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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order, please.

I know we don't have everyone here, but I'm told that we may have votes some time after five o'clock, so we should get started. We need only three members to hear from witnesses.

This is meeting number 68 of the Standing Committee on Science, Industry and Technology. Pursuant to Standing Order 108(2), we are studying gas prices and refinery margins.

We have two sessions today of an hour each. For the first, we have two people from the Competition Bureau. Ms. Sheridan Scott is the commissioner of competition. She's a regular at our committee.

Welcome, Ms. Scott.

We also have Mr. Richard Taylor, the deputy commissioner of competition, from the Competition Bureau, civil matters branch.

Welcome, Mr. Taylor.

I believe, Ms. Scott, you'll be presenting on behalf of both of you, and then you will be available for questions from members. You can begin at any time.

Ms. Sheridan Scott (Commissioner of Competition, Competition Bureau, Department of Industry): Thank you very much, Mr. Chairman and members of the committee, for inviting us here today to participate in your study into gasoline prices and refining margins.

As you mentioned, Mr. Chair, I'm accompanied today by Richard Taylor, who's deputy commissioner for the civil matters branch.

As do all of you, I understand the importance of gasoline to Canadians in our everyday lives, as well as to the economy in general. None of us wants to pay high prices, whether for gasoline or any other product, and I think it would be fair to say that we as Canadians are all particularly sensitive to gasoline prices, as we see them displayed on the street corner every day.

Before I address some of the specifics of this topic, I think it's important that there be a clear understanding of what the bureau's overall mandate is. We seek to ensure an efficient and competitive marketplace by enforcing the Competition Act and by advocating that regulators rely on market forces to the greatest extent possible.

We don't advocate competition for its own sake. We advocate competition because the market and the robust competition that supports it, rather than government regulation, are the most effective means by which to enhance consumer welfare.

On the enforcement side, the bureau receives a large number of complaints every year. We look at whether a complaint raises any issue under the Competition Act and at the severity of the violation. Where there is sufficient evidence of a violation of the act, the bureau routinely investigates and takes enforcement action.

[*Translation*]

The act includes criminal provisions against price fixing and price maintenance, and non-criminal or "civil" provisions dealing with mergers and abuse of dominant position, among others.

In the course of our enforcement work, when authorized by the courts, we routinely use the investigative tools available to us, including: the power to subpoena documents and require oral testimony; the power to search and seize evidence; and the ability to wiretap.

But often, our work does not require these particular powers. Instead, we use research and other investigative tools to explore issues and factors that may be inhibiting market competitiveness. These tools are the basis for our outreach work to inform market participants about the Competition Act, competition issues and competition generally. And they provide the foundation for our efforts to fulfil our mandate to act as an informed advocate for competition.

● (1535)

[*English*]

I'd like to very briefly deal with the issue of refineries.

As with anything else within our mandate, the bureau is concerned with potential violations of the Competition Act. High prices, or in this case high refining margins, are not of themselves indications that there has been a violation of the act. There has already been much discussion in Parliament, in the media, and elsewhere as to the various factors, whether in other parts of the world or in North America, that might have contributed to the current situation. I would defer to my colleagues at Natural Resources Canada who are appearing after us. They are probably better placed to have that discussion on the specifics of the factors.

What the bureau is concerned about with respect to the gasoline refining industry over any other industry or sector of the economy is one thing: has there been a violation of the Competition Act?

From our perspective, the issue would be whether refiners come together to constrain capacity. We would take very seriously any reduction in refining capacity that was due to anti-competitive behaviour. To date, we have seen no evidence of this, and there are also some reports that a number of companies are proposing to build new refineries in the near future.

[*Translation*]

I would also like to point to the work of the US Federal Trade Commission, which has concluded that the amount of refinery capacity is not the result of anti-competitive conduct. In its post-Katrina report, it states, and I quote, that:

> The evidence suggested that the rate of capacity growth was a response to competitive market forces that made further investment in refining capacity unprofitable.

This in no way means that, in the future, the bureau may not reach a different conclusion. As I said earlier, we are continuously monitoring this industry for evidence of violations of the act. I would stress however, that in order for the bureau to act, we need evidence to demonstrate that there has been abuse of dominance or price fixing. Members of the public can bring us evidence and we also have an immunity program which has proved quite successful.

Let me repeat that should the bureau find evidence of anti-competitive behaviour, whether in the gasoline or in any other sector, it will take appropriate action.

[*English*]

High prices are a concern to the bureau when they are the result of violations of the Competition Act. When we find evidence that firms have conspired to increase prices, we take appropriate action. Let me now turn to what the Competition Bureau does with respect to the gasoline sector. The Competition Bureau actively follows wholesale and retail gasoline prices to determine whether they are the result of market forces or anti-competitive acts. When there are price spikes, we will look even more closely. In fact, historically this has been the market the bureau has followed most closely. We have put more resources toward monitoring this market for anti-competitive acts than any other. We will continue to do so and we will take further action under the Competition Act when appropriate.

As I'm sure you're aware, the bureau has investigated the gasoline sector over the years, and in six major investigations has found no evidence to indicate that periodic price increases were the result of a national conspiracy or abuse of dominant position by firms in the market. On the other hand, bureau investigations have led to 13 criminal trials related to gasoline or heating oil prices; eight of these trials resulted in convictions. As I said, where evidence exists, we act.

I should note that the Competition Bureau receives complaints from consumers about price gouging. While price increases are not easy for consumers, high prices in and of themselves do not constitute a violation of the act any more than low prices do.

In a market economy, it is generally accepted that under most circumstances government should not determine what is an appropriate profit margin: it is certainly not within our power under the Competition Act to do so. In a market economy, businesses are generally free to set their own prices at whatever levels the market will bear. Simply because prices go up does not mean that there has been a violation of the Competition Act or that we should regulate.

Individual gasoline suppliers taking advantage of tight supply to increase their prices would not raise issues, because charging high prices at times of actual or anticipated excess demand is not contrary to the act.

● (1540)

[*Translation*]

This can include entering into a consent prohibition order with the parties in question or, when appropriate, by pursuing criminal charges under the conspiracy provisions of the Competition Act. When we find evidence that prices are high because of an abuse of dominance, we likewise have a range of options, which can include entering into a consent agreement with the parties in question or applying to the Competition Tribunal for an order to stop the conduct.

It should be noted that the federal government has no jurisdiction over the direct regulation of retail gasoline prices. Except in the event of a national emergency, only the provinces have the authority to regulate gasoline prices.

As you know, four provinces have opted to set maximum gasoline prices—and the evidence in all four cases demonstrates that market forces, not regulation, lead to lower prices.

[*English*]

I reviewed all this because I believe it is important that there be a clear understanding of the role of the Competition Bureau. We do not set prices, nor do we have an opinion on appropriate profit margins, regardless of the industry. Our role is to ensure that all industries follow the rules of the game as set out in the Competition Act. Where we find evidence of violations of our act, we respond with vigour.

That said, I want to touch on another related topic. I am a firm believer that an informed consumer is an empowered consumer. In the gasoline context, there's information out there to help consumers. The Competition Bureau has some information on its website to assist consumers in understanding this market. For more details, I would recommend the fuel-focused website maintained by Natural Resources Canada. It provides clear and timely information on fuel prices and markets, as well as ways to manage energy costs. Current and factual information on price changes will help Canadians understand how the global petroleum markets affect their lives.

In addition, industry could and should do more to help consumers understand and take advantage of pricing patterns. Consumers could benefit from additional information documenting local retail price cycles, information that consumers could use to plan purchases. A good example of this is Shell Australia's website, which provides tips for consumers to find the best time to purchase gasoline.

I would now be pleased to answer any questions you may have.

Thank you very much, Mr. Chairman.

The Chair: Thank you very much for your presentation, Ms. Scott.

We will begin with our first round of six minutes for questions and comments, and we'll begin with Mr. Bevilacqua.

Hon. Maurizio Bevilacqua (Vaughan, Lib.): Thank you very much, Mr. Chairman.

Ms. Scott, thank you so much for your presentation.

As you know, this is an issue that I think members of Parliament on both sides of the House have to deal with on a daily basis. We get many letters and requests from our constituents as to how this happens: how do they get up one morning and the price is a certain amount and then the next day it's changed quite a bit?

I want to ask you if you feel the Competition Act gives the Competition Bureau enough powers to deal with this particular issue?

Ms. Sheridan Scott: I think it's important, and I'm going to try not to use up your six minutes, although I would like to provide a fairly comprehensive answer to this question, because it does come up fairly frequently, and I'd like to try to be as clear as I can about the types of behaviour that we might be looking at and where we believe the act is sufficiently strong and where we believe it is not.

The complaints that we often receive from consumers—and many of those that are directed to MPs and are sent on to us to look at as well—frequently deal with price gouging and not price fixing. Price gouging refers to a rapid rise in price in response to a scarcity of supplies. That's how we generally see price gouging, and it's often what people believe they're experiencing in the gas industry. A good example of clear price gouging would arise, for example, in the context of the ice storm, when the price of generators skyrocketed. There's a scarce commodity, and many consumers are interested in purchasing it.

This is an issue that can arise, as well, in the oil and gas industry, and you'll certainly be hearing from the NRCan representatives on how those prices might move in response to scarcity in the supply of gasoline, which we have been experiencing this fall.

In terms of our ability to deal with price gouging, these are not teeth that we think are missing from our act. We don't believe it is appropriate to have prohibitions against price gouging contained in the Competition Act, and there are a couple of reasons for this.

First of all, we believe that trying to control those sorts of price movements can frustrate the operation of market forces and might indeed be contrary to the aims of the Competition Act, because frequently the rise in prices is a response to actual or anticipated shortages by suppliers.

