measures. This is what we'll be explaining over the next few minutes. You'll find our 15 recommendations appended to the text of my remarks.

The global average production cost of a barrel of oil is $7. The price of crude set on international markets is completely dissociated from that, and at least half of that price is the result of purely speculative transactions.

In Canada, refining and distribution are increasingly concentrated markets, which opens the door to legal oligopolistic but inefficient practices. Even certain accounting conventions may be a factor in the constant rise in the price of gasoline. In addition, the eastern Canadian market depends on oil imports from Europe and North Africa.

Canada is the seventh largest oil consuming country in the world, despite its small population. For consumers who drive a car and have oil heating, the current oil price rise can easily result in a household budget increase of approximately $100 a month. However, the adaptations that will have to be made can only come through individual choice. Consumers are prisoners of socio-economic structures, such as urban sprawl, that result in energy-consuming behaviour.

Action must be taken on both energy consumption and market operation. Structural policies must be combined with immediate action.

Canada must revise and reinforce its policies on energy savings and switching to renewable energy sources. In particular, it may intervene through financial support, research activities and the revision of building standards. Public transit must be given more support. Among other things, regular public transit users could be granted a tax credit. Rail transportation should also be encouraged. In addition, automobile fuel consumption standards should be raised and support should be provided through tax measures for the purchase of energy-efficient vehicles.

Immediate efforts should be made to put in place a monthly heating allowance for low-income households that use heating oil. This kind of program is necessary. It can be effective and well targeted.

The government should also consider appreciably reducing its financial support for the Canadian oil industry and instead use tax measures to rebalance the current transfer of wealth from consumers to that industry. Specific and temporary measures to assist businesses that cannot avoid using energy and consumers living in outlying regions should be adopted soon.

In its present state, the Competition Act does not make it possible to detect or put a stop to oligopolistic practices designed not to reduce competition, but to take advantage of low competition levels in order to set high prices. Parliament should quickly correct these deficiencies based on measures already in existence elsewhere.

In addition, in order to help stop speculative oil transactions, Canada should support efforts to introduce an international tax on such transactions, invite the regulatory agencies of the United States and the United Kingdom to reinforce the regulatory framework for these transactions and levy a surtax on Canadian businesses that engage in them. Action must be taken now to reassure the public and prevent serious economic imbalance. Our governments have the means to do so.

We thank you for your attention, and we'll be pleased to answer your questions.

● (1835)

[*English*]

The Chair: Merci beaucoup, that was exactly five minutes.

Stephen Hazell, Sierra Club of Canada.

Mr. Stephen Hazell (National Conservation Director, Sierra Club of Canada): Thank you, Mr. Chair.

In 2003, *The Economist* magazine declared the end of the oil age. The next year, *National Geographic* declared the end of cheap oil.

The reality is that the era of cheap oil is over. Yes, Katrina and Rita are going to cause spikes, and those spikes are going to cause a lot of hardship. But I think we have to face the reality that the prices of oil and natural gas are going to continue to increase.

How can I say that? Economists are debating whether 2006 will be the year that we have the peak in global oil production. Some economists say it might be 10 or 20 years off, but it's indisputable that we have been producing and burning more oil than we have been finding for the past 25 years, globally. We're not finding enough oil to replace what we're burning, and the costs of finding what we are finding are growing substantially. The size of the pools are much smaller.

Sierra Club thinks we have to dramatically reduce our dependence on fossil fuels in the near future. Higher oil costs are part of that solution. Why do we have to reduce our reliance on fossil fuels? It's because the evidence that the climate is changing dramatically is incontrovertible. We've seen 10% shrinkage in arctic ice. We've seen radical reduction in the size of the alpine glaciers in western Canada, such that summer flows are decreasing into the Bow, the Athabasca, the Peace, and the Saskatchewan Rivers because the alpine glaciers aren't there anymore. We're seeing warmer winters and much hotter summers. So we have this serious global problem.

There's some debate as to what extent Katrina and Rita are associated with climate change. *The Globe and Mail* says there is no link. It's true, you can't predict whether any given hurricane is caused by climate change, but there is evidence that the intensity of hurricanes and the duration of them are associated with climate change. There is scientific evidence for that.

The oil and gas industry. Currently it's about $1.4 billion annually in federal subsidies. There's a Pembina Institute study I have with me that I could share with you, if you're interested. At the same time, the oil and gas industry is achieving remarkable windfall profits. Shell and Imperial Oil have more than $500 million in earned income this year. Petro-Canada has $350 million. Imperial Oil, over the course of last year, made about $2 billion in earned income. So that's where the money is going. It's not the federal government earning all this windfall tax money; it is the oil and gas industry.

We think that reducing fuel taxes is not going to really solve the problem: 10¢ a litre on gasoline, 7% GST; we just don't see how that is actually going to lower the cost of fuel enough to really make a difference.

Our suggestion, which is supported by other members of the Green Budget Coalition and which we'll be floating through the federal budget system in the coming weeks, is as follows. We recognize that we want to address some of the hardships that my colleagues have been talking about—for example, high home heating oil for seniors and people on fixed incomes. Our proposal is that we reduce some of these gigantic subsidies that the federal government is providing to the oil and gas industry and apply them to a much more rigorous and generous program of subsidies to improve the energy efficiency across the Canadian economy. So this would apply to small businesses and it would apply to farms. Provide federal money out of these oil and gas subsidies in order to help Canadians reduce their energy costs. That's the way to go, in our view.

It was interesting that in the past year both *National Geographic* and *The Economist* came back to these same themes. *The Economist* message earlier this year was “Oil: How to avoid the next shock”. I guess we're right in it now. *National Geographic* talked about “After Oil: Powering the Future”.

● (1840)

That's the future. The future is not oil. It's not fighting over fuel taxes. It's renewable energy and energy efficiency. How do we make our economy more efficient? Absolutely, we should. But we don't do it through cutting fuel taxes.

Thank you very much, Mr. Chairman.

The Chair: Thank you, Mr. Hazell.

You've all been very cooperative, and I appreciate that.

Colleagues, we're going to start the round of questions. I have John Duncan, then Paul, Andy Savoy, and Brian. We're going to avoid sharing time slots because we're going to try to keep it to five minutes, if we can, and I'll then get everybody in on each round with each set of witnesses.

John, I'll have you start us off, please.

Mr. John Duncan (Vancouver Island North, CPC): I think we were blessed with a comprehensive view from a bunch of reinforcing presentations, which has been very helpful.

The statement that resonated with me was by Clifford Mackay, who talked about taxing outputs rather than inputs.

A voice: That's the good one.

Mr. John Duncan: We have been hearing from the resource sector, the transportation sector, and the manufacturing sector. Every sector we've talked to is having major struggles, as reflected in the CFIB numbers—and that's what it comes down to. They can deal with predictable increases and higher prices, but they can't deal with spikes of the kind we're dealing with. I'm sure the same holds true for the Canadian Trucking Alliance. The system is really being punished, and we have this non-level playing field in our North American market, where we're doing 85% of our trade with our neighbour to the south, who has fuel taxation regimes considerably lower than ours.

I will elaborate on that question. Things are getting really sensitive. I know that in the airline sector, Clive Beddoe from WestJet was quoted as saying that right now it is so sensitive that they can lose a passenger over a $5 differential in the airfare. So it is really short-term thinking on the part of government not to respond in the immediate, dramatic way in which they can respond, by doing the one thing they can do to deal with this dramatic change in pricing, which is to deal with the taxation issue.

Is that your opinion?

● (1845)

Mr. J. Mackay: Just to give you a taste of it, our industry has changed dramatically in the last ten years: price is what now drives the marketplace. There's no doubt about it. I'm sure you've seen it in your personal life when you want to do something. People now actually look at what it costs to get on an airplane to fly, and they will change flights for $15 or $20, or even $5 or $6 if it's a short-haul flight. So the idea that somehow or other these things don't matter at the margin is simply not true; they matter a lot. We've seen it dramatically. When the government put the air transport security tax in, the market between Edmonton and Calgary disappeared overnight on the air side. People got in their cars and drove. That's how dramatic it was. So $100 million in fuel taxes is a huge differential for us, and reducing them would make a major difference in managing a very difficult problem.

Let me just add one more comment. There is nothing you need to do to incentivize my members to save fuel. Believe me, we go to unbelievable lengths to save fuel. Any pilot that you talk to is trained from the moment that he or she begins in this industry that saving fuel is an absolutely critical thing to do. The only thing that's more important is safety, in most cases. So you don't need to incentivize us to save fuel by raising taxes.

Mr. John Duncan: Right. And your industry is not alone in that. For example, 10 members of my caucus were in Prince George this week, where they saw a pulp complex that had gone entirely off-grid to an alternative system for providing their own steam and electricity.

I'd like to explore with the agriculture representative a little bit what this translates into. There must be crops in the ground right now that are actually uneconomical to harvest. Am I correct? At this point, has it actually gotten that far?

Mr. David Rolfe: You're certainly correct in that assumption, that many of the crops grown are being produced essentially below the cost of production. This is just one more additional cost that agriculture has to bear. There's no choice; you have to take that crop off the field, and you have to be prepared to put the crop in next year. There is no way to avoid the fuel cost associated with that.

Producers are in a unique position. They have no ability to recoup any of that by putting additional surcharges on any product. They're simply at the mercy of the marketplace.

● (1850)

The Chair: Thank you very much. That was right to the point.

We'll get everybody in if we do this.

Paul, you have five minutes.

[*Translation*]

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

Yesterday, a spokesperson for the Prime Minister said that he would listen to and analyze the committee's recommendations. I hope he'll be able to take a half-hour in the next few days to listen to your testimony. It contains the message that our economy is currently being taken hostage by one economic sector. That's not being done deliberately, but there are everyday consequences for agriculture, transportation, forestry, in the regions and for consumers.

The Bloc québécois has proposed measures as part of a comprehensive plan, including measures respecting the environment. So I want to congratulate you on that point.

I want to tell Mr. Hazell that we obviously want to pay the real price for energy. In fact, there is no question of not paying the price, including environmental costs. However, we must be sure we pay in the right place. When we're billed a portion of that amount for absurd refining profits and we give them to the company, we're not helping society, particularly if there's no way to return that money to society through a tax or some other measure.

So I'd like to know what you think is appropriate. There are recommendations that we didn't have in our plan, and we're going to study them very seriously because they're important.

Do you think this is simply a phase attributable to Hurricane Katrina, or, as Mr. Cooper said, I believe, do you think the sharp rise in gas prices started in 2001, that it's not a temporary phenomenon and that we have a choice to make as a society for the coming years?

In the agriculture sector in Canada, the cost has been estimated at $250 million. So we'd like farmers to be able to get that back, since the negative effect is that this extra cost will be added to other costs. But agricultural indebtedness is already very high, particularly in Quebec.

So can you tell me whether you think we're dealing with a temporary crisis, or does the situation call for a comprehensive action plan by the government?

[*English*]

Mr. Graham Cooper: Perhaps I could kick it off.

On the question of whether it's a temporary or a long-term structural issue, at the beginning when I mentioned the price spikes, I think I said—or I hope I said—this is the most recent round. We can go back to the 1970s, of course, as you know, with the OPEC situation.

I'm certainly not a petroleum economist and I don't pretend to be an expert on these kinds of things, but if we know nothing else about fuel prices, we do know that they go up and down. We're here today because they've been going up a lot more than they've been going down.

I would suggest that in terms of the structural issues we need to deal with, while the tax questions will not address all of the issues, Cliff Mackay has made some excellent points. Many industries, ours included, and many other service industries are being taxed on inputs as opposed to outputs. That certainly is the case with fuel.

One of the things we obviously have to look at if we are looking at the tax system as an adjustment or as a way of compensating for these prices is that in our industry in particular—and I don't want to go into a whole lot of detail, because I know we're limited for time—at the provincial level at least, the lion's share of road taxes do go into highway infrastructure. We know how important that is. That, however, is not the case at the federal level. The federal take from the excise tax on road fuels is about $4 billion or $4.5 billion a year, and only about 9% or 10% of that is reinvested in highway infrastructure.

From our perspective, there is no magic bullet in terms of the price of fuel itself, other than that we obviously have to look for some innovative solutions.

● (1855)

The Chair: Mr. Whyte, please.

Mr. Garth Whyte: Thank you, Mr. Chair.

We presented before this committee and the finance committee following September 11. We presented to this committee on SARS, BSE, softwood lumber, and floods. There have been crises, and yes, there have been crises with the minority government. We've seen insurance spikes, and now we see fuel. Yes, fuel costs are going up.

The challenge for every member of Parliament is this: what role can you play to give some certainty to someone who wants to start up a business or expand their business? Right now we would say, gee, I think I'll wait, because I don't know where fuel prices are going. So what can you do?

First, as we said, you can look at your take on fuel taxes in the aviation business or in trucking. But second, you can help support a five-year tax plan. We have a ten-year spending plan. If we had a five-year tax plan and some certainty for everyone that personal income taxes were going down, corporate income taxes were going down, and fuel taxes were going down, I think we'd take a lot of certainty out of these spikes and crises.

As a bit of a commercial, you will be getting faxes from every one of our members, because we've been told by some members of Parliament that taxes aren't an issue. They can go on our website and pull this off to say, look at a five-year tax plan. Let's look at a strategy to give some certainty on how to deal with this uncertainty.

The Chair: Thank you.

We're going to stay right on time.

Andy, the next five minutes are to you.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you very much, Mr. Chair.

Thank you very much for coming. I know it was short notice.

I live in the Saint John River Valley in New Brunswick, and my riding runs from Fredericton to Grand Falls. It's a huge trucking community. Day & Ross is there and a number of other large trucking companies. But within the trucking sector—and I direct this to Mr. Cooper—there seem to be two or three scenarios, if I'm correct on this.

One is a hedged scenario where some of the major trucking companies, especially the long-haul, seem to be capped in terms of prices, or at least hedged, and have a pretty significant fuel surcharge opportunity. The chair mentioned the logging community, and a protest was initiated a couple of weeks back now basically because with the increased prices the primary-sector truckers—primary forestry and raw logs—had no hedge against increased prices. It was very significant in terms of their balance sheet. In fact, one gentleman showed me he had trucked three loads of logs to Maine in the U.S., and he lost $1.50 per load before overhead.

These are companies with 10 or 20 trucks. They're small, but they're a critical part of the economy. Is it a fair assessment that some are hedged to some extent? I know other companies that deal with the larger mills will be hedged in terms of a surcharge. Some of them have said that between 40% and 60% of the increases were covered but they've had to eat the rest of it.

So what is the extent of hedging available to the industry? On this issue about no hedging for the smaller operators, is that something in which you see a role for us?

Mr. Graham Cooper: Let me just clarify. When you use the term “hedging”, you're talking about the fuel surcharge as opposed to derivatives and those really sophisticated kinds of things, because there are a few carriers—very few—that involve themselves in that. As you know, I'm sure, that is fraught with risks, and you have to be highly skilled to do it properly.

If we're talking about those trucking companies that have surcharge programs versus those that don't, let me just say that when the surcharge program really began around 2001-02, that didn't come easily. The customers of the trucking companies didn't say, “We know you're really suffering, so we're going to give you a surcharge”. This was hard negotiation. As you know, I'm sure, from the region you're in, in our industry the competition is fierce. There have been some companies, not just in New Brunswick but in other parts of the country as well, where they are prepared to perhaps take less of a surcharge or no surcharge, and there are shippers—some surprisingly big shippers, I might add—whose decisions are driven purely on the basis of price.

What I would say in general terms is that the majority of shippers, including, I would hope, the pulp and paper industry in New Brunswick, recognize what's happening with fuel prices. They recognize that fuel surcharges are, for the most part at least, taking hold across the country, but I don't think they're going to hand them out, and I'm not suggesting for a moment that the group in New Brunswick wasn't trying. I'm not intimately familiar with all of the techniques that we used, but certainly what we saw in New Brunswick was a withdrawal of services, and it was a dispute between the client of the small trucking company and the trucking company itself.

So I think it has to be resolved at that level. What we saw as an unfortunate by-product of that, which was highway closures and those kinds of things, is clearly not going to help anybody over the longer term. I don't know what is going to happen over time in New Brunswick. We see it in other parts of the country as well. Certainly our experience has been that once the case is made cogently, if a trucking company can go to a reasonable shipper, his client, and say, “Look, these are my numbers. I'm going to be out of business next week if you don't give me a surcharge”, hopefully he will have luck.

There are other organizations, ours and other local trucking organizations such as, for example, the Atlantic Provinces Trucking Association, that have a wealth of information available on those kinds of things. Certainly one of the difficulties, particularly with the small truckers—and in our industry, as you know, the majority of our carriers are small business people—is that it's pretty tough for them to stay on top of all the latest economic developments. They just know when they're hurting.

● (1900)

Mr. David Rolfe: A lot of small truckers are price takers not price givers, and actually what pushed us into the surveying was the New Brunswick crisis, really, where they were plugging the border. There was a protest that happened, impromptu, and that tells you're hurting. If the people you are doing the service for are hurting as well, it's pretty hard. Who's going to pass on the surcharge? Our survey is finding that it's very difficult now for anyone to pick up that extra bit. They're getting hit all the way through.

The Chair: Thank you, Andy and Mr. Whyte.

Brian, please.

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

A good point has been raised with the logging and trucking. It's one that's critical, and I have here petitions from hundreds of truckers who feel they are going to go out of business unless they get some immediate relief. That's going to have significant consequences on other businesses.

I'd like to start with this. One of the things I've noticed today and over the last little while is that despite all the problems we've had with different industries, the oil and gas sector has been enjoying record profits. The total tally is $51.9 billion in corporate profits. Statistics Canada reported that 75% of the increase in profits from the first quarter came because of the soaring oil prices.

We have an industry here that's taking advantage of the situation and having record profits. I'd like to hear back from people on this. When is enough enough, compared to when your industry should prosper?

Second, there was the mention of efficiencies and improving environmental conditions. I think that is an important chapter that hasn't been touched. I'd like to hear from Mr. Hazell about biodiesel fuel and other alternatives that we could get into immediately that would reduce pollutants and then get to alternatives later on. I believe that is critically important.

First of all, when is enough enough? When do we have to step in? Or should we not? Should we let them have complete, unfettered access to profits? And then you're going to be asking for a tax cut, but the reality is that we may not.... I want to hear: is there a point in time when it should be fair?

Mr. J. Mackay: Well, I'll be blunt: we're there. My colleague from the International Air Transport Association said publicly less than a few weeks ago that the oil industry has once again basically taken away any prospect of profitability and a return to investors in our industry globally for the foreseeable future.

We are price takers; we can't do anything about it. Our only choice is to park the airplanes and go out of business. That is catastrophic for the world economy and it's catastrophic for the national economy.

So in our industry, we're there. We would like to see some way of ensuring that the vagaries of that marketplace are at least made a little more certain. I'm not arguing for price regulation here, but the spikes that we've been trying to manage are simply unmanageable.

● (1905)

The Chair: Does anyone want to jump in on this one?

Mr. Stephen Hazell: I just have two quick points. Perhaps first—and partly by way of repetition, I guess—the point is that the oil and gas industry receives extraordinary subsidies from the federal government. The Pembina Institute has estimated those subsidies to be $1.4 billion per year. Those are subsidies that the alternatives industry doesn't get and the biodiesel industry doesn't get. The oil and gas industry gets them because they're big and they've got big lobbies.

We're not saying, let's grab these profits in some way, but let's just reduce some of these crazy subsidies. That's what we're saying.

But in terms of how we go forward with this, the last federal budget was a significant step forward, I would have to say, as there were some important steps made in it. But we are only just beginning to address some of these challenges in a serious way. Biodiesel is part of the answer, and alternatives such as wind, solar, hydrogen. Energy efficiency is probably the best way that we can come at it. Overall, Canadians are pretty profligate wasters of fossil fuel and energy; we're not nearly as efficient as other parts of the world, especially Europe.

The Chair: I see Mr. Whyte. I would ask you to comment on whether your tax cut plan would include the oil companies.

Mr. Garth Whyte: Yes. I don't want to take an advantage and turn it into a disadvantage, and there's nothing wrong with profit. It's whether we have competition that is the issue, and if we have more competition it might help us.

We don't want anything to go after the oil and gas sector and to regulate.... We don't want to go back to the national energy program days, and we don't even want to have the fear of that, but at the same time we should at least monitor what's going on. I think that somehow the Competition Bureau or somebody should monitor why there are these spikes. Why is it $1.99 in Stoney Creek when it was $1.05 yesterday? I'd like to know that part of it.

The Chair: Competition at the wholesale level?

Mr. Garth Whyte: Wholesale.

The Chair: Okay, thank you very much.

I think we're okay. We're right on time, Brian. Thank you very much. We're going to get everybody in at this rate.

Werner, then Marc, then Dan.

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Thank you very much, Mr. Chair.

Thank you. I think that was probably the most concise, the most cogent, the most well-reasoned presentation we've had in this committee so far in this session. Each one of you deserves commendation on that score alone.

The other point I'd like to make is that it seems almost as if we are concerned primarily with hydrocarbons, as if they are the source of energy. I know that's the primary dependency we have right now. It's certainly true.

The other question I have...and it was really impressive. My colleague John alluded to it before. There is a possibility of finding alternate energy sources and rewarding those kinds of initiatives. Some of our companies in the hydrocarbon energy production system are in fact getting into some of these other areas. TransAlta Utilities, for example, is into wind power as well as gas and so on.

The point that I think was made by you, Mr. Hazell, is that the time of cheap oil is over. I would like to suggest that the time of cheap energy is over. There is no cheap energy anymore. I think that's the issue, and I don't think one particular energy source is going to solve our problems. The demand for energy is increasing, and I think we're finding that the supply of energy from a given source is going to be inadequate, whether that is hydrocarbon, wind power, nuclear, or something else. We don't know. We need to bring that together.

So the question becomes.... I know CFIB said very clearly that what we need to do is have a five-year tax plan. I wonder if we could expand that to include a five-year plan or a 10-year plan to develop a national energy framework that makes it possible for us to recognize not only the role of hydrocarbons and the pricing of hydrocarbons but a whole host of other energy sources and their particular pricing models. It seems to me that if we are going to restrict ourselves to one particular area, we're going to be sitting here five years from now asking ourselves what happened. Businesses will have gone bankrupt, our country will be faced with extreme inflation, probably, and we will have an economic downturn like we haven't seen in a long time.

I'm really concerned here. My question is, what ought the national energy framework look like to help you and help us as government officials bring about the development of energy sources that will supply a price level that we can support and predict, so that there's a sustainable, affordable energy source and price?

● (1910)

The Chair: Okay, Werner. We'll start with Jacques St-Amant.

Mr. Jacques St-Amant (Account Executive, Option consommateurs): We are badly addicted to hydrocarbons, and it's an addiction that's going to cost us a lot of money in the very short term. I think we must deal with that urgently.

We certainly take your point that we need to have a broader view of the situation. That's why we advocate that a lot of work be done on energy efficiency in general, in investing in renewable energy. Because over the long term, quite a few of the renewable energy sources are likely to be less costly or to be more controllable, at the very least, than hydrocarbons.

Beyond that, in the hydrocarbon industry we must deal with a sector that's highly concentrated and a Competition Act that has no teeth to help control what is happening in that industry.

We certainly take your point that we need to have a broad view to have a national energy policy, but in the short term, we also need to help the industries that are testifying before you and the consumers who are suffering, especially the low-income people.

The Chair: Thank you, Jacques.

Mr. Mackay, please.

Mr. J. Mackay: I have two very quick points. This is certainly not the total picture, but I'd just make two points. First, let me use a couple of examples about technology and innovation in our industry. We don't have a lot of choices when it comes to aircraft propulsion. We're looking long term, but we're talking 20 years plus to move to different kinds of propulsion systems. But there are lots of things we can do on the ground—ground support equipment, the way we manage airports—and there are lots of things we can do with our air traffic management systems with new technology, incrementally, to improve efficiency. So there are technological gains that can be made, even in the context of the existing technology, that we need to not overlook.

The second point I would make is that the most important thing to us is some reasonable certainty of our energy input costs. It's the spikes that are very difficult. I know that is not an easy proposition, but I would leave that thought with you.

The Chair: Just a few seconds, Mr. Whyte.

Mr. Garth Whyte: A few seconds on this? I understand.

I think Ontario wishes it had an energy plan. You know, we've had brownouts and blackouts, and to get another plan up and running, whether it's nuclear or hydro, can take up to 10 years. So you have to start now, and you have to build on what we have. We don't take away what we have, but we have to build on what we currently have and get the different groups together. It's as if wind power hates nuclear; and coal can be quite clean now, but we can't talk about coal. We have to have some certainty; consumers and business need certainty. And we have to continue being internationally competitive.

So there are a few things there. I agree, there's another discussion area. Of course, with trucking and airlines it's different, as you don't have too many electric trucks.

The Chair: Thank you.

With that, thank you, Werner.

Marc, please.

[*Translation*]

Mr. Marc Boulianne (Mégantic—L'Érable, BQ): Thank you, Mr. Chairman. I have two questions. My first question concerns the Consumers' Association of Canada.

You referred to a heating assistance program. We agree that's good in principle, provided it's well implemented. There was a program of that kind in the past, but there were some problems, including a little waste.

Can you reassure us about that, Ms. Durand?

● (1915)

Mrs. Isabelle Durand: We represent Option consommateurs, not the Consumers' Association of Canada, which will appear later.

As regards the past program, amounts were remitted to people who received the tax credit for the GST.

In our brief, we cited the example of an allowance that would be based more on housing allowance programs in Quebec. A monthly allowance would mainly and regularly be provided to low-income people. That might involve a form that people would have to complete, but that has to be done soon. We can't wait for a tax credit that might come along a little later because people will have to pay that amount right away.

We calculated that, for a person using heating oil this winter, the cost could easily increase from $124 a month to $182 a month, an additional $60 a month. For consumers who also drive their cars, the increased cost can be as much as $100 a month. The idea is to target this initiative, that is to say to make it for consumers who really need it immediately, this winter.

Mr. Marc Boulianne: I'd like to ask Mr. Rolfe a question on agriculture. You gave us a good description. Very often, when we talk about the energy crisis, we're talking about trucking, metallurgy and industries in general, but we often tend to ignore the agricultural sector.

However, this year, nearly 250,000 farms in Quebec alone will have more than $250 million in additional expenses. The same is true in my region. Maple syrup producers will definitely have problems. This is vitally important, and the regional economies are feeling it, as are businesses and SMEs.

Don't you think this sector is being neglected in this matter? Don't you think we're absent? What emergency and long-term measures could the government adopt to provide support for the agricultural sector? We've made proposals, such as, for example, providing compensation and tax measures. I'd like to hear what you have to say on this subject.

[*English*]

Mr. David Rolfe: I didn't get all of the question, but certainly agriculture seems to be the forgotten cousin in this whole debate. With no ability to pass on costs whatsoever, we simply have to use the energy. We have no choice. If you have livestock, you have to use energy. If you have vegetables in storage, you have to use energy. Most of that is supplied by carbon fuels.

On the issue or suggestion of how that effect can be mitigated, agriculture is not in a position to reduce fuel consumption. The tax regime certainly would be helpful if it was able to be reduced; however, I'm not sure that would totally eliminate the problem. It certainly would be helpful, but it's all the additional costs that are passed to our primary production industry by other industries—for example, the trucking industry, the rail industry, the cost of fertilizer, the cost of our other inputs that are all being increased because of the cost of fuel.

So it's not a fuel issue per se. It's not a very narrow issue, as it is for some other industries where fuel is the primary cost. It's all the other additional costs that are being downloaded onto our industry that we have no hope of recovering.

So there needs to be some additional help to agriculture. As to just what form that could be, the present safety net system, the CAIS program, and crop insurance simply are not meeting the need. They're not adequate to cover the needs now, so some additional measures need to be given to agriculture to help them get through this immediate crisis. We can look at alternate energy sources, but that's certainly a longer-term approach for agriculture.

● (1920)

The Chair: Thank you, Mr. Rolfe.

Merci, Marc.