More importantly, having jurisdiction to wade into issues of price gouging would require us to determine either the proper rate of return to a company or what a specific reasonable price would be. Our view is that it would be difficult, if not impossible, for us to carry that out. It would be work that would be difficult, if not impossible, for us. It's certainly akin to the regulation of an industry, so it would also raise issues about whether this would fall to the provinces rather than to the federal government; the federal government has jurisdiction in times of national emergencies to regulate prices, but not to regulate prices for commodities on a day-to-day basis.

Some provinces have actually decided that they should regulate rates; they do it to smooth out rates, as opposed to determining what a reasonable price is. Certainly it does that, and consumers appreciate it, but it does not lead to lower prices in the marketplace. Indeed, a recent study published in Nova Scotia a couple of months ago indicated that their regulation of gas prices has led to slightly higher, rather than lower, prices. Then you would have to take into account the cost of regulation as well, and that comes out of taxpayers' dollars.

These are a number of matters for you to consider, but our net view on price gouging in particular is that this is not something that is missing from the Competition Act, nor would it be appropriate to include something like it in the Competition Act.

I'll just identify for you what the other issues might be for us. There are other aspects in our act dealing with, for example, abuse of dominant position or price fixing. In this connection this committee, in fact, in 2002 suggested that some changes could take place, and that those changes might assist us in being more flexible in intervening in the gasoline market as well as in a number of other markets. If you're interested in our perspective on those, I'd be happy to add, but I suspect your constituents are mostly concerned about the price gouging issue.

● (1545)

Hon. Maurizio Bevilacqua: That's right.

First of all, I want to take the opportunity to congratulate you on the leadership you've been given amongst competition bureau commissioners in the world. Can you explain to me if that international experience helped you in dealing with this particular issue, and are there lessons we can learn from your international experience?

Ms. Sheridan Scott: For sure—it's a very interesting question.

Two weeks ago I was at the meeting of the International Competition Network, which is the group that represents 100 antitrust agencies around the world, and I'm now the chair of the steering group. We have lots of chances to get together with our counterparts. Gas pricing is a big issue that we actually discuss among ourselves.

It's quite interesting that it's very important in some jurisdictions and not at all important in other jurisdictions. The Japanese don't have this as an issue, and I discussed it with my Japanese counterpart. He says this is not an issue that leads to any public concern. My British counterpart explained to me that it used to be a more significant issue, but it's not a matter that consumers raise with them particularly frequently now.

Where we do have common cause is with the U.S. There the Federal Trade Commission has jurisdiction similar to ours. I was quoting a little bit earlier from the results of one of the studies that the FTC did in response to the spike in gas prices following Hurricane Katrina. I would say that the approach of the Federal Trade Commission is very similar to ours; its analysis is very similar to ours. It's concerned about jurisdiction over price gouging, which it does not believe is appropriate for an antitrust agency.

We've certainly exchanged notes. The head of the FTC offered to send me up the binder that she is developing to try to help explain what these changes in gas prices are all about. So we do have exchanges of information as well.

● (1550)

The Chair: Okay, thank you, Mr. Bevilacqua.

We'll go to Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle (Trois-Rivières, BQ): Good afternoon and thank you for meeting with us. You know that the price of gas is a very important issue for the citizens we represent, because it has an impact on the economy and on the price of essential goods, such as food.

In your presentation, you told us that, as far as the oil refinery sector was concerned, the issue of most concern to the bureau is whether or not the Competition Act has been contravened. You said that, in your opinion, it was important to ascertain whether or not the refineries agreed amongst themselves to decrease capacity. If I understand correctly, we could talk about collusion.

Moreover, a few years ago this committee discovered that the oil companies could turn a reasonable profit with a refinery margin of between 4 to 7¢ per litre. In April, for instance, we saw the refinery margin increase to 19.5 ¢ per litre and, by the end of May, this margin was sitting at 27¢ per litre.

You can therefore guess what question I'm going to ask. Can we do anything about this? Do you feel that you have the requisite authority to do this? How can we explain the situation to people? We come up with theories. We say that the number of refinery operations has declined significantly.

I would like to hear what you have to say on the subject.

Ms. Sheridan Scott: To begin with, you talked about a reasonable profit. As I explained, it is not up to us to set prices or determine what constitutes a reasonable profit. We can do this type of analysis to see whether or not there is a reason for suspecting anti-competitive behaviour. Just because one price is higher than another does not mean that there has been collusion or anti-competitive conduct.

I will turn the floor over to my colleague, who can explain how we view the situation. We are part of the North American market, if not the global market. We make comparisons, perhaps not every year, but we do compare our margins with those of the United States to determine whether or not there really is a collective aspect to them. I believe that the representatives from Natural Resources Canada who will be testifying before this committee will be able to discuss this matter with you. They monitor market prices much more closely than we do, because this is part of their mandate and not ours.

You said that there has been a decline in the number of refineries. We did a study, because we are responsible for mergers. There have been no mergers in the oil sector for ten years. If we look at the trend over many years, we can see that the current concentration in the sector is not any higher than it has been in the past.

Ms. Paule Brunelle: You're saying that the decrease in the number of refineries has no impact on price. We can perhaps surmise that when events occur in one place or another in the world, there is an increase in the demand. A scarcity ensues and we can't meet the demand.

Ms. Sheridan Scott: We analyze whether or not the purpose of the concentration is to obtain dominance and whether or not competition in the market has declined. We have noted that the number of refineries has decreased, but that does not mean that we are finished with companies that may, according to our analysis, put pressure on the market. We believe, in fact, that the decrease in the number of refineries has led to greater efficiencies in the sector.

I will ask my colleague to say a few words about the comparisons that we have done, for instance, between the refinery margins in the United States and in Canada. The group of witnesses who follow us will be able to provide you with other details as well.

Mr. Richard Taylor (Deputy Commissioner of Competition, Competition Bureau, Civil Matters Branch, Department of Industry): We compared the refinery margins in the United States with those in Canada. We noted that they were practically the same. When the refinery margins increase in Canada, they increase by the same amount in the United States. All public sources are saying that right now this is a result of a gas shortage in the United States, meaning that the demand for gas in the United States is greater than the supply, which increases the margin significantly. The only way to restore balance would be to decrease the demand or increase the supply. That is what is going on right now with the gas imports from Europe.

● (1555)

Ms. Paule Brunelle: Thank you.

Ms. Scott, I would like to discuss your power to investigate. In 2003, your predecessor told this committee that the Competition Act had serious loopholes. He said, and I quote: « [...] the current legislation does not provide the bureau with the authority to conduct an industry study ». He added that it would be better to have an overall study of the situation done by an independent organization that has the authority to convene witnesses and gather information.

Is the Competition Bureau that you represent still in favour of creating what was called at the time a bureau for monitoring the oil industry, as your predecessor, along with members of the oil industry, wanted to do?

[*English*]

The Chair: Briefly, Ms. Scott.

[*Translation*]

Ms. Sheridan Scott: Creating such a bureau would enable us to study the market, because the legislation has other gaps, as mentioned in the current committee's reports. We could do market studies, especially in the oil industry, where there is a great deal of public information, like the studies that we did since 1990, if there was some willingness to give us the tools that would give us more leeway. Now if we were given a little more authority to do market studies, we would be able to do it without being suspected of violating the legislation if, for example, we require certain documents.

That being said, we think that we have been able to do the work up to now. We would be ready to do these studies if we were provided with the necessary resources, because such studies are expensive. In England, they have the authority to do such studies, that cost several million dollars.

[*English*]

The Chair: Thank you.

We'll go to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I want to take a moment to congratulate you. I read today that you charged 11 individuals through deceptive telemarketing provisions under the Competition Act.

Ms. Sheridan Scott: Yes, sir.

Mr. Colin Carrie: Everybody here thanks you very much for that.

I'd like to start off with a two-part question.

In Oshawa I recently had a constituent tell me there was a shortage of gas and that some stations had no gas. The reason he called me was that at one station they put the price up to what he thought was very excessive. They were still open and were selling it at this price, and he thought it wasn't right.

The first part of my question is this. What can our constituents do when they see examples of this? What is the procedure if they see something they think is price gouging?

I understand there are four aspects that make up the price of gasoline. Could you explain these four elements and how they individually determine the price of gas so that we can explain it to our constituents a little better?

Ms. Sheridan Scott: All right. On your first question in respect to the shortage of gas and the increase in price, we actually see it as a normal response in the marketplace. When there's a shortage of supply, the price goes up. It's supply and demand.

On the concern about trying to introduce controls on price gouging, if it's indeed price gouging—and I don't know if it's price gouging, because it's a very difficult definition—we think it's interference in the marketplace and sends the wrong signals.

It doesn't mean it's easy for consumers. It's extremely difficult. It's why I said in my comments that we would welcome the role of NRCan, which is doing a very good job in this area right now, and also the industry to give consumers more information so that they can understand the cycling of gas prices in the market.

Again, we follow this market very closely, looking for anti-competitive acts. NRCan follows it even more closely than we do, and we see these cycles. Tuesday evening may be a little less expensive than a Friday. We often hear the question on why the price of gas goes up on a Friday. If you've read economics 101, it's kind of obvious. People tend to travel on the weekends. There's a greater demand for gas on the weekends. It's not surprising that gas prices go up on the weekend.

One can sense a cycle in these prices. We think it's helpful for consumers to be better armed so they can identify the cycles and make purchasing decisions in the marketplace that reflect the supply and demand.

In terms of the four elements, I will again turn the mike over to Richard, who is very conversant in this area.

I would also say that you would probably get more help and details from the NRCan folks who will be following us, but we certainly have quite a strong awareness of how those price parts move.

Richard.

● (1600)

Mr. Richard Taylor: Thank you.

One of the four components that we would normally look at in terms of a litre of gasoline is taxes, which range from 33% to 35%, but because taxes vary across the provinces we mostly look at gasoline in a fashion we call ex-tax. When we compare it to the U.S. we see that ex-tax our price for a litre of gasoline is very similar. The three components other than tax, if we talk about an ex-tax price, are crude oil, which currently, 2000 year-to-date, represents 67%; wholesale margin, which year-to-date is about 25%; and then the retail margin is about 8%. That would make up the three components.

Obviously in the times we are experiencing right now, the retail margin, which is 10¢, 11¢, or 12¢ normally, has shot up and it is currently declining. Last week it declined about 5¢ and now averages about 14¢. In the periods of the peaks, particularly in the spring, it's shooting up over 20¢.

It's not a question of crude, which is the single largest determinant of the price and historically has been the big item that has increased. What we're seeing more often, particularly in the spring and after natural disasters, are spikes in the refinery margins due to concerns about supply.

Mr. Colin Carrie: Thank you very much.

We have heard a lot of talk about the refining margin. I'm curious, if the government changes regulations for cleaner fuels because they want cleaner fuels for the environment, would that increase the cost of refining? Have we in the last year or so changed fuel regulations so that there may be increased cost there?

Ms. Sheridan Scott: I don't know if Richard has anything to add, but quite frankly, I think that's probably something where you'll find significantly more expertise on the following panel than ourselves. We really are following pricing in the marketplace.

Richard.

Mr. Richard Taylor: I would only add that since the U.S. now consumes 43% to 45% of the world's supply of gasoline and we consume 3%, then when the U.S. does something to cause changes in the supply conditions, that causes problems around the world and a price effect around the world. They have, as you know, in California very stringent restrictions, and they have increased their national emissions standards are well. That has made some difference down there, which affects us indirectly, because if their prices go up, our refiner is priced to that market.

The Chair: You have 20 seconds in total.

Mr. Colin Carrie: We've heard that refining capacity needs to be improved. Can you explain what role the government would have in improving refining capacity in Canada? Would an increase in the number of refineries actually decrease the cost of gasoline in your opinion?

Ms. Sheridan Scott: Again, I think that's probably a question our colleagues are more suited to answer. It doesn't really deal with the anti-competitive acts that we might see in the refining industry. We're very focused on whether we think these folks are getting together and somehow reaching an agreement with respect to what an appropriate margin or price is.

The Chair: Thank you.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): Thank you for appearing here again.

When Petro-Canada closed its Oakville refining station, did that help or hurt consumers in Canada?

Mr. Richard Taylor: It didn't have a huge impact, if we look at the kind of production. In 2005 production was 43.9 billion litres. Following the closure in 2006, production was 42.3 billion litres. It didn't have a huge impact.

If you look at the latest Statistics Canada reports that I pulled off today, our total production of motor gasoline is basically 42,000 cubic metres, so it has come back up. There has been some additional capacity added.

Mr. Brian Masse: With regard to that situation we saw in Ontario, because of the Esso fire and Petro-Canada now having to rely upon that for distribution, didn't that give consumers less choice, especially during that time? Wouldn't we be concerned if they took it offline altogether? We didn't seem to care when Oakville was divested upon; why would we not care if we reduced further capacity with Esso? It's not even up to a full amount right now.

Mr. Richard Taylor: If you're talking about the fire at the Petro-Canada refinery in February, the Competition Act can't protect refineries from fires. They happen to be very dangerous places. That is a natural event that would not be within anybody's control. They do happen quite frequently. They are dangerous places. That was a blip for about a month that I think it went through, and supply did come in and rectify that balance.

But unless the industry is prepared to have 10%, 20%, or 30% idle capacity...refineries run at about 95% capacity, they cost about $5 billion to make, and they take 12 years to make. There has been an announcement recently that Shell would like to build a new refinery in Sarnia. If that refinery gets built, such an event as you described would not affect the price the way it did in February.

● (1605)

Mr. Brian Masse: Right, I guess the point is that we make consumers more vulnerable to the situation by not caring when the investment isn't made. Quite frankly, with the billions of dollars of profits that are going up, there should be some expectations.

If I can shift a little bit, though, Ms. Scott, to some of your comments with regard to supply and demand, I guess this is a little bit of the frustration. Say, for example, the weather gets hot and Canadian Tire is selling pools. If they start to run low, they don't jack up the price another 10%, 15%, or 20% because they know that they're going to have this product in July and August, and so forth. They don't do that. With gasoline stations, you argue that it's economics 101, but year after year we know that customers are going to use that product more at that particular time.

Maybe you can correct me if I'm wrong, but along the 401 corridor, during the last 10 years—aside from refining capacity— when things were operating normally, I don't know of any time they've actually put up signs saying they're out of gas, because people need to get to their cottage or are going on a trip or going down to Florida.

So why shouldn't the industry self-correct this problem that we know happens every single year over regular holidays? Why is it acceptable for them to raise their profits when they actually still have reserves on hand at that particular time?

Ms. Sheridan Scott: Again, businesses often respond to an actual or anticipated shortage. So even though they may have some fuel in the ground, they may be anticipating that they're going to be facing shortages and they may take pricing actions in response to that.

Mr. Brian Masse: Have you ever investigated whether that shortage has ever occurred during those times periods when they've actually spiked up the price?

Ms. Sheridan Scott: We are looking at the amount of gas available and how it corresponds to price spikes, and that is exactly what attracts our attention when we see price spikes. That's when we wade in to see if we think some anti-competitive acts might have taken place, whether there's agreement amongst competitors or whether it's simply people taking advantage of a situation.

As I say, the Competition Act is not there to preclude businesses from taking advantage of a particular situation.

Mr. Brian Masse: But has there ever been a shortage demonstrated by these companies during those holidays peaks, that they actually have had a shortage and had to rely upon raising prices to defer people...? When prices go up, to a certain extent, people then rush out and get more, driving it up further. But has there ever been a time that you're aware of, has there been an investigation, when they could actually argue the argument that you're presenting in front of us—economics 101, supply and demand—that they have actually had a shortage over holidays, specifically when they've had to raise it beforehand?

Ms. Sheridan Scott: I think this is a demand issue rather than a supply issue. We're looking at increased demand prior to a weekend.

Mr. Brian Masse: But if they have sufficient supply, then why should that give them the right to actually then throw the price up?

Ms. Sheridan Scott: Because the way supply and demand works, one anticipates what one can obtain in the marketplace where there's high demand, and prices go up when there's more demand.

Mr. Brian Masse: Okay, but have they ever been able to demonstrate that this is a supply issue for them, based upon those fears of those demands?

Ms. Sheridan Scott: Well, we look into whether we think there's anti-competitive behaviour as opposed to whether they're taking appropriate pricing action. As I said, our act doesn't outlaw people from making a profit. What it says is that they can't engage in anti-competitive behaviour. That would either be fixing prices or abusing a dominant position to lessen competition in the marketplace. What we would be looking for is proof of that before we would take action to investigate.

Mr. Brian Masse: I guess the problem here is that once again we accept their argument but we do nothing to deal with the habitual problem we have. I just find that unacceptable.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Masse.

We'll go now to Mr. McTeague.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Mr. Chairman.

Thank you, witnesses, for being here today.

Madam Commissioner and Deputy Commissioner, I have to tell you, I wasn't one who was keen on another discussion on gasoline, but perhaps we could look at some of the figures, Mr. Taylor, that you provided.

I was reluctant to have this discussion, simply because I believe the proverbial horse has left the barn with respect to mergers that have taken place. My colleague Mr. Masse has cited the number of refineries that have shut down, from 44 all the way down to 17, with a number of those refineries running at very high utilization rates. I too saw some of the Esso stations out of gasoline again today—I have no doubt perhaps as a result of some dislocation at the Nanticoke refinery. Suffice it to say that we are at a point now where there is very little supply, or supply sufficient to meet the demands in our country, and of course, in our region.

Mr. Taylor, you had pointed out some numbers that I'm sure the independent gas retailers are going to be interested in challenging you on. But you've said that the normal retail margin was somewhere around...did I hear 20¢ a litre? Is that what you're saying?

● (1610)

Mr. Richard Taylor: No, not the retail margin, the wholesale margin.

Hon. Dan McTeague: I'm sorry, I thought you were referring to retail.

Mr. Richard Taylor: No, the retail margin is around 5¢, as you know, a litre.

Hon. Dan McTeague: Your wholesale margin, though, over the past, certainly since Katrina, has probably doubled, I think it's fair to say, reflecting the international market. Would that be fair to say?

Mr. Richard Taylor: I'm not sure of the exact number. If you look at the spikes when they're up at 25¢, it depends when you.... The Conference Board found that the margin was around 11¢. If you look at 2007 to date, it is high. If you look at 2005, it's 14¢ and 15¢.

So you can always look at little periods like this spike—the most significant shortage ever in the U.S. of refined gasoline. The EIA called it unprecedented, and that spiked the prices up and our oil companies priced it at market.

Don't forget, we are the largest single supplier of gasoline now to the U.S.

Hon. Dan McTeague: I note, Madam Commissioner, your comments with respect to the wholesale margin of gasoline being anywhere from 6¢ to 10¢ a litre for a 10-week period as being normal to reflect what's happening in the United States. I recognize that when there's a crisis south of the border, we tend to pay 4¢ to 5¢ a litre more than they do.