Dan, please.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you for being here. I must say, much of the information you provided is extremely concise and very helpful. I don't think there is a single individual here who I have not tried to help over the years by virtue of work on this committee and through changes to the Competition Act.

Perhaps, Mr. Mackay, you and I have never really had an opportunity, but I assure you that Mr. Beddoe and Mr. Ken Rowe will tell you effectively what we've passed here in terms of changes to the Competition Act. The $15-million fines on predatory pricing, which the commissioner alluded to as the only example of good news on predatory pricing, if I'm to understand her, did a great deal of good to your industry, and of course I've worked with many of you and received varying levels of support.

Mr. Hazell, I don't want you to believe I've left you out. I proposed three weeks ago to our caucus the use of federal funds to match the provincial governments of Ontario and, of course, British Columbia relating to hybrid cars—having come from the industry, being a former PR guy for Toyota.

My question is to all of you. I understand the importance that all of you attach varyingly to issues of taxes.

Mr. Rolfe, in your industry there is no GST. It's a throughput. You pay no money for coloured fuel as far as federal tax is concerned.

Mr. Cooper, it's 4¢ on the federal side as it relates to the excise tax, and 7% is of course an input that you can claim every whenever. I know it's very onerous for many of you there.

Right now, as we speak, 23% of oil-refining capacity is down in the United States. That just happened about 20 minutes ago. Thirteen refineries are down. In Canada there is plenty of supply of crude and indeed plenty in terms of refined product. The problem is temporary.

I want to ask each and every one of you very briefly why it is that so many of you spend time talking about the issue of taxation when it has nothing or very little to do with driving up the price of gasoline. It's a very simple question, but it seems that every time there's a problem here we have those who are saying "Competition Act", and others, perhaps varyingly among you, who think it has something to do with taxes.

Could you explain to me specifically how this affects you, especially now during the crisis?

Mr. J. Mackay: I'll respond very briefly.

The crisis just exacerbates it. The fundamental problem we have with these kinds of taxes is that you're taxing our factory inputs and not our outputs. That is just bad economics. By doing it, you're driving productivity out of our industry, and we want to go in the other direction.

Mr. Garth Whyte: I also raised the issue of competition. I think Mr. McTeague might have been on the phone when I said it, but I did talk about more competition and the fact of why people are here about fuel taxes: because it is a before-profit tax, excise tax cannot be claimed, and your take increases with this crisis. Those are three good reasons we keep bringing that up to the table, if you want to know. Yes, competition and monitoring what's going on are very important, and we said it and I said it a couple of times here today, but everyone uses fuel. That's the issue, and as we said with agriculture, it's all the way through.

We have people who have greenhouses. They have to keep that greenhouse warm, and then when they collect the product, they have to distribute it. The fuel tax is all the way through it, and so it's an issue.

I did expand it beyond that, and you know that. I sat down and I said, think about a five-year tax plan. Look at what that did following September 11, the certainty that created, and our economy outperformed the United States because of that. You have not even talked about that, and that's what is missing in the overall plan.

The Chair: Thank you, Mr. Whyte.

Mr. Rolfe.

Mr. David Rolfe: I have one correction. We pay the federal excise tax on the coloured fuel. We do not pay the provincial tax.

The Chair: Thank you.

Dan, you actually have another minute.

Hon. Dan McTeague: That's great. I won't contest the issue on coloured fuel. I always thought coloured fuel was exempt from federal excise tax.

Let me go back to Mr. Whyte for a second, because I know he has done a lot of work on the question of competition in the past.

[*Translation*]

I'd simply like to tell Ms. Durand and Mr. St-Amant that we made the same comments in 2000. Moreover, that's why we secured a reduction for people in need. Of course there were concerns. However, that reduction helped correct the situation of disadvantaged persons.

[*English*]

Mr. Whyte, I wanted to point out a couple of things. If your concern is with respect to taxes on the GST as it goes up, am I correct in understanding that business cannot write that off?

● (1925)

Mr. Garth Whyte: Are you talking about the GST?

Hon. Dan McTeague: Yes.

Mr. Garth Whyte: No, they can write off GST. Of course they can.

Hon. Dan McTeague: Is your concern with the excise tax itself?

Mr. Garth Whyte: Yes, and I presented to you—

Hon. Dan McTeague: I understand that.

Mr. Garth Whyte: When you have one out of four agribusiness people saying that they may not be able to sustain their businesses, that's why this tax is highlighted.

Hon. Dan McTeague: No, Mr. Whyte, it has nothing to do with the current crisis. Tell me how the tax contributes to the misery.

If the GST is being remitted, the taxes remain fixed, whether in Ontario or across the country, at 14.7¢ in the province and at 10¢ excise tax. How does that effectively marginally change the way things were this time last year, when it was 79¢ a litre?

Mr. Garth Whyte: First, we can't deal with world prices. As much as we'd like to talk about it, we can't. We have to deal with what's under our control.

There are a multiplicity of solutions here. If your take is between 40% and 50% of fuel, when you combine provincial and federal, there's an option to reduce it somewhat. When the GST is on top of the excise tax, there's a federal excise tax, as you understand, on top of the PST.

I have to do more homework. As I said in our opening statement, we're not fuel experts.

It's maybe more in Atlantic Canada because they have a harmonized PST and GST. They have an HST on top of that and it's a 15% hit. Something has to be dealt with there.

I don't know very many self-employed people who flow through GST on fuel tax. It's very onerous. I think that's something we have to work on.

The Chair: Thank you, Mr. Whyte.

Brad, and then Jerry.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): My apologies, Mr. Chair. I was discussing something with my colleague.

The Chair: Go ahead, if you want to.

Mr. Bradley Trost: No, I'm fine. I only want to make a couple of general observations overall and let you respond to them.

By and large, these were fairly well-done presentations, Actually, it's not by and large; they all were. But I want to group them in a certain way because there were certain themes that seemed to have a cross-current in many of the presentations, even though they were disparate in some ways. I liked the CFIB one, the consumers' association, and the Sierra Club.

A lot of the presentations dealt with a general overall change in macro-economics to do something to help the overall economic situation of the particular constituent group involved. It wasn't so much that you were arguing for anything specific, though there were specific examples given. That's one observation I wanted to make. Any of you could respond, when I'm done, about whether it was an accurate observation that overall you need help in general dealing with the economic situation, even if it directly applies to the specific fuel situation or fuel specifically.

The second observation I wanted to make is that some industries have a much harder time substituting and dealing with this than others. That's why some of you are here. It's kind of interesting how the general public doesn't always understand this.

There is a candidate for the NDP in my province, in the riding of Pallister, who has been proclaiming that farmers should use smaller machinery, smaller combines, etc., to reduce their fuel consumption. They might have to go around a field five times, but it will be with a smaller vehicle and it would save fuel. I'm not sure if that's their official policy or not, but it's kind of interesting. Maybe someone could comment on that.

Again, maybe you could respond to my comments about general things. Then the CFA could respond on what specifically could be done.

To the truckers and, again, air transportation, what specifically would really quickly help your industry get through the price spike in the short term? What could quickly get you through the price spike? Then if anyone wants to comment on the point of general overall economics, that is where the help would be most appreciated.

The Chair: Thank you, Brad. We'll see what we can do in the next few minutes.

Mr. Rolfe, please.

Mr. David Rolfe: The suggestion that agriculture could gain efficiency by using smaller equipment is a somewhat misguided notion. Agriculture is one of the most efficient industries we have, simply because we've been driven that way by the low commodity prices over the last number of years. So I think that one is somewhat misguided.

In the past, agriculture has been the beneficiary of ad hoc payments. As recently as this spring, in recognition of the very difficult circumstances that agriculture was in, a $1-billion payment was issued to agriculture. We're still awaiting the second instalment of that payment; the first one arrived in the spring.

I hope there will be recognition of the extremely difficult circumstances that agriculture is in, given the current fuel prices and the prospect of no reduction in fuel prices in the immediate future—as well as natural gas prices, propane prices, and any other energy costs that we absolutely require in our industry. I hope there will be recognition of that.

I hope there will be recognition that we are a primary industry that no one in Canada can survive without. I certainly wouldn't want to see primary agriculture producers, farm families in Canada, go out of business because they could not survive the energy crunch and the current energy cost crisis we're in.

● (1930)

The Chair: Mr. Cooper.

Mr. Graham Cooper: Thank you, Mr. Chairman.

Let me address your specific question in terms of what could be done quickly. Let me touch very quickly on the tax issue.

Mr. Whyte and others have mentioned the federal excise tax. I mentioned in my comments the low reinvestment levels of those taxes into highway infrastructure—I'm talking about 4¢ a litre for diesel and 10¢ litre for gasoline. That is something that perhaps could be looked at.

I think Mr. McTeague is right, inasmuch as we have perhaps—the overworked term—the perfect storm. We have had two of them in quick succession, and they're putting a dent in not only crude oil production but refining capacity. I'm not sure we've been faced with that in the near-distant past.

In terms of what other things might be done quickly, I'm amused when I read complaints in the newspapers across the country from people at the pump. Journalists will go to a gas station and ask people at the pumps if they like the price. Well, of course they don't like the price; it's $1.20 and it was 80¢ last week. Then you get on the highway and they're going 140 kilometres an hour.

In our industry, for example, where our fuel consumption's extremely high, we know that if carriers take a good, hard look at their costs and put their fleet maximum speed down to say 90 kilometres on a four-lane highway, or any highway for that matter, the impact on their bottom line is really quite significant. You see this in Europe, where on the autoroute system there's a speed limit of 130, but for commercial vehicles, heavy vehicles, it's 90. My observation from the times I've been there is that it's religiously stuck by.

I have one very quick, final comment, if I may. There have to be trade-offs in this picture. In our industry, from an environmental standpoint, we are being faced with a mandate to reduce cancer-causing emissions that result largely from high sulphur levels and particulate matter. The new engines that are being introduced now have a fuel efficiency hit, so on the one hand we're trying to make the engines cleaner, and on the other hand they're not as fuel efficient.

The Chair: Mr. Mackay, briefly.

Mr. J. Mackay: In a word, we need immediate relief: a moratorium on aviation fuel excise taxes, combined with a very rigorous monitoring program to make sure the benefit flows through to the service providers and the customers.

The Chair: Thank you. Very good, very short.

Mr. Whyte.

Mr. Garth Whyte: We were asked to come here. We were given a week's notice. We gave you excellent statistics. I've given you five recommendations. We were talking about this a year ago. You have to quit playing partisan politics and get your act together, because we have people here saying they're going to lose their businesses.

I'm not coming here to be grilled by you folks. We're trying to come with solutions, so pay attention and try to work on it. Trying to pit one group against the other and one party against the other is not the way to go. So Canadians want you guys to work, as a minority government, and you have to think about the short term and the long term.

The Chair: Jerry, you're next.

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

Certainly I have empathy for every organization that has testified here. There's no question that the cost of fuel is a huge problem for every industry, not only yours but also right across the country.

In front of me, I've got a chart showing the price of crude oil in January 1999 and the price as it skyrockets up until May of this year. That line is moving exponentially in this direction. I don't see an end to this. I have seen it spiking higher in the last short while. I see this as a pretty solid line going up, and if I were a betting person, I would see this increase continuing. However, I wish it were not that way.

From the witnesses we've heard today, Canada is not on its own in dealing with these energy costs. We're part of the North American market, which is the lowest sector; obviously Asia, Europe, and other areas are way higher and are moving in that direction. As a matter of fact, the price taxation in Europe is $1.30, not 16¢.

I want to go back to the federal side of taxation. We have an excise tax, which is 4¢ on diesel fuel and 10¢ on gasoline. We also have the GST.

Let me put this into a little more perspective for the trucking industry. I'm looking for answers and am not trying to grill anybody on this. I am really looking for answers. But realizing that the $57 increase per barrel.... And we've been told today that every dollar relates to a penny in the retail chain for purchasing. So we have gone up basically 57¢ in that time period.

As we move this down the line, if I were to think of the trucking industry and diesel fuel—

● (1935)

The Chair: Will you come to the question, Jerry?

Hon. Jerry Pickard: It's 4¢ on diesel fuel. The GST is rebated, so the net gain for federal government taxes.... The federal government tax is 4¢. We've committed half of that tax to municipal infrastructure, including the bridges and roads that need to be there for trucks to roll. We've committed to all kinds of infrastructure within communities to make sure businesses function. If we pulled that tax back from the municipalities, increases in municipal taxes are bound to happen, because the municipalities need a resource to pay for that infrastructure. So the net gain on the federal side from the trucking industry and diesel tax is possibly 2¢, unless we pull back from the municipal commitment as well. So the gain is 2¢, because you get your GST flow-through anyway.

How is that going to affect the huge roll that has gone forward? I think we should analyze how much that excise tax works and what happens with the GST as it rolls through.

We're looking at huge increases, and I think we're talking about very small amounts of tax. It's not 40%, ladies and gentlemen, but quite a bit smaller than that on the federal side. I think if we really analyze it, the GST flows through, leaving 10¢, of which 5¢ is committed to municipalities. Therefore, if we were to take every tax dollar that we have, you would end up with a nickel off the price.

The Chair: Are there any comments on Mr. Pickard's remarks?

Mr. Cooper, and Mr. Mackay.

Mr. Graham Cooper: Mr. Pickard, I'd certainly like to find out more details from you in terms of where you get that 50%.

In terms of the numbers I referred to earlier, the federal government gets about $4.5 billion a year from the federal excise tax in total. About half a billion of that is from diesel fuel. The last time I looked at Transport Canada's *Transportation in Canada 2004*, which was earlier this week, the federal investment in road infrastructure in 2003-04 was $354 million, if my memory serves me correctly. That's the kind of dichotomy we're talking about.

I don't want to make this totally a tax debate—obviously we have bigger issues—but if we're looking at ways to help the transportation industry, if you plow back more into its infrastructure, we know from studies done over the years that this does have a fuel efficiency impact.

● (1940)

Hon. Jerry Pickard: Our commitment to the municipalities was for infrastructure—plowing back in. In my municipality, bridges are going to be a major focus.

The Chair: Thank you, Jerry.

Mr. Mackay, and we'll leave it at that.