This brings me to my point, Mr. Taylor, about your reference points in which you're comparing gasoline. No doubt Montreal will be compared to Burlington, Toronto to Buffalo, and so on, right across the border. The irony for some of us who have studied this is that none of those communities have refineries. They are simply price takers and they're literally, in terms of their size, in terms of their through-put, in terms of their thresholds, the proverbial tail that wags the dog.

Maybe I could ask you, when you do your analysis...and I presume you're doing it the way I am. In about 20 minutes I'm going to get tomorrow's wholesale prices from all the companies, which are, ironically, identical in every community across the country as a reflection of competition—

Mr. Richard Taylor: Across the country they're identical?

Hon. Dan McTeague: No, no. In every region you have one player who'll set the price and the others simply follow in a micro-second, as you know, Mr. Taylor.

Bloomberg, I would suggest, you may perhaps also want to look at. I'm not exactly sure how you get your information. It's far more vast than my poor little computer here. Platts might be the other means of doing this.

This brought us to a resolution on this committee some years ago as to being able to provide an independent, transparent oil monitoring agency that would not only look at the relative prices, as you in Ontario do and others do with respect to border cities, but in fact looking at wholesale prices, rack to refinery, tank terminals or refinery racks, comparing one to the other.

I want to ask you this. If Toronto has, for instance, a wholesale price established on Friday of 65.3¢, Ottawa 65.2¢, and there is no variation in the wholesale market, where and how would you propose we restore competition in this industry so that Canadians can once again be assured that we're being provided competitively priced gasoline—and our impact from the United States.

You've talked about utilization rates being very high, 95% to 98%. One would argue that the number of mergers that have taken place under the watchful eye of this Competition Act, made in 1986, left us in a situation where we are seeing the potential for hazards that cause Canadians to have to pay and reach deeper into their pockets for months on end. How do you propose to break up that monopoly in price that we see at four o'clock every day, which consumers pay and which everybody thinks, miraculously, they know what the price is going to be the next day because we can predict all the other values to a *t*?

Mr. Richard Taylor: I think one observation is that you don't actually know what price. We do, because we've looked at some of the data. You don't know what discounts Canadian Tire gets off rack, and you don't know what—Loblaws and Costco and now Wal-Mart get off-rack prices, so that's an important consideration. All you see is published prices. But depending on how much you buy, you can get significant discounts. I'm not at liberty to tell you what they are, but they're significant. So that's the first point.

In terms of Ottawa, there are at least four suppliers you can take out of the rack down on Hunt Club, in the industrial park, and there are at least five suppliers you can take out of the rack in Toronto. Now, in most markets four or five suppliers—We only have two airlines, WestJet and Air Canada, and even they engage in price wars. So the notion that we have four suppliers—Let's keep in mind that Imperial—

● (1615)

Hon. Dan McTeague: I only have a few minutes.

The Chair: You have 30 seconds left.

Hon. Dan McTeague: Mr. Taylor, I know a little about the airline industry. It was my recommendation that made predatory pricing specific to this industry, that allowed that competition to thrive well after.

Let me ask you point blank, then, this question on the wholesale price: whether they're discounts or not, why is it that the industry maintains that those prices always have to be higher than in the United States? In the instance of last Friday, wholesale prices were 5¢ higher than were rack prices in the United States, not the same as you contend.

The Chair: Can you can do that in seven seconds?

Mr. Richard Taylor: Well, when you look at one day's price, I'm reminded that the oldest person in Canada is 107, but I wouldn't spend my money on the high; I'd go on the average, which is 76.

So we look at average prices, we don't look at the price....There can be differences in Toronto, a few cents between them and Buffalo; there can be differences. But NRCan have the data, and if you look at the Toronto and Buffalo rack prices over this year, there's not a significant difference between them, other than perhaps two or three pennies, which is not going to explain the price increase we've had, which is probably due just to transportation costs.

The Chair: Thank you.

We'll go to Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much, Commissioners, for being with us.

One of the things I've read from the former commissioner, back a couple or three years ago, is that we've never found any kind of collusion except at the very local level. That's always a concern. I don't know where the focus is. Is it easier to focus on the local market people than it is the large multi-giants? When was the last collusion trial that had any convictions, not just from the local small stations that are coming together, which are easy to pick off in our communities, but when was the last conviction in terms of the major oil companies?

Ms. Sheridan Scott: This is a question of proof and evidence. We need proof; we need evidence in order to act. We consistently communicate with the public to say, please tell us anything you can and we will be happy to investigate. There's nothing we like more than having the necessary information so we can investigate successfully. It's not that we choose to focus on local markets; it's just that that's often where the evidence is made available to us.

Because we try to track this market and because the sorts of frustrations you're sharing we hear frequently, we've independently decided to carry out research projects. We don't have any evidence that there is anti-competitive behaviour, but we do these comprehensive research projects trying to see if there are some grounds for us to take action, because there could be a national conspiracy. We've done six of these studies since 1990. We come at them with a fresh set of eyes every time we do them, and we've not yet found evidence of a national conspiracy that some people are concerned might exist.

So we will continue to act where we have evidence. We have the examples we've given of the last 13 prosecutions that we've carried out, and we're in the process of conducting an inquiry as well right now.

Mr. Bev Shipley: Are those local ones, basically?

Ms. Sheridan Scott: No, we're investigating regional conspiracies right now.

Mr. Bev Shipley: How does a public get evidence? It's good to say, well, the public needs to bring evidence, so you have the local constituents—I get the letters and the e-mails—and you say, well, they need to bring the evidence. If I tell them to bring the evidence, all they can think about is that we can maybe deal with the local gas station. They're not going to deal with Esso or one of the large companies.

How do you approach that in terms of getting the evidence?

Ms. Sheridan Scott: Again, let's just keep in mind that we don't have jurisdiction to respond to price gouging. I would say far and away the most complaints we receive at the bureau relate to price gouging and not to price fixing.

With respect to price fixing, we would welcome, as I said, evidence from the public, and it's extremely difficult for them. There are a couple of other things we can do, though. We have an immunity program, which is extremely powerful. This is where one cartelist will come in and provide evidence against fellow cartelists in exchange for getting off scot-free from any criminal sanctions or any financial sanctions.

Mr. Bev Shipley: How is that working?

Ms. Sheridan Scott: It's extremely successful. Now, we have not had anyone come forward from the oil and gas industry. We have had many people come forward from many other industries. Last year we had record domestic fines with respect to price fixing in the fine-paper industry. We had Domtar, Cascades, and Unisource, which each paid $12.5 million in fines because they engaged in price fixing. So we have a considerable amount of success in this area, both domestically and internationally.

No cartelist has come forward from the oil and gas industry. We would be pleased to receive that evidence if it was tendered.

● (1620)

Mr. Bev Shipley: Can you initiate an investigation?

Ms. Sheridan Scott: We can if we have a reason to believe there's been a contravention of the legislation.

Another source for us to get surprisingly good information is through the media. We have an investigation going on right now, which I can't talk about in detail. But I can tell you it was media reports, and not an immunity applicant, that allowed us to launch a fairly comprehensive investigation that's going on right now. People will sometimes say things like, “My competitor won't respect that agreement that we reached to charge the same price.” We read that in the newspaper, and we're on it right away.

Mr. Bev Shipley: I've heard it takes the Minister of Industry to initiate an investigation—

Ms. Sheridan Scott: Absolutely not.

Mr. Bev Shipley: —and what you're saying is that is not the case. It can be open to the public.

Ms. Sheridan Scott: In fact, it is highly unusual for the minister to suggest this. We act on an independent basis. We can begin inquiries in one of three ways. It is possible for the minister to ask for an inquiry, but that occurs in very few circumstances. We can take action ourselves when we have reason to believe there's a contravention of the legislation. There's a process called the six-resident complaint, where six residents in the country can sign a complaint where they outline how there could have been a contravention to our legislation, and we then take a look at it.

The Chair: Okay, thank you

Thank you, Mr. Shipley.

We'll go to Mr. Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

With regard to competition, when two companies are selling the same product, will they not naturally try to lower the price of that product to get more of the market share? In my opinion, this is what competition is about. Do you agree?

Ms. Sheridan Scott: We see that there are fluctuations in gasoline prices.

Mr. Robert Vincent: No, I am asking you—

Ms. Sheridan Scott: It is a cycle, this is what we see on the market—

Mr. Robert Vincent: I am sorry to interrupt you.

Here is my question: in your opinion, does free competition, whether it be among oil companies or other companies that sell the same product, consist in trying to grab a bigger market share by selling the product at the lowest possible price? In your opinion, is this what competition is about?

Ms. Sheridan Scott: No, it depends. It involves choice, innovation or quality. It can be different for different markets.

There is no such thing as a perfect market in which all companies sell the very same product, a market that involves six, seven or eight competitors as described in economics text books. There is no such thing. It is an exception.

Mr. Robert Vincent: All right.

Could you explain why a barrel of oil cost $73 and a litre of gasoline cost $1.06 a year ago, and why gasoline costs $1.15 a litre today, whereas a barrel of oil only costs $61? I find it difficult to understand how this is possible. I understand why oil is at this price and I will tell you why. There are two reasons for this.

Just now, you spoke about the abuse of dominance. How can we have fair competition if, in Halifax, Esso is doing the refining for all the oil companies; Irving is doing the same in New Brunswick; Ultramar is doing the same in Quebec and in Montreal, Petro-Canada and Shell are doing the same. How can we have fair competition when the same refiner is supplying everyone? I do not see how there can be fair competition in a market where the same refinery is supplying everyone.

Then, you said that for refining costs, we cannot have.... You spoke of a price for refining.