Mr. J. Mackay: Very briefly, if you add up the three special taxes my industry pays, the fuel, the airport rents, and the security tax—nobody else pays those—you're looking at more than $500 million a year. The federal government contributes nothing to our infrastructure support. It's 100% paid for by us and our customers. That's $500 million out of our system in terms of productivity and investment, and all those sorts of things. That's our problem. And the fuel tax is part of that problem.

The Chair: Colleagues, thank you very much. We've done very well.

Michael, I'm going to get you on the next round. Everybody got on this time. Michael, we'll get you in the next round. We're going to try to do the same with the next group, which is waiting in the wings.

I want to thank all of you for taking valuable time away from your families and from your other commitments to be here with us today. Your words of wisdom are being heard. I commend my colleagues for their excellent questions.

We're going to suspend for five minutes or so. We'll be back at the table in five or ten minutes.

I invite the next round of witnesses to take their seats in the next few minutes.

We'll suspend for five or ten minutes.

● (1940)

(Pause)

● (1950)

The Chair: Good evening, everyone.

I'm pleased to call to order this second half of our evening session of September 22. This is the Standing Committee on Industry, Natural Resources, Science and Technology.

We're pleased to have with us an excellent panel of witnesses representing the Consumers' Association of Canada, the Canadian Taxpayers Federation, L'essence à juste prix, Canadian Renewable Fuels Association, Iogen Corporation, Coalition pour la défense des consommateurs de carburant du Saguenay—Lac-St-Jean; and we have regrets from the Canadian Labour Congress, which was unable to make it this evening.

We will go in the order of the list, which is basically first come, first served, as the clerk has organized these meetings.

Colleagues, I want to get everybody in again, as we did last time, on five-minute questions, but we're going to invite our witnesses to offer their comments, hopefully in about five-minute capsules, so there will be enough time for everybody to get in with their questions.

Without any further ado, we appreciate your coming out tonight, away from your families, to help us and the public of Canada. You are being televised on CPAC—so you're aware—for all of us to better understand recent events with respect to gas prices. Hopefully out of all this we'll get some good answers.

With that, we invite Bruce Cran, president of the Consumers' Association of Canada, to start us off.

Mr. Bruce Cran (President, Consumers' Association of Canada): Thank you.

I'm Bruce Cran, president of the Consumers' Association of Canada. Our organization is a volunteer group with some 60 years behind us of advocating for consumer issues, and gasoline prices is one of those issues.

I'm going to hand it over to my vice-president, Mel Fruitman, to make our presentation.

Mr. Mel Fruitman (Vice-President, Consumers' Association of Canada): Thank you, Bruce.

We are here, of course, as representatives of consumers. We are lay people when it comes to the intricacies of gasoline pricing and the whole system, but we certainly do have some thoughts on what we see happening around us, and some suggestions that might make the situation a bit better for Canadian consumers. While we recognize that reducing some of the federal taxes on gasoline would not have a huge impact on pump prices, we do feel that there is an important principle at stake involving the integrity of government with respect to taxes.

First, we feel that the 1.5¢ tax that was imposed a number of years ago to raise funds with the specific purpose of assisting deficit reduction must be removed, now that the task has been accomplished. It is unconscionable for the government to continue collecting that tax.

Secondly, the government should not continue to fleece Canadian taxpayers via increasing the take from the GST as prices rise. Consumers do not get a rebate on the GST. It is inappropriate for the government to be deriving windfall gains in this manner. It is particularly galling that the governing party campaigned a number of years ago on the promise that if they were elected they would do away with the GST. It is now taking advantage of Canadian taxpayers and consumers and behaving in a somewhat unprincipled manner. The GST on gasoline must be replaced with a per-litre tax that is fixed and independent of market fluctuations.

Thirdly, we feel that the finance minister has been somewhat disingenuous in his remarks, to the effect that even if the government were to reduce taxes, consumers would not benefit, because the oil companies would absorb the difference. It is akin to looters in disaster areas such as New Orleans saying that if they hadn't taken it, someone else would have.

Enough about government; let's take a look at it from the industry side now.

There have been a number of investigations over the years, the most recent just completed by the Competition Bureau about six months ago. In some of the excerpts from the executive summary of the internal report prepared for the Competition Bureau, they noted that there were price increases in May 2004 as a result of increased refining margins in the U.S., and that at the levels of demand at that time, refineries were operating close to capacity. They also noted that minor shocks, including unanticipated increases in demand, result in temporary shortfalls in supply, leading to higher prices. However, they also noted that there were sufficient international suppliers to meet shortfalls, as long as adequate notice was given that supplies would be required.

Going through some of the documentation, we also noticed that many documents referred to “spot prices” as well as “crude prices”, which has caused us some confusion as to what are some of the underlying causes. I'll come back to that in a moment.

Of course, there have been charges—which the Competition Bureau is looking at—that the members of the industry operate in concert. We don't think they need to act in concert, because they're all singing from the same songbook. In fact, they all have the same mindset; they think and act in the same way and know what the next step of the other party will be.

If we were to look at what's going on in the marketplace.... From the marketplace perspective, in a simplified form, much of what we have seen uses a great deal of mathematical complexity, numerical analysis, and regression analysis, all approaching the topic from the supply side. But supposing we looked at it very simply from what happens in the marketplace, I think it then becomes just a numbers game; that's all it boils down to. Gasoline is basically an undifferentiated product. Motorists can't store it; they can't store against a rainy day or future increases. They don't normally keep their tanks full of gasoline. They may top them up occasionally, but they get gas when they need it.

We've also heard a lot over the years about weekend prices increasing in the summer as people get ready to drive out to their cottages in the country. We feel that the industry does that simply because they can do it; they are still going to sell their product. People are not going to say, I am not going to the cottage this weekend because I don't like the fact that I have to pay 10¢ a litre more for gasoline. At any time, if one dealer raises prices, the competition benefits by matching, rather than lowering, the prices.

Here is a simple mathematical example to show how this works, or could work, just using a figure of, say, a million litres per day. This is not based on exact numbers.

● (1955)

If the company is now making 15¢ per litre, that's $150,000 a day—and that 15¢ a litre is consistent with numbers we've seen. If they were to increase the price by 15¢, for $150,000 a day in net revenue, and I as a competitor wanted to raise my price only 5¢ and try to steal some business away from them, I would have to sell 750,000 litres a day more in order to derive the same revenue. But if in the short term I can only bring up 250,000 litres, I'm only going to get $50,000 instead of $150,000. In that case there's no incentive for me to keep my price down. I am going to match the price of the highest price rather than the lowest price, which is the antithesis of what competition is supposed to be about.

We do have some recommendations, and perhaps I'll come back to them in questions.

● (2000)

The Chair: You'll have a chance during questions and answers to bring up further comments, absolutely. Thank you.

We'll go next to Mr. Williamson from the Canadian Taxpayers Federation.

Mr. John Williamson (Federal Director, Canadian Taxpayers Federation): I'd like to thank members of the committee for this opportunity to bring the Canadian Taxpayers Federation's perspective to deliberations on rising gas prices and the high tax motorists pay at the pumps.

Since my time is limited, let me get right to the point. Who should Canadians blame for the high gas prices? The government.

On average, taxes account for a third of the price, which means the effective tax rate on a litre of gasoline is 50%. There might be three governments, but there's only one taxpayer at the end of the day. Depending on the province, gas taxes represent between 27% and 38% of the pump price. The differences in taxes largely explain the country-wide price discrepancy. Prices now average more than a dollar per litre, of which approximately 33¢ is tax. Family budgets are being squeezed as a result.

In fiscal year 2004-05, the federal government collected $4.5 billion in combined federal gasoline and diesel taxes, an 18% increase over what was collected 10 years earlier. One explanation for the rise is the steady increase in gasoline tax rates. The federal gasoline levy increased 567% between 1985 and 1995—from 1.5¢ per litre to 10¢ per litre.

Many of these tax hikes were sold to Canadians as a way to reduce the federal deficit. In 1995, when Ottawa's gasoline tax jumped from 8.5¢ to 10¢ per litre, the hike was labelled as “a deficit elimination measure” by then finance minister Paul Martin. Canada's deficit was vanquished in 1997-98, but the tax remains, and the federal government's gouging at the pumps continues, even with multi-year, multi-billion-dollar federal surpluses.

Another contributor to the growing federal gasoline tax revenues is the 7% GST and the 15% HST paid in New Brunswick, Nova Scotia, and Newfoundland and Labrador. The GST and HST are charged on the full price, gasoline taxes included. This tax-on-tax scam adds on average another 1.5¢ to gas prices. In HST provinces, the 15% adds a stunning 3.8¢ to each litre of gas.

As pump prices climb, you all know, Ottawa rakes in even more GST revenue. Between 1996-97 and 2004-05, GST revenues from gasolines sales increased from $900 million to $1.2 billion, a 31% increase.

With high crude prices, it is time for the federal government to give motorists a break at the pumps; it is time for Ottawa to end its gas gouging. This can be accomplished in three easy steps. One, Ottawa should eliminate its GST/HST tax-on-tax bite. This will lower the price, on average, by 1.5¢ a litre. Next, scrap the deficit elimination tax, which will save motorists another 1.5¢. Last, Ottawa should reduce the federal levy by 2¢, bringing the savings to motorists to 5¢ a litre.

One week ago, Poland became the first European country to cut its gas tax in response to high oil prices. According to the Associated Press—not the Canadian Taxpayers—the decision has “already eased costs at gas stations”.

Canadians unhappy with gas prices will continue to blame Ottawa because only federal lawmakers have the ability to offer immediate relief in the form of lower fuel taxes. Canadians cannot control the world price of oil, but there is plenty that can be done to reduce fuel taxes. A 5¢ a litre reduction will pump $2 billion back into the pockets of motorists. Even with that modest reduction, the federal government will still collect billions of dollars in fuel tax revenues each year to pay for the gas tax transfer to cities. Taxpayers want action in the form of lower taxes on fuel, not more excuses from politicians as to why gas taxes cannot be reduced.

I thank you for your time.

The Chair: Thank you for being so concise, Mr. Williamson. I appreciate that.

Next is Frédéric Quintal, from L'essence à juste prix.

[*Translation*]

Mr. Frédéric Quintal (Spokesperson, L'essence à juste prix): Mr. Chairman, Committee members, Madam Clerk, thank you very much.

First allow me to introduce myself briefly. On October 6, I will have been an observer of developments in the oil industry for five years. I felt the best way to mark the occasion was to write a book on the subject. If you're interested in having a copy, leave me your e-mail address. The book sums up the last five years of everything we're discussing today: the Competition Bureau, sulphur regulation, the 2003 tax cut, the Conference Board of Canada study and details on what MJ Ervin can do.

I'm going to provide a snapshot of the situation, which will show us to what extent the situation has reached a crisis. Our reference for a litre of Canadian gasoline is the price of a gallon of gas on the NYMEX exchange. On January 1 of this year, that price was $1.08. The price had hit a record in February 2003, and yet the price on January 1 was the lowest of the year. On August 30 of this year, it hit $2.54, a 135 percent increase in eight months. I'm talking about regular gasoline, before taxes.

What are the causes? The industry boasts that it has passed the test of some 20 studies and investigations. Let's not look for collusion; we won't find any evidence of it. All day long here, we've heard suggested solutions that are the equivalent of a mouthful of NyQuil cough syrup for all those feeling the impact of these excessive fluctuations. Gentlemen, I propose that we attack the cause. What is the cause of this lack of refining competition?

In June 1985, Esso was the first company to publicly announce that it would publish its undiscounted refined products prices in the specialized journal, the *Oil Buyer's Guide*. Everyone was aware of it. The next day, Texaco Canada congratulated Esso on that initiative, and Shell and Ultramar followed suit shortly thereafter. I'm not making this up. This was denounced in Michael O'Farrell's report. He clearly denounced the fact that this put an end to refining competition. We're experiencing the consequences of that today.

The result 20 years later is market frenzy. Here are a few examples of that frenzy. In July 2004, rumours circulated of a production stoppage at the oil company YUKOS, and the price of a barrel of oil rose $4. On July 6 of this year, meteorologists announced that Tropical Storm Dennis would enter the Gulf of Mexico three days later. Dennis never reached the Gulf of Mexico, but the price of a barrel of oil rose $4. Hurricane Rita will hit Texas in two days, and, on Monday, when meteorologists reported that it would enter the Gulf of Mexico, there was a market frenzy in which the price rose 25¢, then fell back the next day.

Esso's new system started up on June 1, 1985. But Esso announced it on June 21, not June 1. Why? Perhaps because they wanted it to go unnoticed. What happened in Montreal on June 21, 1985? Premier René Lévesque resigned. Esso's announcement was discreetly buried in the Economics Section of all the newspapers. This is an interesting hypothesis. Why was the same news not announced in Toronto until July 2, 1985? Why wasn't it announced the same day? What happened in Toronto on July 2, 1985? News was breaking somewhere else. That was the first day of David Peterson's coalition minority government with the NDP. Was it by chance or was it intentional that the news went unnoticed in June 1985? As I always say, if you want as few people at your wedding as possible, have it on a Wednesday morning instead of a Saturday afternoon.

Here's my opinion. The problem is this: there's no longer any competition in refining. The main recommendation I'm making to you parliamentarians is this: regulate refining or else, in one year, you may be responsible for the next economic recession in Canada. The choice is yours. You are our parliamentarians. You have the power. Either you're incapable of dealing with 150 oil producers, or you take charge, roll up your sleeves and show us that you represent 30 million Canadians.

Thank you.

● (2005)

[*English*]

The Chair: Merci, Monsieur Quintal.

Next is Kory Teneycke with the Canadian Renewable Fuels Association.

Mr. Kory Teneycke (Executive Director, Canadian Renewable Fuels Association): Thank you for having us here today. We believe that a significant part of the solution to today's high gas prices lies within our grasp. There is a renewable fuel called ethanol, and it's made from homegrown commodities like corn, wheat, or even straw.

Ethanol-blended gasoline can be used in every car on the road today and can be easily integrated into our existing fuel infrastructure. Used in large enough quantities, it has the potential to diversify our national fuel supply and to add to our stretched refining capacity. It would broaden our supply of gasoline and help temper the price shocks that we're currently facing.

Ethanol can achieve these goals, but it will require leadership from you as parliamentarians. It will require you to help fuel change across the country.

While several witnesses today have testified that intense competition exists within the petroleum industry, there's a virtual monopoly on the raw material used to make our fuel. That material of course is crude oil. As you know, crude oil is a finite, non-renewable resource. You extract it, you burn it, and it's gone.

While we're not in imminent danger of running out of oil, we are having to go to more remote and more dangerous places to access the world's remaining petroleum reserves, further increasing the cost of crude. Prices are driven yet higher by increased demand for petroleum around the world, especially in rapidly expanding markets like China and India. The result has been a new floor for crude prices. I will leave the speculation on where that new floor is, but suffice it to say that the days of $18-a-barrel crude are unlikely to be seen again.

In contrast, ethanol is made from renewable agricultural commodities, not crude oil. In this way ethanol adds competition into the fuel market at the most basic and fundamental level. In the past critics of ethanol have pointed out that the cost of producing ethanol is higher than the cost of producing petroleum-based fuels. While this was true at $18 a barrel, it is not true at today's oil prices. At $41 a barrel, the average variable cost of producing a barrel of ethanol is equal to that average wholesale cost of producing a barrel of gasoline.

At the 2005 average crude oil price of $54 a barrel, ethanol is significantly cheaper to produce than crude. While production costs for petroleum have been rising, the production costs for ethanol have declined slightly.

Unlike crude, ethanol production costs are driven by agricultural commodity prices and natural gas prices, making them far more stable than the world oil market. The potential of ethanol as a viable fuel source is real. It is both economically and technically feasible. If Canada were to embrace a national fuel strategy to expand the use of ethanol, we would break the crude monopoly.

Another major factor contributing to increased fuel prices is our declining refining capacity. The Canadian refining capacity is 18% lower than it was in 1980. Instead of running our refineries at 86%, as we did 25 years ago, we are now running them at 97%. This is not just a Canadian problem. The United States has a similar shortage of refining capacity. Over the past 20 years their domestic refining capacity has declined by 9% while their domestic gasoline demand has increased by 20%.

While capacity has been dropping, the margin charged by refiners has been going steadily up. The average margin has doubled over the past decade to over 10¢ a litre. As our ability to increase the supply of gasoline is reduced, the premium that refiners can charge is increased. This loss of elasticity in our ability to refine gasoline has also increased our vulnerability to price spikes caused by disruptions at refineries.

As hurricanes Katrina and Rita have shown, even a disruption at refineries thousands of kilometres away can cause a 20¢-a-litre price spike overnight. Where's the strategy for increasing our refining capacity? Which petroleum companies in North America are building new refineries?

In the United States no new refineries are being built, and the provisions designed to encourage their building were dropped from the energy bill. Things are no better on this side of the border. Not only is Canada not building additional refineries, but a refinery, the one in Oakville, was closed last year.

Ethanol can help address this shortage by increasing refining capacity and providing much-needed competition to those refining crude oil. It can do this because ethanol is added to gasoline after it is passed through a refinery. By blending 10% ethanol, you can extend a gasoline refinery's capacity by a similar volume.

● (2010)

Increasing the supply of a refined fuel in a market has a positive effect on price, regardless of whether that fuel is ethanol or gasoline. Provided the petroleum industry does not shut down additional refineries, expanding ethanol production will also increase the elasticity in a fuel market by reducing pressure on our existing refineries.

As many in the oil industry have pointed out, the environmental barriers associated with building a new petroleum refinery are significant. We're all familiar with the NIMBY—not in my backyard —phenomenon. These barriers do not exist to the same extent for ethanol refineries because ethanol production uses a biological process of fermentation, not a chemical one.

If Canada were to blend 10% ethanol into all gasoline across the country, the new demand would spur the construction of an entirely new series of ethanol plants. These plants would be the equivalent of building a 200,000-barrel-a-day petroleum refinery.

If ethanol has the ability to break the crude monopoly in Canada and expand our refining capacity, why has it not happened? Well, it's not in the financial interest of the petroleum industry to do so. They're not interested in blending water with their wine.

A number of provinces have taken steps to increase renewable fuel use, and the federal government has as well, through the ethanol expansion program. What we are calling for today to help address this problem is a 10% renewable fuel standard, requiring 10% content of ethanol in gasoline by 2010. It is a realistic and achievable goal. It would diversify our energy supply, add to our refining capacity, and help moderate price.

Thank you for your time, and I hope you'll help fuel change for Canada.

● (2015)

The Chair: Thank you, Mr. Teneycke.

From Iogen Corporation, we have Jeff Passmore.

Mr. Jeff Passmore (Executive Vice-President, Iogen Corporation): Thank you, Mr. Chair, and thank you, members of the committee, for the opportunity to appear.

Iogen Corporation is also in the ethanol business, but unlike conventional ethanol, just to be clear to everybody, our process takes the agricultural residue, or the non-food portion of the plant—the straw, corn cobs, stalks, and leaves—to make ethanol.

Canada consumes about 40 billion litres a year of gasoline. I'm sure you've heard that during the course of the day. It would require four billion litres of ethanol to take the country to 10%. If we had E10 in all the automobiles across the country, that would be four billion litres. As you've just heard from Kory, no new oil refinery has been built in North America since the 1970s, and refining capacity is constrained. There are no plans to build new oil refineries.

Iogen, and indeed conventional grain ethanol producers as well, are proposing to build refineries, and they're called biorefineries. I want to make that clear. We are proposing to build refineries. We're the only people who are talking about building refineries and adding capacity. If that's a rhetorical breakthrough for everybody, then so be it, but that's what we're here to talk about: building biorefineries.

Biorefineries are going to increase fuel supply, improve energy security, keep prices below what they otherwise would be, create new economic opportunities for agriculture, and reduce greenhouse gas emissions. In terms of new economic opportunities for agriculture, Iogen is talking about building plants in the Prairies: Manitoba, Saskatchewan, and Alberta. Guess what? It's a non-partisan issue. There aren't too many Liberals sitting in Manitoba, Saskatchewan, and Alberta. That's where we're planning to build our plants.

The benefits I'm talking about should accrue to all of Canada: economic opportunities for agriculture, GHG emission reductions, energy security, price impact, and an increase in fuel supply. Those benefits should accrue to Canada, but the question is, will they?

Iogen is currently working with the Government of Canada to find incentives that would be comparable to those included in the U.S. Energy Policy Act of 2005. The Americans get a bad rap for not being signatories to Kyoto, but guess what? They have in the Energy Policy Act of 2005, signed by the U.S. President in August, a very aggressive cellulose ethanol pursuit initiative. It includes loan guarantees. It includes capital grants. It includes research and development incentives. Our position is that we need to be building those refineries here in Canada, and as I say, we're in discussion with the Government of Canada to match those incentives.

Not all of you, I understand, have my presentation in front of you, but there's a map showing where in the Prairies we would see building facilities. There are at least five facilities that could be built in the Prairies.

Lest there be any doubt about which cars warrant 10% ethanol use in terms of Kory's call for a 10% ethanol mandate, they all do. There isn't a single car on the road today that doesn't warrant the use of E10—10% ethanol.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Passmore.

Monsieur Girard, Coalition pour la défense des consommateurs de carburant du Saguenay—Lac-St-Jean.

[*Translation*]

Mr. Claude Girard (Spokesperson, Coalition pour la défense des consommateurs de carburant du Saguenay-Lac-St-Jean): Good evening and thanks to committee members for allowing the Coalition to make its voice heard here this evening. We're counting on the common sense of our political representatives. I don't intend to inundate you with figures, tables and so on. I believe that everyone here is in good faith. People are trying to find solutions. It's perhaps more the point of view of consumers, of people in the street, that I would like to make heard here this evening.

La Coalition pour la défense des consommateurs de carburant du Saguenay—Lac-St-Jean has been in existence for more than five years and today has some 20 member organizations representing nearly 100,000 persons. The sharp fuel price increases in recent weeks have given the Coalition reason to "step on the gas". The Coalition's primary mission was to inform, but Coalition members have expanded that, adding the following objectives: increase awareness and attract new members.

In the next few weeks, the Coalition could bring in an impressive number of new members, in view of the contacts that are being made right now. The Coalition has previously submitted two briefs, including one to this committee, on May 12, 2003. One of the recommendations in that brief was that a system be implemented for establishing oil operating costs in order to set fair and equitable prices for consumers. The Coalition also asked that legislation be introduced preventing price-fixing and providing for an obligation to explain, with supporting documentation, all pump price increases and any refusal to lower prices despite declining supply prices. In short, the Coalition sought and is still seeking the establishment of a fuel price control agency in Canada.

The Coalition has nothing against the fact that every business must ensure its survival and development by making profits. However, it seems clear that the oil companies have built themselves a system and that the oil products market in Canada is flawed. And that statement can be applied to oil companies around the world. No principle, value or system should tolerate the kind of absurd situation Canadians are currently experiencing as a result of the oil companies. Canada, which is an oil exporter, should not rely on any outside supplies. In the past, all kinds of reasons were advanced to explain fuel price increases. Today, the public is more and more, and better and better informed, and these kinds of reasons are no longer enough.

I say and I repeat: watch out, the consumers I represent have had enough. The Canadian government's negligent attitude must stop immediately. It's dangerous to continue down that road. Unfortunate actions could be taken, and the situation could degenerate. Just consider the example of the most disadvantaged, who will be unable to bear higher oil prices in order to heat their homes this winter. Watch out, families will literally light fires and die as a result of heating with alternative fuels or makeshift arrangements. We saw that in Quebec during the ice storm.

I'm already hearing government representatives announce measures to help the poor. However, where will they get the money? And I can give you the answer to that: they're going to take it out of taxpayers' pockets. Once again, I say, watch out: the money is not in taxpayers' pockets, but in the oil companies' coffers, and the government should take it from them and restore it to the people.

You have to consider the successive, irrational fuel price increases and their major impact at all levels of our economy. People are seriously wondering about oil companies' excessive profits, and here I can assure you this is no longer a perception. A review of the oil companies' financial statements has proved to us in recent years that these companies have made six, seven and even eight times as much profit as the Canadian industry average. That's serious business!

Whereas the federal government has the necessary powers and the legislative authority to put an end to the oil companies' abuses; whereas, in order to put an end to the conventional argument concerning the Canada-U.S. Free Trade Agreement, NAFTA makes no provision for the oil companies to abuse Canadian consumers; considering the urgency and importance of regularizing this situation, the Coalition pour la défense des consommateurs de carburant asks the Government of Canada to immediately introduce a fuel price control agency in Canada. We're not asking it to control energy or encroach on the jurisdiction of the provinces, but rather that of the oil companies. Enough is enough.

● (2020)

The Canadian public, the Canadian economy and industry in general need support from the Canadian government. We also ask that a plan be prepared establishing measures for the transition from the current situation to a situation in which drivers would switch to hybrid vehicles or to less polluting and more economical alternative solutions.

This planning process could enable consumers to weather this environmental problem caused by fossil fuels and enable the entire population to believe in a better future, not just a globalized future dominated by China or Wal-Mart. I believe you understand what I mean.

As a society, we can no longer tolerate seeing bandits rob us freely, seeing people who are already too rich getting even richer and destroying the basis of our economy and our way of life.

Thank you.

● (2025)

The Chair: Thank you, Mr. Girard.

[*English*]

Okay, we'll start with questions, and if we all stick to the five minutes, everybody will get on again.

We'll more or less go in the same order, starting with John Duncan.

Mr. John Duncan: Thank you very much, Mr. Chair.

Thank you once again for your presentations.

I'm sorry, I'm going to have to go backwards for a second, because Mr. Pickard talked about the 5¢ per litre to the municipalities. I'm going to have to correct the record once again.

To listen to Mr. Pickard, you would think that cutting the excise tax on gas would mean less money for municipalities. In fact, the link between the federal tax on gasoline and transfers to municipalities is a matter of politics rather than law. There's no legislation specifically tying the two. An increase or decrease in excise tax revenues would have no legal effect on the dollar value of the transfer as that dollar amount is a policy decision; and while the government has promised to increase the transfer to the equivalent of 5¢ per litre, it will be five years before this level is attained.

The announced phase-in is $600 million in each of the next two years. This is 1.5¢ per litre equivalent. It's 2¢ per litre or $800 million in 2007-08 and it is 2.5¢ per litre in 2008-09. So we don't get to the 5¢ a litre until 2009-10. So if you put it another way, this year and next the government is only going to send the provinces 1¢ out of every 7¢ that it collects from the excise tax on gas and none of the money it collects from the GST on gas.

I thought I'd get that on the record, because there's been obfuscation at work to try to suggest those moneys were at risk.

I want to also comment on the fact that the Canadian Labour Congress was not able to make it tonight and to express my disappointment with that, because I do know we have a lot of resource and other workers—resource workers, transportations workers, manufacturing workers—who are affected by the current pricing regime. I have people in my constituency in the forestry sector who are certainly at home right now as a consequence of the current fuel price situation. I've had that input, and I know that's what the CLC probably would have talked about tonight. So the level of taxation is a concern to them.

John Williamson talked about the recent.... Was it in Holland where they reduced...? Poland, okay. We've had a series of graphs here from various sources that show that provinces with lower taxation regimes have lower prices. We've had comparisons showing Canada versus the U.S., and indeed, lower taxes equal lower prices, so that's one more confirmation. There's been an attempt to obfuscate on that front as well. But that is essentially what we see, if we choose to open our eyes, from the evidence today, so I thank you for your confirmation.

I think Kory Teneycke and Jeff Passmore have added a dimension to the discussions today, which is that every time we try to put a box around what we're going to talk about, which is fuel and heating fuel costs... This is such a complicated, convoluted sector of the economy, the energy sector, we find that there are new things at work if we only expand a little bit.

We've had a lot of discussion today about refinery and refinery capacity. Would it not be fair to say that you have both lent credence or evidence to the fact that if you were an investor, why would you put your money into building traditional refinery capacity when indeed there are so many other options that appear to be coming at us so strongly?

● (2030)

The Chair: Thank you, John.

We'll try to get answers in a very brief amount of time. Do you want to try that, Mr. Teneycke?