In the magazine *Les Affaires*, it says that ExxonMobil made a whopping $9.3 billion in the first three months, as compared to $8.4 billion last year. Nevertheless, the sales figures for the biggest oil company in the world went down by 2%. Now although the figures went down, the profits rose nonetheless by 10%. Do you know why? Since ExxonMobil's revenue went down, how come the giant still made a bigger profit? We have to take a look at profit margins. Thus, the price of oil was brought down from $73 to $61 a barrel, but in order to make the same profit, the price of refining was raised. It is easy to do this, and all the oil companies benefit from it, because there is a refiner in each province. Therefore, a refiner that makes a 14¢ profit can decide to make a 27¢ profit on the next day because the price of a barrel of oil went down.

Do you really think that this is not a dominant position?

Ms. Sheridan Scott: I am not sure whether I understood all your questions.

First, you spoke of the price of oil, its fluctuations and how it reflects on current market prices. I think that this is what your first question was about.

Mr. Robert Vincent: Yes.

Ms. Sheridan Scott: Regarding this matter, I will let my colleague explain this to you after my intervention. However, the people from Natural Resources Canada are in a better position than we are to describe how—

Mr. Robert Vincent: You are in charge of the investigations. You should be interested in finding out why refining went from 14¢ to 27¢ at the same time as the price of a barrel of oil went down.

● (1625)

Ms. Sheridan Scott: No.

[*English*]

The Chair: Okay, briefly.

[*Translation*]

Ms. Sheridan Scott: We do investigations when we see that the law may have been broken. We have a very clear mandate regarding this. We see whether or not there is price fixing. If we think that there is any evidence of price fixing, we can go ahead. What you are describing, on the other hand, is the way in which prices fluctuate on the market and the reasons for the fluctuations.

Mr. Robert Vincent: No, I am not talking about fluctuations of prices on the market. I am telling you that when the price of a barrel of oil goes down, the price of refining goes up.

Ms. Sheridan Scott: Yes, this is possible.

Mr. Robert Vincent: Why are all the oil companies doing that?

Ms. Sheridan Scott: Because things can vary according to certain criteria and other factors. The price of crude oil does not always impact the final retail price. Richard or the people from Natural Resources Canada can give you more details.

Secondly, when you speak of refineries and provinces, the distribution of refining operations does not constitute a provincial market. We are looking at this in a broader context, because oil can be sent out of the province. Besides, Richard spoke of the number of competitors that could exist on the same market.

Then, you spoke of the profit margins of big companies—

[*English*]

The Chair: Okay, briefly.

[*Translation*]

Ms. Sheridan Scott: —oil companies. As I said, we do not regulate prices and profits.

[*English*]

The Chair: Okay. I'm sorry the time is up.

We'll go to Monsieur Arthur, the final member.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Thank you, Mr. Chair.

[*Translation*]

Good afternoon, Ms. Scott. Price fixing is forbidden. Anyone caught fixing prices will be punished. Price fixing happens when sellers are stupid enough to fix prices over the telephone.

Ms. Sheridan Scott: They do it either in writing or verbally.

Mr. André Arthur: They contact each other.

Ms. Sheridan Scott: Yes.

Mr. André Arthur: They do something.

Ms. Sheridan Scott: They get in touch and reach an agreement.

Mr. André Arthur: We cannot do anything about the price gouging, because it depends on the market forces. Price gouging occurs when dealers are smart enough to avoid using the telephone.

Ms. Sheridan Scott: No, not necessarily, because a dealer can take advantage of an opportunity...

Mr. André Arthur: —of a situation.

Ms. Sheridan Scott: —to raise—

Mr. André Arthur: The price will end up being the same as if it had been fixed.

Some of my friends are policemen and they pray every evening to thank God for stupid criminals. It makes their job so much easier. I think that with the distinctions that you draw, you are doomed to never catch them. One must invest in order to make a profit. At least, this is what I was taught, and I am not even sure whether I passed the course. At present, we realize that in the refining industry, avoiding investment is key to making a profit.

The number of refineries is declining. Therefore, the first company to invest in a refinery next to Irving in New Brunswick, Ultramar in Quebec, Esso in Halifax, PetroCan or Shell in Montreal will be kicked out of the country club. They will not have to use the telephone, but its name will be mud.

Are we pretending that we do not see what is going on?

Ms. Sheridan Scott: I do not think so. Two companies are interested in investing in building refineries. They are only waiting for approval to go ahead. Building a refinery is extremely expensive and requires heavy investment over many years. Moreover, nothing guarantees that gasoline prices will remain high. Those people are not staying outside; they are preparing to make investments.

Those who decide to act independently are reflecting the market. As for your statement whereby we need stupid people to enforce our law, let me tell you that we are very active when it comes to price fixing and telemarketing fraud, as was mentioned. We are successful in prosecuting such people. We do not rely on stupidity.

Mr. André Arthur: I would like to come back to the question that Mr. Vincent put to you. Market dominance as such can be a dangerous or even an excessive factor.

Ms. Sheridan Scott: No doubt.

Mr. André Arthur: We are not talking about criminal activity or conspiracy. We are talking about a situation where it is enough to stay put in order to commit an abuse.

● (1630)

Ms. Sheridan Scott: Abuse of dominance is certainly not a criminal act. We intervene whenever a dominant company does anything to harm competition on the market. Such cases do occur, but sometimes such behaviour turns out to be very good for the market. For instance, there is predatory pricing. It consists in setting very low prices, which is good for consumers. Independent oil companies often complain about predatory pricing, but nevertheless, it is beneficial for consumers. This is a civil matter and in no way is it a criminal activity. However, there are certain conditions to be met, and we monitor the situation in order to enforce them.

This is why we are talking about abuse of dominance. It is not illegal to have a dominant position. As a matter of fact, this is what every businessman wants to get. They want a monopoly. Nevertheless, it remains to be seen whether the monopoly is a result of unfair competition or of a profitable investment. We do not want to punish people who are successful on the market and who reach a dominant position. However, they are not allowed to abuse their position.

Mr. André Arthur: Thank you.

[*English*]

The Chair: *Merci, monsieur Arthur.*

Thank you, Ms. Scott and Mr. Taylor, for coming in today. As you can see, there is a lot of interest by members in this issue. There's obviously a lot of interest by our constituents in this issue.

Ms. Sheridan Scott: I can certainly assure you, Mr. Chairman, that we spend considerable resources in this area, because we realize how important it is for Canadians, and for you as well, in looking at this market.

The Chair: Thank you.

I have a point of order from Mr. McTeague.

Hon. Dan McTeague: Mr. Chair, it might be helpful to the committee—and I know members on our side would certainly like to see this—if you could direct the researchers to provide us once again with an updated copy of the 2002 industry committee report that the commissioner rightly made reference to.

Second, could the researchers provide us with information, or articles more recent than late, of the relationship between Imperial Oil and, I believe the term was, Canadian Tire, as far as the administration of their marketing is concerned. I know that is available.

Thank you, Chair.

The Chair: Okay, thank you, Mr. McTeague. I'm sure the researchers will take that under advisement and provide that.

Thank you, Ms. Scott and Mr. Taylor, for coming in today. If you have anything further to provide the committee, please do so through me or the clerk. We'd be happy to receive it.

Ms. Sheridan Scott: Certainly.

The Chair: Members, we will suspend for about two minutes. We will ask the next witnesses to come forward immediately and start as soon as they are ready.

●

(Pause)

●

The Chair: Thank you.

We will start the second part. It's 4:35, so we'll try to go to 5:35—although I understand we may have a vote on the extension of hours. We'll watch for that.

We have four to five witnesses. We have, first of all, from the Department of Finance, Ms. Lise Potvin, director of the sales tax division, tax policy branch; and Mr. Geoff Trueman, chief, air travellers security charge, sales tax division, tax policy branch. We have two gentlemen from the Department of Natural Resources: Mr. Howard Brown, ADM, energy policy sector; and Mr. Philip Jennings, director general, petroleum resources branch.

I apologize, but I don't have the other gentleman's name.

● (1635)

Ms. Sandy MacLaren (Senior Economist, Economic Development and Corporate Finance Branch, Department of Finance) I'm Sandy MacLaren, with the economic development and corporate finance branch, Department of Finance.

The Chair: Thank you.

I believe we'll start with Ms. Potvin. Are you presenting on behalf of the Department of Finance?

Ms. Lise Potvin (Director, Sales Tax Division, Tax Policy Branch, Department of Finance): I am.

The Chair: Okay, if you could keep your presentations to about five minutes, it would be very helpful to the committee. As you can tell, there are a lot of questions from members. So could we have five minutes from Finance and five minutes from Natural Resources.

Ms. Potvin.

[*Translation*]

Ms. Lise Potvin: Good afternoon. I am here today to provide the committee with a brief overview of federal taxation as it applies to petroleum products, including gasoline.

[*English*]

Federal taxation of petroleum products consists of two elements. First, there is the federal excise tax levied at a fixed rate on certain petroleum products. Second, the goods and services tax, or GST, is applied on a general basis to petroleum products in a manner similar to most goods and services consumed in Canada. I would first like to discuss the excise tax and then proceed to discuss the GST.

[*Translation*]

With regard to excise taxes, the federal government levies excise taxes on gasoline, aviation gasoline, diesel and aviation fuel. There are no federal excise taxes applicable to other kinds of fuel, such as home heating oil, propane, natural gas or electricity.

The federal excise tax on gasoline and aviation gasoline is levied at a rate of 10¢ per litre, while the federal excise tax on diesel and aviation fuel is imposed at a rate of 4¢ per litre. Those are fixed amounts that do not vary with changes in the retail price of fuel.