Mr. Kory Teneycke: On the refining question, it would seem, at least over the last 10 years, that the petroleum industry has not been responding very well to the market signals that those increasing refining margins have been sending. Normally when prices are going up for a given good or service, the market responds by increasing supply. What we've seen on the refining side is that as margins have gone up for refining, capacity has actually shrunk. So the market signal is saying increase capacity, and what's actually occurring is that it's being reduced.

Now, as often happens in the market, someone from outside the traditional sector comes with an idea and a substitute product that fulfills the same function, does it at a lower price, and we are willing to build refineries. We want to build refineries. I would submit to you that we're the only people today with an aggressive plan for building refineries, and they happen to be refining something other than crude oil. So much the better, when you look at the trend lines on crude oil prices.

The Chair: Time for maybe one more comment, Mr. Passmore.

Mr. Jeff Passmore: I would only say that with respect to cellulose ethanol, Mr. Duncan, the issue for us isn't getting the equity capital to the table, the issue is getting the debt capital to the table, because we're a new technology; we're not built yet. The debt funding for new technologies is the issue, and this is not unique to cellulose ethanol; this is unique to any new technology. Lenders don't lend to new technology unless it is guaranteed by a strong credit rating. They won't take those risks. That's the issue we face and the issue we're having discussions about now.

The Chair: Thank you.

Mr. John Duncan: As a clarification, my question was misunderstood. I meant why would investors invest in traditional refinery capacity when there were maybe more exciting or other technologies that were going to cut into the—

The Chair: It was a good question and worth clarifying. Thank you.

Paul.

[*Translation*]

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

I would like to tell Mr. Quintal that his book, *Qui fait le plein?*, bears a subtitle that suits him well: *La croisade d'un consommateur pour démystifier le prix de l'essence*. I believe that sums up the gist of the book.

From what I've seen, you're impatient to see concrete results, and I can understand you. And there are encouraging signs, including the decision made by the committee this afternoon to summon the five ministers responsible. I believe that's a step in the right direction.

That being said, you're entirely right about the sudden price increase and the situation we're currently experiencing. You suggest that refining be regulated. I'd like you to give us more details about the solutions you considered in this regard.

Mr. Frédéric Quintal: I often like to cite the O'Farrell Report from December 1985 as an example. According to that report, competition had been eliminated at the refining stage. Prior to June 1985, it was impossible for a refiner to learn a competitor's price from the *Oil Buyer's Guide*. There was competition at that level. Today, the *Oil Buyer's Guide* is published daily. In Ottawa, for example, Esso has exactly the same price as Olco, Petro-Canada and Shell. Esso's price is that of its competitors. It isn't even determined by Canadian refineries, but rather by a U.S. agency. It states every day what the gate price will be at each of its refineries. That price is based on the Nymex. I don't know any other industrial sector...

There's another ambiguity in the oil industry: everyone still thinks that, if the price of oil rises, the price of gasoline does as well. We have to educate people, and that's why I wrote this book. The price of the raw material rises, but all the products coming out of the refineries are traded on the exchange. It took me two years to understand that, and I'll explain it here today. Everyone pays the same price for an orange, but that doesn't apply to processors like Tropicana, Minute Maid, Oasis and Old South. Processed juice isn't traded on the exchange. But that's done in the case of the oil industry, and we're experiencing the full consequences of that. As you can see, the current market frenzy is really overdone.

I've been monitoring the industry for five years. During that time, the Nymex has never fluctuated by more than 10¢ in one day. However, suddenly, on Monday, August 29, 2005, the Nymex recorded a fluctuation of 21¢ a gallon in two hours. On Tuesday, August 30, the price fluctuated 41¢. It took 39 months for the retail gas price to rise above 80¢ in the Montreal region, 14 months to go over 90¢, six months to rise from $1 to $1.10, 16 days to increase from $1.10 to $1.30 and two days to spike from $1.30 to $1.47 on September 2. That's what you call a spiral, or market frenzy. The more it goes on, the more it intensifies. I now think it's exaggerated, excessive.

I like to cite the words of the late Pierre Elliott Trudeau:

> We need a state that is strong enough to offset profit-seeking and to ensure that wealth [...] is fairly distributed [...] between the constituent parts of the economy, that is to say between producers and consumers.

Gentlemen, we have now reached that point. It's time for you to act.

● (2035)

Mr. Paul Crête: Mr. Quintal, you say in your presentation that the future looks dim if we don't act. What do you mean by that? Let's suppose, for example, that following the hearings, nothing changes with regard to the government's operation, way of doing things and measures. What can we expect in the next few months and years?

Mr. Frédéric Quintal: There will simply be a recession in 2006. As parliamentarians, you and your colleagues from the various parties will choose what you want to leave to the Canadian public once you leave political life: either take this industry a little more in hand and regulate it in order to defend the public's interest or be the instigators, the politicians who were in power at the time of this major recession, which will start in 2006. When I say recession, this is very serious. The people who preceded us demonstrated that. We were able to see to what extent they are feeling the consequences of this situation. We really have to react. This is serious.

Mr. Paul Crête: If I have any time left, I'd like to ask Mr. Williamson a question.

You talked a lot about the tax question. From what I understand, it's not the rise in taxes that triggered the gas price increase last year. I'm the first person not to like paying taxes. No one likes it, and I understand that. However, in view of the current problems, you have to wonder whether it's not all the rest of the system that produces significant increases and fluctuations in the short term.

Aren't these two problems that should be considered at the same time?

Mr. John Williamson: I'm going to answer in English simply because that's easier for me.

[*English*]

There are a number of issues on the table, but I think it's hypocritical for politicians to just point at the industry all the time. At the Taxpayers Federation, we try to look at government tax and spending issues. We'll leave the question of how big oil sets its prices to big oil to explain.

There have been hearings in Washington and there are hearings in Ottawa on this question. But I think it's hypocritical for politicians to point the finger at the industry when government is involved with price-gouging at the pumps as well.

Merci.

The Chair: Merci, Paul.

We'll go to Dan, Brian, then Werner.

Dan, please.

[*Translation*]

Hon. Dan McTeague: I'd like to thank Mr. Crête for what's called a segue in English.

[*English*]

Mr. Williamson, I am one of those politicians. I took the time in 1998 to write a report in which I looked at all aspects of pricing in the industry. In it, we discovered a couple of things; one, of course, involved the GST and other taxes, and of course the 1.5¢ a litre that you alluded to a little earlier.

We did so very transparently, very above board. We did so in a way such that we wanted to reflect on what the cost components were. We also made recommendations that your organization found out about. Your predecessor, Mr. Robinson, will attest to that.

So when it comes to talking about discussing taxes, believe me, Mr. Williamson, there are plenty of people on this side who have looked at the question and who understand it implicitly, including Bernard Lord, who sat on the New Brunswick Select Committee on Gasoline Pricing and as a Conservative would never recommend dropping gasoline taxes. He knows what it did for the bottom line for business and for consumers in his province.

But let me ask you a question. You claim here, and I think I've just heard you say—correct me if I'm mistaken—that you try to look at all aspects of the industry, and in particular all aspects pertaining to taxation. Notwithstanding the fact that Canada ranks probably the second-lowest in terms of tax jurisdictions in the world on taxes, next to the United States, and notwithstanding the fact that, ex tax, Canadians pay more for their gasoline than they do in the United States—often our own gasoline—could you tell me if your organization has had any thought given to, or perhaps has had a dalliance with ensuring that taxation of the product through provincial revenues is not also something you're considering?

I, for instance, would consider—I don't know—provincial royalties in the province of Alberta. I find your organization is conspicuously silent on them, and yet they do contribute at the outset to the price for gasoline.

So, Mr. Williamson, perhaps you could illustrate to this committee just how far you're prepared to go in cutting government's involvement with this product to help consumers. More importantly, also you could give your comments on the structure of this industry, because again you seem silent on that issue when so many others seem to be coming to that conclusion.

● (2040)

Mr. John Williamson: Sure. I have a couple of points. You have Bernard Lord saying no to tax decreases; we have Dalton McGuinty on the record calling on Ottawa to cut taxes. So it's perhaps a bipartisan position, but it's still a legitimate position to be calling for lower taxes.

In terms of Canada being the second-lowest tax jurisdiction in the world after the United States, that's simply false. But I think that's a question for the finance committee, not one for this committee today.

Regarding the question of provincial tax revenue, yes, in many cases their taxes are higher than Ottawa's, particularly in Quebec. But the point we make, which has been the other half of our campaign over the years, is that Ottawa's big problem is it's taxing motorists but not using that money. Most provinces spend their gas tax money on roads; Ottawa does not. The worst province is Ontario, which only reinvests half its gas tax money in roads.

We've been calling on Ottawa since 2000 to reinvest half the tax revenue in roads, bridges, and highways. We think in this case you're actually being quite consistent. The provinces are using the tax money they use for roads. Ottawa is not; hence that focus at the federal government.

In addition, the federal government also has and has had huge surpluses, which is why it also makes for a convincing argument.

Hon. Dan McTeague: Mr. Williamson, are you going to answer my question about whether you've called on the Government of Alberta to reduce its royalties, which amount to about 10¢ a litre?

By the way, the information I'm getting is from the oil division of Natural Resources Canada, if you want to take it up with them.

Mr. John Williamson: Sure, we—

Hon. Dan McTeague: And I understand that, but would you please answer the question as to whether or not you've canvassed provincial governments concerning royalties, because there's a substantial tax put on there, embedded, which of course we all pay as consumers.

Mr. John Williamson: If you haven't done that, sir, will you do that?

Hon. Dan McTeague: We'd have to look at it. But again, it's not —

The Chair: You attack one government and not the other.

Mr. John Williamson: Look, the tax situation out in Alberta has hardly been soft on the Klein government.

Hon. Dan McTeague: Maybe I can move this along.

Mr. Williamson, I was also concerned about the people of Alberta, not with respect to royalties, but while the gasoline price, with or without tax in a good part of the country where the tax was actually higher, was lower in Ontario, it was much higher in Alberta. You may want to canvass this with consumers. Mr. Fruitman may want to opine on this as well. Because of the structure of the industry, quite often you'll see wholesale prices.

I understand your concern about the GST, but I'm also concerned about the 40¢ a litre that's been tacked on over and above that. If you're concerned about 1¢, you should also be concerned about the 40¢ that's tacked on in wholesale margins.

The Chair: We'll let Mr. Williamson answer, because his time is almost up.

Go ahead, Mr. Williamson.

Mr. John Williamson: Sure there are high taxes, but when you've got a 50% tax rate, a 5¢ a litre tax reduction is not a lot to ask for. If I were here asking for more you could dismiss it. I actually think we're being quite reasonable. I'm not sure how any government member can defend a tax on tax, still taxing to eliminate the deficit when it's been gone for eight years, and keeping taxes high when they're not returning the money to motorists.

Hon. Dan McTeague: If you know anything about taxes, Mr. Williamson, it's because of what I wrote in 1998 as a Liberal member of Parliament.

Mr. John Williamson: Why don't you do something about it then, instead of just talking about it?

Hon. Dan McTeague: We have done that, Mr. Williamson. That's why we've put money toward taxes, roads, and infrastructure.

The Chair: Thank you, Dan.

Thank you, Mr. Williamson.

Brian is next, then Michael, and Marc.

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

I'd like to ask Mr. Quintal a question.

I noted your concerns about speculation being part of the driving cost, and taking advantage of the situation. It's something we haven't talked a whole lot about. It was actually noted by the Department of Finance how much speculators are now profiting from events around the world.

Maybe I can get your opinion as to why, despite the government's reduction of corporate tax from 28%—it should be down to 21%, and right now it's at 25% after a 3% reduction—we have profits that have hit record highs, and prices that have hit record highs, but consumers are not benefiting from that? I find it very difficult for Canadians to accept the fact that they lose their corporate taxes through the industry, the industry reaps in record profits, and at the same time people pay record prices at the pumps.

Can you tell me why just reducing taxes won't result in lower prices?

● (2045)

[*Translation*]

Mr. Frédéric Quintal: What's the question exactly? I didn't understand it.

[*English*]

Mr. Brian Masse: Specifically, speculation involved in the market right now has caused a lot of profit loss. That was identified by the Department of Finance. Right now, the oil and gas industry is also receiving a reduction in large corporate taxes—3% over the last few years. That hasn't translated into lower prices, despite record profits. What's wrong in the system that consumers aren't seeing it at the end of the day?

Does that help?

[*Translation*]

Mr. Frédéric Quintal: It's the Act to amend the Income Tax Act (natural resources) of October 2003. One of the three main arguments put forward in support of passage of this tax cut was, if I remember correctly, that it would improve Canadians' quality of life. I asked the Finance Committee what Canadians' quality of life was like when natural gas and heating oil prices had been fluctuating by 25 to 50 percent every day for the previous two or three years.

The second argument was that it would promote investment. At the outset, in 2003, Petro-Canada announced that it would not be investing in its Oakville refinery and that it was going to close it. In my book, I do the accounting to show that it cost more to close Oakville than it would have to covert it. In November 2003, in an exclusive chapter endorsed by the Caisse de dépôt et placement du Québec, I suggested that Petro-Canada buy the Oakville refinery, invest in it and believe that it could work. Petro-Canada refused to do so. I wanted to save shareholders $200 million, but that information was never passed on to them.

The third argument was that it would provide a corporate tax rate comparable to those of countries like Iceland, Denmark, the Netherlands and Switzerland. What's the point of competing with the corporate tax rates of those countries? Shell will never build an oil sands processing plant in Switzerland, since there are no oil sands there. I thought that tax cut was crazy.

Based on a calculation I made for 2004, given that what Mr. Trudeau had introduced in 1974 concerned natural resources, which are a provincial jurisdiction, the only way to get federal revenue was to prevent provincial royalties from being deductible, which was re-established in 2003. In 2003, Alberta oil royalties totalled $4.25 billion.

The current tax reduction plan resulted in a loss of $276 million for the federal government in 2004. Incidentally, I hope that the Auditor General will examine the briefing document on the tax cut for 2004 which refers to an amount of only $60 million in respect of provincial royalties from Alberta. I'm not talking about Nova Scotia, Newfoundland or the tax cut, but the amount was $276 million, whereas the document referred to $60 million.

In October 2003, I estimated that this would cost $3 billion a year in 2007, and that $3 billion figure is unfortunately more likely than the $100 million figure cited in the paper. This tax cut only represents the increase in oil company profits.

What is disappointing is that, in 2004, two oil companies, Shell and Petro-Canada, I believe, made six times their net profits from 1999. Did they really need a tax cut, when consumers would really have appreciated one?

[*English*]

The Chair: Thank you.

Brian, are you finished, or do you have a short one?

Mr. Brian Masse: I have a short one for our ethanol advocates.

Aside from the 10% commitment—that's almost like a political commitment, to some degree—what else is needed to make the breakthrough that you think is necessary?

Mr. Kory Teneycke: There are two things we're looking for, broadly speaking; and Jeff referred to some specific items for developing and commercializing new technologies like cellulose.

The first thing is market access. The petroleum industry has proven itself around the world unwilling to blend renewables, irrespective of how much less expensive they are than gasoline. As a result, countries around the world—most recently George Bush and the United States—have passed requirements for blending them. That's point one.

Point two is something I'm sure John Williamson and others would agree with. You need to have an investment climate here that is competitive with other jurisdictions. That's looking at all the macro-economic things, like labour costs, capital costs, and taxation rates, but it's also looking at incentives provided directly to a given industry.

In the case of Canada, we have traditionally provided less support to the renewable sector than we have to the petroleum-based sector. There's been an imbalance there. We've provided less support than neighbouring countries like the United States that have provided to this sector.

Unlike the oil sands, irrespective of how good the tax environment and the investment environment are in Rhode Island—they're not moving there—an ethanol plant can be easily built in any political jurisdiction with a rail line going to it. So it's a far more competitive environment.

Jeff.

● (2050)

The Chair: Very briefly, Mr. Passmore.

Mr. Jeff Passmore: Yes, Brian.

Who would have ever imagined that I would sit here before a committee of the House of Commons of Canada and say that all I want you to do is to match George Bush and do what the Republican Congress did. They've got a 28 billion litre mandate requirement for ethanol by 2012. By 2013, a billion litres has to be cellulose ethanol. They've said that for every gallon of cellulose ethanol a refiner blends, they'll get a credit as though they have blended two and a half gallons of renewable fuel; so there is a 2.5-to-one bias for cellulose ethanol over conventional ethanol. And they've said they're going to build a cellulose ethanol industry by putting in loan guarantees to cover the debt on the new technology.

The Chair: Thank you, Mr. Passmore.

Thank you, Brian.

Michael, Marc, and then Andy.

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

I want to commend you, Mr. Passmore and Mr. Teneycke, for bringing up the issue of ethanol and refining capacity. I think it adds a new dimension to this debate.

Maybe, Mr. Chair, it's something we could study further at another time, but today I think I want to focus on the more immediate and pressing issue of pump prices and what the government should do about it today. I'm going to direct my questions to the other panellists.

There's no doubt that the underlying reason for high fuel prices is that oil is at $70 a barrel. That said, the government does have a role to play or can play a role, because 30% to 40% of the pump price is taxes. While we can't control the underlying price of oil, governments can move to mitigate some of the high prices at the pump.

As we close out these meetings, and as I said earlier today, Mr. Chair, I fear that these meetings will have been a complete waste of time unless the government acts to reduce the rising burden of increasing fuel prices. It can do so today if it wants to, or it can do so tomorrow, instead of obfuscating about this and trying to put up smoke screens.

There's a real issue here. The real issue is that these prices are putting the industrial and manufacturing heartland of the country in Ontario at severe risk of decline. We've got the double whammy of a rising dollar and rising fuel prices, which is affecting real jobs and real people in Ontario in the manufacturing sector. So the government's inaction is putting these jobs at risk.

Instead of having a substantive debate in this committee about this issue, where we discuss how much tax relief we could provide, how to go about doing it or the different ways we can go about doing it, we have all of this discussion about anti-competitive behaviour; we have something that's absolutely not borne out by facts, with government members alleging that funding for municipal infrastructure is at risk if we reduce taxes; and we've got some talk about re-nationalizing the industry, a complete political non-starter. All of this is instead of having a really substantive debate about the impact and how to go about reducing fuel prices.

My question for the panellists, in particular the Canadian Taxpayers Federation and the Consumers' Association of Canada, is to ask you if you could maybe tell this committee, in order to convince some of the government members here, what the impact has been of rising fuel prices on your members and on the stakeholders you consult with.

● (2055)

The Chair: Thank you, Michael.

To answer your question, Mr. Fruitman, or Mr. Cran, and then Mr. Williamson.

Okay, Mr. Cran.

Mr. Bruce Cran: Thank you.

Well, sir, we're getting phone calls every day with all sorts of stories. We're getting hits on our website of people telling us that what used to cost them $30 is now costing nearer $60. We're aware of the fact that the transportation industry is badly affected. We have the port strike, or whatever you want to call it, in Vancouver, which is causing a situation that will affect almost every commodity that consumers use. So I think there's a very severe effect on people. It's affecting their wallets and the number of miles they can drive with their cars, and all the rest of it.

I actually live in British Columbia, where a car is an essential commodity; it's not a privilege, but a requirement, as we don't have a very good public transit system. All of those people are going to be affected.

So, yes, it's winding its way right through our whole economy, affecting every consumer in the land.

The Chair: Mr. Williamson.

Mr. John Williamson: I'll be very brief.

There's a poll out this week showing that three of four Canadians think these high gas prices are going to affect their finances. What we are seeing across the country is that over the last 20 years, gasoline consumption has gone up by about 1%—just over that, according to Statistics Canada. I'm not going to test that theory at $1.50 a litre. There might be some reduction, but people are going to consume the gasoline they need to get to and from work, to pick their kids up, and to get across this vast, vast country, be it for personal use or for business.

At the end of the day, higher gasoline prices mean less money for some of the extras at the end of the month that families might want to purchase, be it a night out at the theatre, a movie, or just dinner out with the kids. That's what we're seeing. It is not that people are driving a whole lot less, but it is impacting family budgets across this country. Taxes are high. Commodity prices are going up. Hydro in many parts of the country, particularly here in Ontario, is up. So it's one extra cost that people can hardly afford to bear at this time, particularly when they look to Ottawa and they see these big surpluses.

The Chair: Thank you, Mr. Williamson. Thank you, Michael.

Marc, please, and then Andy.

[*Translation*]

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

I'd like to turn to Mr. Girard from the Coalition pour la défense des consommateurs de carburant du Saguenay—Lac-St-Jean. First, I'd like to make a comment, then ask a few questions. I want to congratulate you for agreeing to do the work you do because its purpose is ultimately to defend the interests of consumers a very specific region. This model could also apply to the Chaudières—Appalaches region. The price of oil is currently devastating for our regions, for agriculture and trucking, as you mentioned earlier.

We also realize that consumers don't have a lot of allies. We didn't just have allies during the day today. However, I believe that the witnesses we've heard since six o'clock are allies of consumers. We heard from the major oil companies. Even the Competition Bureau has drawn a distinction between excessive prices and illegal prices. It's conducted a study in at least six cases, without any results. The same is true of the Department of Finance, which is somewhat indifferent to this.

This summer, I had the opportunity to do an interview—Mr. Quintal was also on this program—in which Minister Lapierre had been asked to speak. He answered that he could not, that the problem was a global one, that it was the result of what was going on in Irak and that he would not be giving individuals any gas coupons. These are the circumstances you work in. I want to congratulate you.

Now I'd like to ask you a question. You referred to a price control agency, which you've been seeking to have established for some time now. You've surely received answers to your request. You were told there were obstacles. Where does this matter currently stand?

Mr. Claude Girard: We never received an answer. In 2003, in response to the brief we submitted, your committee recommended instituting a Canadian price monitoring agency, which would have resolved certain matters. That would be a step in the right direction. What we're saying isn't complicated. I was the director of a truckers organization, I negotiated with the government, and I could tell you a lot about that. We're trying to draw attention to what this represents for consumers, for real people. Today everyone feels cheated. This can't go on any longer. Everyone knows—I have parliamentary immunity, so I can say it—that the companies are robbing us. These companies are making outrageous profits. I've personally examined the oil companies' financial statements; I'm an expert in this field. It's abnormal.

For the past 10 years, we're talking about a $60 billion increase in cashflow. This is completely crazy. You don't see any thing like it in any other industry in Canada. The market is flawed; something's not normal. Everyone knows it, but it's as though they're putting their heads in the sand and don't want to do the right thing.

There is such a thing as energy price controls; you need only think of what's going on in Quebec: Hydro-Quebec is required to justify increases in its rates. Some will probably answer that, in this case, a factor at the global level influences the price of crude and that you have to react quickly. That's not true. Canada produces more oil than it uses. Today, the per-litre price is 20¢ in Saudi Arabia and 26¢, I believe, in Venezuela. How is it that Canada has introduced a system in which we've painted ourselves into a corner? Why can't we benefit from this significant competitive advantage that we have over competing countries? I can't understand that.

In our opinion, we absolutely have to institute a control agency that will stop this bleeding. As we previously said, we have no objection to oil companies making money. We have nothing against that, but they're currently making too much. It no longer makes any sense.

● (2100)

Mr. Marc Boulianne: You also said this is a disturbing situation. You even used the words “dangerous and explosive situation”. I'd like you to tell us more on that point.

Mr. Claude Girard: Indeed, and I can even say that, very soon, our coalition will be representing more than one million persons. I'm speaking for all of Quebec. Next week, there will be a meeting attended by the major leaders. We're no longer just talking about the Saguenay—Lac-St-Jean region. This will really be at the provincial level.

In fact, people come up to me and say, perhaps jokingly, that the heating oil issue isn't serious because they're going to make fires, they're going to get some wood, they're going to cut wood and make a fire. It sounds quite amusing, but this could be catastrophic if it's done in a makeshift way, as I said earlier. In fact, it could be a major problem. Earlier, the gentleman talked about this and that, all talk. I'm sorry, but it's not talk. I have five children.

Mr. Marc Boulianne: What do you expect from the committee?

Mr. Claude Girard: I'd like the committee to go so far as to ask the government to rule on the matter; in other words, to recommend that a control agency be established. That measure would not necessarily be permanent; it could be a transitional plan, for the moment, to stop this bleeding and to enable consumers and our economy to survive and get through...

We have nothing against that. We know there's a problem in that regard and that there has to be a change. Let it organize a transitional plan so that we can move from point A to point B.

[*English*]

The Chair: Merci, Marc.

Andy, then Werner, and then Jerry.

Mr. Andy Savoy: Thank you very much, Mr. Chair, and thank you for coming, everybody.

I have a point of clarification from the start, Mr. Williamson. You said in your opening statements that you blame the high prices of gasoline on the government. I don't understand this, having seen what we've been through in the last two weeks in getting on top of this issue. I can understand your concern around taxes, but to say you blame the high prices of gas on the government is a bit of a stretch. Is that what you meant, or did you mean that you're not happy with the level of taxation?

Mr. John Williamson: I blame government for high levels of taxation—

Mr. Andy Savoy: But not for high gas prices?

● (2105)

Mr. John Williamson: When you have 50% of the commodity in tax, that leads to high prices.

Mr. Andy Savoy: No, not tax. I know the statistics, but you can't blame high prices on the government. I think that's a fair statement.

Mr. John Williamson: You can, in part, surely—in a large part.

Mr. Andy Savoy: Thank you.

Mr. John Williamson: Look at the U.S.: prices are 20¢ less per litre when you covert it. It's all taxes in this country that make up the difference.

Mr. Andy Savoy: Okay. What you're implying is the high price you are seeing today can be blamed on the government. That's not the case. It's marketing conditions, it's supply and demand. Mr. Chong in fact alluded to it, and we've been through this. We know what the situation is. Yes, I agree with you that you have concerns surrounding taxation, but don't try to say that you can blame high prices on the government—the spike in prices. So that's just to clarify this.

Secondly, in terms of the reduction in taxation, I understand where you want to go with that. I think Mr. Chong is right that we have to have a substantive debate on in fact what impact that tax cut will have. Have you done research into jurisdictions that in fact have cut taxes or into jurisdictions within Canada that have considered tax cuts and reviewed that proposal?

Mr. John Williamson: Are you talking about gasoline, or broader than that?

Mr. Andy Savoy: Gasoline.

Mr. John Williamson: Across the country, provinces or cities with lower taxes have, on average, lower prices. Jurisdictions with high taxes, like Montreal and Vancouver, have the highest prices in the country. So, yes. When you look at what's happening—the difference between Canada and the U.S.—you do see that as well.

If there was in fact no correlation, then, as the finance minister has said, there would just be one price for gasoline, but there's not. There are many prices, and taxes are a big result of that.

Mr. Andy Savoy: As numerous jurisdictions have looked at this issue, some in fact have actually implemented tax cuts at the pumps, and I don't know if you realize this. They've cut their taxes. New Brunswick, for example, in the early 1990s—are you familiar with that situation?

Mr. John Williamson: Yes, I am.

Mr. Andy Savoy: Do you know what happened in the four price components of gasoline, when you're talking about crude oil pricing, refinery margin, marketing margin, and taxes? They cut the taxes by 3.5¢, which should have been reflected in the end price, because none of the other three variables changed. Accordingly, they said it didn't change. We know crude didn't change. We know the marketing margin didn't change, but it was eaten up. The 3¢ or the 2.5¢ was eaten up and the pump prices didn't change.

What I'm looking for, to debate this issue, is how can we be guaranteed...if that's the case in New Brunswick? As I said earlier, and I don't mean to reiterate, Stockwell Day, when he was the treasurer in Alberta, said “If we look at lowering the gas tax, what kind of guarantee do we have that retailers will also drop their price, or are they just going to fill in the ditch?” He then went on to say “We're going to study this issue. We're studying the possibility of cutting fuel taxes. Give us some time. We want to make sure that if we do something we do it right.” In the end, he did not cut taxes, in 1999. He kept them the same, at 9¢.