[*English*]

This means that federal revenues from federal excise taxes are a function of the volume of fuel that is sold, but not the retail price. Accordingly, the recent increase in retail price for gasoline and diesel fuel does not have a direct positive impact on federal excise tax revenues. In fact, to the extent that higher pump prices cause motorists to drive less and reduce their consumption of motor fuels, federal excise tax revenues could actually decline.

Revenues from federal excise taxes form part of the Consolidated Revenue Fund and are used to support a broad range of programs and services for Canadians. There is also a link between excise tax revenues from gasoline and recent federal investment in infrastructure.

Budget 2007 announced an investment in infrastructure of more than $16 billion over seven years. Including the funding that was announced in budget 2006, federal support under its long-term plan for infrastructure will total $33 billion from 2007-08 to 2013-14. A key element of this plan to invest in infrastructure is a gas tax fund, which provides significant stable long-term funding for municipalities. Budget 2007 included $8 billion to extend the gas tax fund at $2 billion per year from 2010-11 to 2013-14. Notionally based on an amount equivalent to 5¢ per litre of the federal excise tax on gasoline, this gas tax funding represents more than one-third of the $33 billion investment in infrastructure.

[*Translation*]

That concludes my overview of federal excise taxation of fuel. I would like to now turn to the goods and services tax.

The goods and services tax, or GST, is levied on most goods and services consumed in Canada, including petroleum products such as gasoline, diesel fuel, home heating oil, natural gas and propane.

The GST is levied on an *ad valorem* basis, on the final selling price for goods and services. Maintaining a broad base allows the GST to be levied at a relatively low rate and makes compliance with the tax easier for businesses. Of note, the GST was reduced from 7% to 6% on July 1, 2006.

[*English*]

One of the key features of the GST is that businesses are able to claim full refunds, called input tax credits, with respect to the GST they incur when purchasing goods and services that are used to make taxable supplies. This means that most commercial enterprises are able to recover the GST they pay on their purchase of petroleum products through a full input tax credit, including on gasoline and diesel fuel. For consumers there is a GST low-income credit, which is designed to help offset the impact of the GST for those most in need.

Because the GST is levied as a percentage of the final price, GST revenues vary with changes in the final selling price of goods and services. For example, an increase of 10¢ per litre in the retail price of gasoline will lead to an additional amount of GST of roughly 0.6¢ per litre.

● (1640)

[*Translation*]

This additional GST does not necessarily imply that the overall fiscal impact on federal revenues is positive. To the extent that increased spending on one commodity, such as gasoline, results in reduced consumption of other goods and services, the net impact on aggregate GST revenues may well be negligible.

In addition, increases in the selling price of certain goods, including gasoline and home heating fuels, affect the Consumer Price Index, which in turn results in increased benefits payable by the Government of Canada under programs such as the GST Low Income Credit, the Canada Child Tax Benefit, Old Age Security, and the Guaranteed Income Supplement.

That concludes my remarks on the federal taxation of petroleum products.

[*English*]

I would be very pleased to address any questions you may have concerning this topic with my colleagues Geoff Trueman and Sandy MacLaren.

The Chair: Thank you very much, Ms. Potvin.

Mr. Brown, I believe you'll be presenting on behalf of the department.

Mr. Howard Brown (Assistant Deputy Minister, Energy Policy Sector, Department of Natural Resources): I'm going to ask my DG, petroleum resources, Phil Jennings, to do the presentation, if that's okay.

The Chair: Sure.

Mr. Jennings.

Mr. Philip Jennings (Director General, Petroleum Resources Branch, Department of Natural Resources): Great. I've sent out a presentation deck. Hopefully everyone has a copy of it.

Good afternoon, and thank you for inviting us here today to discuss gasoline prices and the factors that influence them.

First, I'd like to talk briefly about the policy context within which gasoline markets function in Canada.

By agreement with the western provinces, the Government of Canada has been committed to a market-based energy policy since 1985. This means that Canada relies upon competitive markets to determine prices. The basis of the policy is that prices set in free and competitive markets represent the best signal to producers and refiners in terms of their investment decisions and to consumers in terms of the type of energy they use and how they use it. This market-determined pricing of oil helps to ensure that sufficient supplies are available at the most competitive prices. In the absence of a national emergency, the Government of Canada has no jurisdiction over the direct regulation of energy pricing. Under the Canadian Constitution, the provinces have this authority.

Turning now to the factors that influence retail gasoline prices, crude oil remains the single largest cost component of the price of gasoline at the pump. This is stating the obvious, but any developments that affect supply and/or demand for crude oil will affect oil prices. This includes geopolitical events that constrain production or, alternatively, put supply at risk; weather related events, such as a warmer or a colder winter; and the commodity market, which reacts to perceived supply and demand changes.

However, gasoline markets have their own supply and demand pressures that also influence the retail price, in addition to consumption taxes. These factors are often directionally the same as crude oil prices but can occasionally move in the opposite direction. Examples of this were the recent refinery problems in North America, as well as Hurricane Katrina, when you had an effect on the gasoline prices but not on the price of crude oil.

The next slide compares the major components of the average gasoline price in Canada for the years 2003 and 2006. There are four principal components that make up the pump price, as you can see on the graph. The first is crude oil, which, as I said, is the largest component and accounts for almost half the price in 2006. Consumption taxes at the federal, provincial, and municipal levels represent about one-third of the price. Next are the refining margin, which is the difference between the cost of the crude oil and the wholesale price of gasoline, and the retail or marketing margin, which is the difference between the wholesale price and the retail price of gasoline. Together these two margins account for about one-fifth of the price at the pump in 2006. I will discuss each of these components in turn.

First is crude oil. Canadian oil producers are price takers. They price their oil, like the Edmonton Par crude, to compete with West Texas Intermediate and Brent in the North Sea. The prices of all types of crude track each other, adjusted only for quality differences and the cost of transportation to major markets.

The world price of crude oil has tripled since 2002. The oil price hike is driven, in part, by increasing demand fuelled by North America and the emerging markets, such as China and India, as well as by geopolitical events in the Middle East and Nigeria, areas that contribute to the global oil supply.

While there's an obvious link between recent retail increases and the record levels we are witnessing in crude oil prices, as shown previously, the price of crude is not the only determinant of what Canadians pay at the pump.

The next slide compares the taxation levels at the pump in different cities. As you can see, in terms of taxation, there's a federal excise tax, which is set at 10¢ a litre and has been unchanged since 1995. The *ad valorem* taxes include the goods and services tax of 6% federally, and in Newfoundland, Labrador, Nova Scotia, and New Brunswick, a harmonized sales tax of 14%. In Quebec we have a retail sales tax of 7.5%.

Each province and territory also levies a per-litre tax. These vary widely, ranging from a low of 6.2¢ in the Yukon to a high of 20.2¢ per litre on Prince Edward Island.

Some municipalities also have taxes. These include Montreal, Vancouver, and Victoria.

Turning now to the next slide, we should demonstrate how the margins have changed over time for both refining and retail. What you see, in terms of the refining margin, is that it represents about 14% of the pump price in 2006. The margin does not reflect the profits but essentially covers the cost of refining the crude oil and provides the refinery with a rate of return on capital investment. Refining margins are typically volatile and generally seasonal.

● (1645)

As the graph indicates, refinery margins have increased significantly in the first few months of 2007, reflecting the supply-demand imbalance for gasoline across North America this spring. There have been over 30 separate events that we've tracked in Natural Resources Canada so far this year that have reduced the refining capacity use in Canada and the United States.

Finally, we have the retail margin, which represents the smallest component of the price at the pump, which is about 5¢ of the pump price in 2006. This has been relatively steady over time. You actually have a bit of a decrease historically, because a lot of the people who sell gasoline are now getting into selling other things, with convenience stores, car washes, or food outlets related to their operations. So they're able to operate with a lower margin.

The next slide shows the historical trend of the major components of the Canada average gasoline price and how it has varied over the last decade. I've already discussed the events that have driven up the crude oil component. The tax components have increased about 3¢ per litre over the period, primarily reflecting the *ad valorem* taxes that increase with the higher prices. At the federal level, this is partially offset by the one percentage point reduction in the GST last year.

In examining the margins, it is important to remember that margins, as I've said before, are not profits, and higher margins do not necessarily translate to higher profits. Margins cover the costs associated with refining, distributing, and marketing the product, as well as providing a rate of return on the investment. Increasing margins partially reflect the increased costs of producing fuel, including compliances with environmental regulations.

The next chart provides recent crude and gasoline price trends in Canada. The seasonal increase in gasoline demand, which is typically April through September, traditionally results in higher gasoline prices during the summer. However, as noted in the previous sections, this year a number of supply issues across North America are adding to the upward pressure on prices. This year extremely low inventories in the U.S. due to unanticipated refinery problems have bid up wholesale gasoline prices across North America to record levels heading into the summer driving season.

On the next slide, there are a number of reasons for price differences between markets. This compares different cities across Canada. I'll just go through them very quickly.

The first is taxes, as I mentioned, so there's a difference between provinces, and in some cases between cities, in terms of the taxation levels on gasoline. For markets that are more remote, there are higher distribution costs. There are economies of scale in terms of how much is actually sold at each outlet. And the local markets can sometimes play a role in terms of different pricing.

There are five provinces that currently regulate prices: Quebec, New Brunswick, Prince Edward Island, Newfoundland and Labrador, and Nova Scotia.

One last point is that while there's no evidence that the prices are lower because of regulation, it has reduced volatility. As we saw with Hurricane Katrina, the regulator prices are not blind to market forces. Newfoundland and Labrador, for instance, had to adjust their prices three times within six days following Hurricane Katrina to reflect the market reality.

I'll just speak very quickly to the next slide. It gives the differences over time between the taxation levels and the margins. What you see, as I mentioned earlier, is the fact that the margins have actually decreased over time from the 1980s.

The last slide just makes a comparison between Canada and other G8 countries in terms of the price at the pump. What you see is that with the exception of the United States, which is explained by taxation levels, Canada has a relatively low price at the pump.

I guess the last thing I'd say is that this information and other useful information is available on the Fuel Focus website, which is linked to Natural Resources Canada.

I'd be happy to take any questions you may have.

● (1650)

The Chair: Thank you very much.

We will go to questions from members. Just to indicate for the witnesses, members have five or six minutes in total, so perhaps we could keep our responses as brief as possible. The first round will be six minutes.

Mr. McTeague.

Hon. Dan McTeague: Thank you, Chair.

Mr. Jennings, Mr. Brown, Madam Potvin, Mr. Trueman, Ms. MacLaren, thank you for being here today.

Mr. Jennings, I want to follow up very quickly on your offer for questions. Can you give an illustration to this committee today of the difference between light and heavy crude, the difference in prices varying as much as...? How much a barrel are we talking about, between West Texas Intermediate, Brent crude, and the light sweet? Do you have that information?

Mr. Philip Jennings: I actually don't have that number with me.

Hon. Dan McTeague: But it's fair to say it's all the same today.

Mr. Howard Brown: It would be $20 to $25, I think, potentially, on the discount on heavy crude.

Hon. Dan McTeague: So we could be talking about a substantial amount of variation, depending on the kind of crude that you put in.

One thing is very clear. You have analysis that has been done. It's a relief to see that it's from Natural Resources Canada. I think it's the first deck I've seen from Natural Resources Canada that doesn't have M.J. Ervin and Associates or other sources on it, so I'm pleased to see that. It's kind of nice to be able to see the government providing its own views on this.

I'm wondering if you could tell us, sir, how much gasoline is produced annually in Canada, how much is sold to the United States, and how much demand there would be in the same year.

Mr. Philip Jennings: Let me just find those numbers for you. I have them.

Hon. Dan McTeague: While you're doing that, sir, I'll just point out for the benefit of committee members that the price of gas will be up 2.2¢ a litre tomorrow in the Ottawa region, and that the wholesale price for Ottawa is 65.4¢.

In the United States, at $2.15 a U.S. gallon, that works out to 60.2¢ a litre, so there is a 5.2¢ variation, if you will, between the wholesale price in New York and what it is here in Ottawa.

With reference to the bureau's comments that they are identical, they are not. Clearly, this is why we need better reference points.

Mr. Jennings.

Mr. Philip Jennings: In terms of gasoline, the production in Canada in 2006 was about 725,000 barrels a day. In terms of domestic sales, it is almost comparable: 705,000 barrels a day.

Imports of gasoline products were 108,000 barrels a day, and exports were 136,000 barrels a day. That would mean that the net exports in terms of gasoline were 30,000 barrels a day. That's gasoline. If you include diesel and furnace, we actually had a higher net export balance.

Hon. Dan McTeague: The Energy Information Administration in the United States is a benchmark for pretty much anyone who understands and wants to know a little bit more about this industry. They usually give a five-year average. And those five-year averages on pretty much every energy commodity are well known, and we're within that.

Do you do the same? Does the Department of Natural Resources also have a five-year comparison of prices for energy commodities?

Mr. Philip Jennings: For gasoline prices, we do, and the Fuel Focus report comes out every two weeks. But we also have an annual report that came out in 2006, and we do comparisons over time. And we also, as I say, have rolling averages in terms of where those prices have been.

Hon. Dan McTeague: I understand there is a consumer section within your department; it may be in Industry, but it's gone back and forth over some time. If the Department of Natural Resources wanted to inform Canadians, consumers in particular, what would be the difficulty in determining or acquiring the wholesale prices that the oil industry from region to region posts at three o'clock every day, which allow little backbenchers like me to be able to come up with the precise price for tomorrow? What's preventing the department from doing exactly the same thing, as opposed to going through this—and you'll pardon my expression—tawdry comparison with Buffalo, which produces no gasoline and which follows the Toronto rack? What prevents the department from doing that? Is it something you've considered?

● (1655)

Mr. Philip Jennings: Essentially, the reason we collect the information is really to provide a snapshot to Canadians in terms of the trends. And we made a decision in terms of the Fuel Focus that once every two weeks was what we were aiming for in terms of that information. We do collect the rack prices on a weekly basis, so we are able to provide that information to Canadians.

Hon. Dan McTeague: Do you have rack prices region to region, city to city, Mr. Jennings?

Mr. Philip Jennings: We have done it by region. I actually don't think we do have it city by city, but we do have it by region.

Hon. Dan McTeague: I'm wondering if it might be possible to provide the public with an opportunity to get access to that information, given that it's publicly posted. If it were not publicly posted, I would yell that this may be a question of collusion. But I see Toronto's posted price tomorrow will be 65.5¢ a litre. Ottawa will be 65.2¢ a litre, and I can go down a list of every city.

That's simply available by going on Bloomberg, because those companies are posting their prices and saying to the industry and to shareholders in the United States, this is what we're going to charge Canadians tomorrow.

Why can't you, for a couple of bucks, go online—I think it's $800 a month—find out what that is and post those prices at five o'clock or six o'clock at night so my constituents can know not what happened two weeks ago, but what's going to happen tomorrow morning—if they can even get gas, which they can't in Oshawa?

Mr. Philip Jennings: The simple answer is that the decision we've made about the Fuel Focus report is that we collect information once a week, and that's the information that we collect as well from the retailers regarding what they sell in 60 centres across Canada. We felt that was sort of an efficient way to provide the information Canadians need to make their decisions.

Hon. Dan McTeague: But I think Canadians would rely—

The Chair: Six minutes.

Hon. Dan McTeague: Mr. Chair, they know every day; they have crude posted every three or four minutes. Perhaps we could get Natural Resources Canada to do the same for gasoline. I don't put crude in my tank, I put in gasoline.

It's just an offer, Mr. Jennings and Mr. Brown.

Thank you.

The Chair: We'll go to Madame Brunelle, please.

[*Translation*]

Ms. Paule Brunelle: Good afternoon, Mr. Jennings. In one table of your presentation, entitled "Regular gasoline pump price components—Canada average", I was extremely struck by the component "Refining and marketing costs and margins". It has increased enormously, from 9.1¢ a litre in 1996 to 24.3¢ a litre in 2007.

What is the reason for that increase?

[*English*]

Mr. Philip Jennings: I think the better graph to help explain this is on slide 9. It essentially tracks the major events that have occurred.

What we're seeing here in terms of refinery margins is the difference between the price of crude oil and how much a refiner can get to sell it to a retailer. What we're noticing now in terms of the recent hike is really a question of the supply crunch, or how much capacity is in the system to balance supply and demand.

As I mentioned before, the 30 different events that have occurred this year alone have constrained some of the capacity of these refiners. Some of them, actually pretty important ones, have occurred in Canada.

[*Translation*]

Ms. Paule Brunelle: In your view, the refining margins companies set are appropriate.

Mr. Philip Jennings: The margins are the margins. Refiners have a market, and try to sell their product at the highest possible prices. When products are rare, companies can obviously sell at higher prices.

Ms. Paule Brunelle: So you are saying that the industry is impossible to discipline.

Mr. Philip Jennings: I am saying that this not something we do.

Ms. Paule Brunelle: I see.

Ms. Potvin, last year, the combined net profit of Canada's six major oil companies was $12 billion, an increase of $5 billion over 2004. That is a 70% increase in net profit, a very large amount.

With the passage of Bill C-48, tax revenues paid to the federal government dropped, and will continue to drop over the next few years.

What sort of loss does that represent for the government? What impact has this legislation had on the federal government's tax revenues? Are we giving a large present to the oil companies? In my view, they don't really seem to need it. Why should they have paid less tax over the past three years and why should they pay less tax in the future?

● (1700)

Ms. Lise Potvin: Corporate taxes are not really in my field of expertise. When oil companies make bigger profits, they are taxed. Corporate tax rate reduction is a general measure intended to eliminate certain distortions and to make Canada more competitive. Really, I cannot give you any more details. My colleague, who should have been here, is absent.

Ms. Paule Brunelle: I read a study done by the Canadian Association of Petroleum Producers that gave a three-year analysis of the impact of what I might call the entirety of tax breaks given to oil companies. In 2005, those tax breaks accounted for more than $5 billion. In 2008, they will account for $2,362 billion. Oil companies receive large gifts on a yearly basis. I think that such a measure is somewhat unreasonable, considering the strong position of the industry. I find this hard to explain to the constituents in my riding.

Ms. Lise Potvin: I cannot make any comments about this study, but I can say that several tax breaks given to the sector were eliminated, such as the remission order for Syncrude and the resource allocation and accelerated depreciation allowance for tar sands. Unfortunately, I cannot comment the figures given in this study.

Ms. Paule Brunelle: When the price of a barrel of oil was very low, the cost of extracting oil from the tar sands was comparatively high. However, when a barrel costs $62 or $65, I think that oil companies are making great profits. Is this the kind of benefit that was taken away from the companies? In your opinion, are the exemptions granted to companies still reasonable?

Ms. Lise Potvin: As I said, this is not in my field of expertise and I do not want to stick my neck out. I understand that most of the tax breaks granted to the sector were eliminated.

Ms. Paule Brunelle: Do I have any time left, Mr. Chairman?