People have reviewed it, people have done it, and it had a limited impact at the pumps. People have reviewed it, in the case of Alberta, and have decided that it wasn't wise to do it, or it wasn't a wise investment per se of taxpayers' money. So that's my concern. I'm not saying that you don't have a valid point. I'm saying what percentages can we be guaranteed will be translated to the pump prices? That's my concern. Is it some? Is it all? The New Brunswick example would state one thing. Other people who reviewed it had concerns about it. So that's my concern.

I think that's a substantive point, Mr. Chong. What percentage, in fact, will be translated to the pumps? I just want to make that point.

Would you agree that would be a valid concern, based on historicals, based on cases, Mr. Williamson?

Mr. John Williamson: I think it's a valid concern, but again I think the evidence we see is that the lower taxes that we're seeing, at least in Poland, are being passed on, which is why we're seeing now jurisdictions in the United States considering temporary tax relief as well from state lawmakers. But I don't recall the Parliament of Canada seeking similar guarantees from employers when taxes were cut between 2000 and 2004 to make sure that when personal income taxes were cut that would be passed on.

There's a sense out there, when it comes to gasoline taxes, that they are too high, and you have the industry in here today on their knees basically saying they will pass it on. I'm not sure what more you could be.... They're saying yes. I would think with all the powers of the Government of Canada, if you couldn't watch that and then go out and whack the heck out of them if they didn't, then you're not taking full advantage of the bully pulpit that you have. Again, I look at the jurisdictions: high taxes versus low taxes. It's right there.

Mr. Andy Savoy: Would you say that, based on case history, you could see that there might be some concern around how much of that might be passed on? That's all for my questions. That's my concern as well.

Mr. John Williamson: I suppose the move is there, but at some point you have to act.

Mr. Andy Savoy: Moving on to the renewable fuels, you talked about the refiners looking at getting into renewable fuels and ethanol specifically. Do you see a problem with that down the road where maybe the competition will in fact be an integrated company in terms of both refining at the crude level and at the ethanol level and having distribution? Do you see that as an issue? I know it has been brought up in discussions, but I've heard some concerns surrounding that.

● (2110)

Mr. Kory Teneycke: We feel like that is a long way away, given the resistance of the petroleum industry to get into the ethanol business. There are two ethanol plants being built in Canada right now by petroleum companies—one in Lloydminster and one in Sarnia—but they really stand out in North America as the only two projects I'm aware of that are currently under construction and owned by petroleum companies.

Even if they were vertically integrated, you would still get the benefit of ethanol having a lower production price than gasoline refined from crude oil because you're getting out of that crude as an input for that portion. In that sense, it would still be of value irrespective of any vertical integration and lack of competition as a result of that.

The Chair: Good question, Andy. Thank you.

Werner, Jerry, Brad. We're on the home stretch.

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

Thank you very much for your presentations here this evening.

It's getting a little late, and I want to concentrate my attention totally on the alternative energy and the ethanol refinery business.

First of all, I'd like to ask Jeff a technical question. The Bush initiative you referred to, is that the energy bill in the United States, or are you dealing with the study?

Mr. Jeff Passmore: No, that's the Energy Policy Act of 2005 passed by Congress in July and signed by Bush on August 8.

Mr. Werner Schmidt: Do you also have the background material for that bill?

Mr. Jeff Passmore: Absolutely, yes.

Mr. Werner Schmidt: I think it would be useful for this committee to have that.

Secondly, I think, Kory, you made the comment, “We want to build refineries”. Why aren't you?

Mr. Kory Teneycke: Why aren't we? We are. Our capacity right now for ethanol production in Canada is about 230 million litres a year. The projected volume of ethanol produced in Canada by 2007-08 is 1.4 billion litres, so we're talking about a massive increase in the size of our industry already. There are a series of factors driving that. The first is provincial mandates requiring ethanol use that have been passed in Saskatchewan, Manitoba, and most recently Ontario, in combination with the federal ethanol expansion program, which has helped close that gap of support offered to the industry in Canada versus the United States. So we are building currently, with shovels in the ground and construction under way, but we could be doing a lot more. We could be building a lot more here. We are far behind very many other countries in the world with the relative size of our industry, and they are all ramping up. The United States is ramping up, Brazil, China, India, Central America, and Europe are all ramping up to a greater extent than we are here in Canada. So we are, but we could do more.

Mr. Werner Schmidt: What effect would building a number of ethanol refineries have on the overall refinery capacity in Canada?

Mr. Kory Teneycke: If we had a 10% renewable fuel standard, which would mean that the fuel produced could be used in every car today, it would be the equivalent of building one major 200,000 barrel a day petroleum refinery. It is something nobody else is talking about, building the equivalent of a major refinery. So it would have a significant impact, especially when you hear many people talking today about how integrated our market is with the U. S. When you actually look at what the expansion of the renewable fuels industry in the U.S. is going to add to refining capacity as well, ethanol is going to be playing a very large role in expanding our refining capacity on both sides of the border.

Mr. Werner Schmidt: The reason I'm asking that question is that I think—

Mr. Jeff Passmore: If I may, it's like finding 10% more fuel. Basically, you've suddenly got an additional four billion litres of fuel in the marketplace than you had previously. So, intuitively, if you've added four billion litres of fuel to the transportation fuel market you'll have less upward pressure on prices.

Mr. Werner Schmidt: That's assuming that the present refineries will remain at the level they are today. It's based on that assumption.

Mr. Jeff Passmore: That's right.

Mr. Kory Teneycke: That's one part of the assumption. I guess the other factor that would drive reduction in price pressure is if crude stays where it is. The tipping point for our production costs, being lower than gasoline, is about $40 a barrel, so—

● (2115)

Mr. Werner Schmidt: Yes, I understand that.

The other question I have is that there seems to be an implication, at least, that moving from 85% utilization to 97% utilization of refineries is somehow reducing the price elasticity. How great is that variation from 85% to 97%? Exactly how much elasticity does it take away?

Mr. Kory Teneycke: I'm probably not the best person to answer that question in detail. I'm not sure what that price gap would be—it's about a 10% difference in refining capacity—or how many refineries that is on a numeric basis, but if you had a refinery go down when you're operating at 97% you would have a big, big problem. If you have 10% additional flexibility in your capacity, it is much less of a problem, which is sort of what we're seeing right now with Katrina and Rita.

Mr. Werner Schmidt: I said the implication seemed to be that moving from 85% to 97% utilization somehow created a margin for the refineries. Somehow they began to make money at 97% but the implication was that at 85% they were not. Is that correct?

Mr. Kory Teneycke: Oh, I think they were making money at 85%. I don't have the data in front of me as to what the refining margin was in 1980, but what's concerning for us is that as the market signal has been saying refining margins are going up, you would expect the market response to be an expansion of refining capacity. In fact, we've seen the opposite. We've seen refining capacity constricted. So there is something going on within that market to have it not responding, and I think that's why many people have pointed to competition.

Mr. Werner Schmidt: My intention was not to grill you but to show the excitement that I have with this kind of a venture. So I want to ask you and the rest of the panellists, what can government do now in order to facilitate the kind of thing you're talking about, to encourage that and to provide the incentive?

John had a number of things there, but what would a national energy framework look like that would make it possible for you and others to examine these alternative energies and meld them with the traditional reliance on hydrocarbons?

The Chair: That was a very long question with a long, long answer and you're already over time by six minutes.

Mr. Kory Teneycke: We can give a very short answer to that, if you like.

The Chair: I`ll agree, since you volunteered, but if anybody else has comments, we invite e-mail messages back to the committee.

Can you give a very quick answer, Kory?

Mr. Kory Teneycke: A renewable fuel standard requiring 10% ethanol use in Canada would be the approach that countries like the United States, the EU, Brazil, India, China, and Japan have all taken to this issue. That's step one, and that's something that could be done tomorrow that would help.

The Chair: Good. If anybody else has ideas we'll be glad to receive them.

Jerry, you can go ahead.

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

I believe there is a point here in defence of the oil industry itself. In general, and that is in Canada, we've been very concerned about the quality of oil that has been produced and is refined in the country. There have been a lot of regulatory changes to upgrade the quality of that product, to create fewer emissions and create a better environment. So those are the kinds of things that have entered into extra costs, and they have affected the industry to a degree. I think we should all be aware of that. I don't know that this has been mentioned today.

Coming back to the Iogen question, which I think is a critical one, and renewable fuels, mandating is good, but mandating will not solve the problem. I don't think there is anybody at this table who would like to see Brazil bring oil in if the provinces mandate it, because there are ecological problems there and there are all kinds of environmental concerns that we don't want to enter.

In my view, two critical things have to happen to move renewable fuels forward. The mandating, in a reasonable time, and the potential for production in place in Canada has to be there.

You mentioned, Kory, very clearly, that your bottom line about producing ethanol cheaper than crude is in the $40 area. We're talking $67 a barrel at this point in time. Would that difference allow you to have enough capital to develop the ethanol plants that are going to be required to move forward as well? Then I guess the second part of that question is, what is the timeline that you're looking at to put a plant or plants up and to move that agenda forward?

● (2120)

Mr. Kory Teneycke: I agree with your preamble to that question. I completely agree that those are the things that need to happen—the mandating. But specifically as to that gap between our production costs and the selling price of petroleum, ethanol producers don't get to capture all that money—that difference between the price of producing ethanol and the price of gasoline.

The ethanol industry is a very, very competitive business, and what you see is that the production facilities will be built, absolutely. The fuel prices—where they are today—are going to drive plants to be built to feed those markets. Where they'll be built is where they get the best return on investment. Right now, the environment for building these plants in some of these other countries has been better than it has been here, which begs the policy question: why has Canada had an energy policy towards traditional technologies, as opposed to newer renewable technologies?

Jeff, would you like to elaborate on that?

Mr. Jeff Passmore: To your question about timing, Jerry, it's spring 2007 when we want to get the shovel in the ground for the world's first full-sized cellulose ethanol plant. It will be financed through a combination of debt and equity. The equity is coming from the private sector. The debt would come from the private sector, if indeed it is guaranteed by a strong credit rating.

That's the issue we're debating: risk sharing on the commercialization of new technologies with government.

Hon. Jerry Pickard: Mr. Williamson, just for a moment... I took exception to a comment. I hope it was made lightly and not seriously. You suggested that there are hypocritical politicians dealing with taxation. Yet I heard Mr. McTeague putting pressure on you to commit to dealing with royalties in Alberta, which account for the total amount of federal taxes—the same amount we're looking at—and you suggested that you haven't even looked into it yet. You said we'll look at it. It seems to me that's a very selective position to take. I guess the public looks to see what's hypocritical from people who come and give testimony.

I don't think we should call people names because of what they do. I take exception to that. I would have thought someone in the Taxpayers Federation, as you are, would have looked at all aspects of taxation before you came here, rather than coming in and calling us names and dealing with one form of taxation. I think that's wrong.

The Chair: Thank you, Jerry.

I'll give the last word to Mr. Williamson and then we'll move on.

Mr. John Williamson: I must admit I was taken aback by Mr. McTeague's comments. It's not often I'm lobbied by a Liberal member to press for what in effect would be a corporate tax cut.

Our efforts in Alberta have been primarily on reducing income tax for individuals. The way we operate is as a federation. I'm responsible for federal tax policy. The question of royalties is a different matter, and had I known we were going to delve into that subject tonight, I would have boned up on it. But again, it's not a matter that I believe members at this table can affect in terms of federal taxation and provincial royalties. I believe they are two separate issues.

So I do apologize for not being prepared to answer that question tonight, but I do maintain my position that there is something hypocritical about politicians who berate the big oil industry, while they have the power to effect change today.

The Chair: Easy, Jerry.

I'll let you finish your sentence, Mr. Williamson, and then we'll move on to Brad.

Mr. John Williamson: I'm actually quite done. Again, my focus is on the federal government doing something and not pointing fingers elsewhere.

The Chair: Thank you, Mr. Williamson.

It's getting late, and we're all still doing pretty well, considering the long day.

The last words go to you, Brad, and we'll ask you to be as succinct as you have been in the past, or actually more succinct than you have been in the past.

● (2125)

Mr. Bradley Trost: I was wondering, Mr. Chair, about that first statement, as I can sometimes filibuster on the odd occasion.

I'm out of gas tonight. I really don't have any more specific questions. Personally, I want to thank everyone, and those who are watching on TV who presented earlier today. I want to thank you. It's been a long day for some of us, longer than we generally have in committee.

For the record, I have discussed with other witnesses what we can and can't effect in Canada. Mostly the price of fuel is set nationally. With another witness, we got it boiled down: tax and regulation are the two things we can really do to affect the price in Canada, and there's not much else.

I very much hope that your ethanol and new fuels are economical and productive. At the end of the day, I would advise that you not always depend on government for subsidies, because by the time they get there, they may not be what you want. I'm from the government, and I'm here to help, but it's sometimes fairly dangerous.

I have just one really small question. I am noticing that number three of your plants is in Saskatchewan. Precisely where in Saskatchewan is that? Saskatoon—Humboldt. Is that Kinistino, Tisdale, St. Brieux? Where's it going?

Mr. Jeff Passmore: You should ask Brian Fitzpatrick where one of the lead candidate sites is.

Mr. Bradley Trost: Okay, then it's in the wrong riding.

Mr. Jeff Passmore: I know, but there might be one down closer to Tisdale.

The Chair: We'll use that as an opportunity to bring this very good session to a conclusion. I appreciate that there are strongly held feelings on all sides, and I think it's all done with the interest of the public at heart, regardless of what perspective we come from.

I thank our witnesses here tonight for their participation. It's been time away from their families and other activities. I thank members and their staff for excellent questions throughout the day. We all—whether you're an NGO leader or an association leader—represent a certain constituency. We represent constituents in ridings. We are all hearing from them, whether they're the vulnerable, the poor, those on fixed incomes, small business, truckers—right across the range. We're all here to try to find solutions, but you've helped us a lot by sharing with us your perspectives.

So with that, we're going to adjourn the meeting.

Mr. Werner Schmidt: Before you adjourn.... You thanked everybody else, but nobody thanked you. I want to thank you. You did a good job.

The Chair: Well, I had a good team around me.

Thank you very much, and good night.

And thanks to CPAC, by the way.

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