[*English*]

The Chair: You have one minute left.

[*Translation*]

Ms. Paule Brunelle: Quebec has to import every litre of gasoline that it consumes. The substantial increase in price of a litre of gas is a heavy burden on our economy. As the minister of Finance, could you look into the regional disparities in the tax revenues received from the oil industry? Is Quebec getting poorer while Alberta is getting richer? This is the main issue.

Ms. Lise Potvin: I cannot make any comments about this.

[*English*]

The Chair: I could probably answer that, but I'll let Mr. Van Kesteren begin.

Six minutes, Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, witnesses, for coming.

It's like UFOs; everybody has seen them, but the government keeps insisting they don't exist. I think Canadians feel that way too.

Your testimony was good. I think you've offered us some great charts. But a few things are puzzling me. Help me to understand this a bit. Canada has the second largest oil reserves, and I assume that most of those are locked in the tar sands. An oil company goes in there, extracts that oil, and gets whatever the crude price is. What about out east, where they're drilling offshore? Are the costs comparable?

For instance, in Saudi Arabia, if they're getting 62¢ a barrel when they're just drilling a hole and the stuff is gushing out, who reaps the benefits of that? Is this reflective in the pricing?

Mr. Philip Jennings: It's on the world stage. At the end of the day, it's supply and demand in terms of the total supply of oil and how much you can get for a barrel of oil. Comparable crude slate will get the same price around the world. Whether it's produced in Saudi Arabia or Canada, it will be the same amount.

The difference is that in the oil sands that crude slate is actually a lot heavier. It takes a lot more refining and processing to make it into usable products, so it's actually worth less. The second point is the fact that it costs a lot more to extract. You get less for a product that costs more to extract.

In terms of the east coast, you actually have a fairly good-quality oil, depending where you're producing the oil. But again, you're in a fairly high-cost environment. One thing is finding it and second is producing it.

● (1705)

Mr. Dave Van Kesteren: Looking at your final chart, I see that in Canada, although we fare well as far as price is concerned, we don't do all that well as far as the cost of a barrel goes. Why are we so much higher than the United Kingdom or Japan? Wouldn't Japan get its oil from Saudi Arabia? Why would its price, excluding taxes, be 66.8¢ per litre of gas while we pay 72.8¢?

Mr. Howard Brown: I think that's an excellent question. It's one that was going through my mind when Mr. Jennings was giving the presentation. We'll have to commit to get back to the committee with the answer to that.

I would point out that this includes the cost of crude, as well as the cost of refining, labour, and so on.

The answer is not immediately obvious to me either.

Mr. Dave Van Kesteren: This is a question I have to ask. How many oil companies are there in the world that control the oil? Does anybody know?

Mr. Howard Brown: Well, I'm sure you know that they're probably uncountable. But you're quite right, it is a very concentrated industry. I think we're down to four super-majors in the west now.

I think, though, on the question about who controls the crude, it's not actually the oil companies that control the crude, but rather the state oil companies or the governments of the countries where the reserves are.

Mr. Dave Van Kesteren: Do we have any companies in Canada that aren't part of those four majors?

Mr. Howard Brown: Sure. Most of them are not—EnCana, for example.

Mr. Dave Van Kesteren: Irving.

Mr. Howard Brown: Yes. On the downstream part of it, Irving is an independent.

Mr. Dave Van Kesteren: And is Petro-Canada pretty much offered only to shareholders?

Mr. Howard Brown: Is there a dominant minority shareholder in Petro-Canada? I think it's very widely held.

Mr. Philip Jennings: I don't think so.

Mr. Dave Van Kesteren: I beg your pardon?

Mr. Howard Brown: I think it's very widely held, so there'd be a lot of individual shareholders or institutions holding the shares in Petro-Canada. Shares in Syncrude, on the other hand, are held predominantly by major oil companies.

Mr. Dave Van Kesteren: Well, the question begs an answer. Is there possibly more to the price of oil than just what we investigate here in Canada? With slight variations, it seems to be consistent right across the board, no matter what country you go to.

Mr. Howard Brown: It is a global market, and once the stuff is out of the ground, it will go to the place where the margin is highest —ships are rerouted on the high seas and sent to destinations—as is refined product.

The question of whether either national governments or OPEC in particular is able to influence the price of crude is both fascinating and very complicated. There's almost certainly no question that they are able to, in the short run, and I think some of the run-up that we've seen in crude prices is maybe a result of market manipulation. The evidence, if you go back to the 1970s, demonstrates that you can exert market power for a relatively short period of time. It's very difficult to exert market power over periods of a decade.

The only reason I would personally wonder if the future is going to be different from the past is that reserves today are so highly concentrated in a small number of companies, where access is either limited only to state oil companies or is very closely controlled by the government. You have a lot of oil in places like Saudi Arabia, Venezuela, and so on, and that does give you pause to wonder if maybe this episode will be a little bit different from the 1970s.

● (1710)

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

We'll go to Mr. Masse.

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

Thanks to the panel for being here.

Ms. Potvin, in your comments in your presentation you said, “In fact, to the extent that high pump prices cause motorists to drive less and reduce their consumption of motor fuels, federal excise tax revenues could actually decline.”

I take that in reference with regard to what was recently just released from Statistics Canada, which is their *Study: Year end review of the economy* of April 12, 2007. They have a section called “Consumers were unfazed by rising gas prices”, and this is what they say:

> Consumers in Canada mostly shrugged off the effect of rising gasoline prices on their driving habits, never mind their overall behaviour.
>
> Retail gasoline consumption has continued to increase every year since 2002, including a 0.8% rise last year. The only concession drivers made to higher prices was to switch from premium to regular grade gasoline in each year.
>
> Neither did rising gasoline prices broadly affect the level or composition of vehicle sales. Overall, unit sales were the second highest ever, just 4% below the record set in 2002.
>
> For the fifth straight year, purchases of trucks rose faster than car sales. In fact, the strength of truck sales pushed the share of cars in all vehicle sales to a record low of 51.7% last year.

How can you argue that you're not going to see an increase in revenue, when even Statistics Canada has reviewed this since 2002?

Ms. Lise Potvin: In fact, what I said is that the revenues we get are unrelated to the prices and are just related to consumption, and that to the extent.... I didn't say there would be reduced consumption; I don't know that. But to the extent that there's a reduced consumption, it would reduce revenues. But there's no link between gas prices and our excise tax revenues.

Mr. Brian Masse: I beg to differ. You actually said, “...that cause motorists to drive less and reduce their consumption of motor fuels, federal excise tax revenues could actually decline”. That's actually in your presentation, yet you're saying that—

Ms. Lise Potvin: I believe I said, “To the extent”.

Mr. Geoff Trueman (Chief, Air Travelers Security Charge, Sales Tax Division, Tax Policy Branch, Department of Finance): Actually, if you look at the numbers, one thing that's very interesting was your mention of a 0.8% increase. That's actually far lower than the long-term 10-year trend for gasoline, which is a 1.7% increase each and every year. So what we've seen actually is that prices have had an impact on habits.

For the last three years, the volumes have been quite interesting. Starting at 40.9 billion in 2004, we dropped down to 40.8 billion in 2005, and then we snuck back up to 40.9 in 2006; vis-à-vis the long-term trend, we've seen quite a change. It'll take a few more years to play out, but we'll certainly see what happens.

Mr. Brian Masse: The current Prime Minister rose in the House of Commons in 2004 and said this:

> Mr. Speaker, the Prime Minister will know that across the country Canadians are struggling with record gas prices. Canadian businesses are being hurt. Canadian consumers are burdened with the difficulties this is causing, but the government itself is rolling in record gas tax revenue.

I can go on and on with a number of different questions from several different government members that claim that with the rising price of gasoline, GST revenues go up.

Is it false or is it true that your GST revenues have been going up over the last number of years, related to the increase of gasoline? Who's right and who's wrong?

Mr. Geoff Trueman: GST revenues do vary with the price, but the excise tax revenues do not vary with the price.

Mr. Brian Masse: But on your overall government money coming in from the price of gasoline, the argument that went on for many years in the House of Commons was that the rise of gasoline prices resulted in increased GST revenue for your department. Did that happen, or did it not happen?

Mr. Geoff Trueman: For the consolidated revenue fund, revenues from the GST would increase as gasoline prices increased, yes. Revenues from the excise tax on gasoline are linked only to the volume of fuel that is sold.

Mr. Brian Masse: Right, if volume has gone up, and—

Mr. Geoff Trueman: Volume has gone up over the long term. What we've seen over the last three years is actually a plateau, a stabilization point.

Mr. Brian Masse: Well, 0.8%...it's still 1%, at the very least, in the last statistics.

Mr. Geoff Trueman: For what year was that?

Mr. Brian Masse: That was 2006.

Mr. Geoff Trueman: That's right, and that was coming off the drop in the previous year.

Ms. Lise Potvin: An important point is that the GST rate was cut, so—

Mr. Brian Masse: I understand that, but what we're trying to find out is who was right or wrong in terms of whether or not the government gets more cash from revenue coming in when the price at the pump goes up, whether the GST is at 6%, 7%, 8%, 5%, 4%, 3%, 2%, or 1%?

Ms. Lise Potvin: In that case I would say the GST revenue increases with prices, but the rate was cut, so all in all, it's more or less the same.

Mr. Brian Masse: I'll go quickly over to Mr. Jennings.

With regard to your deck here, on the back page you did have some comparatives. I would like to see Canada compared to other gasoline- and also oil-producing nations like Russia, Saudi Arabia, Venezuela, as opposed to some of the ones that are on there. It would be interesting to get those comparisons, because there also may be comparisons with dual-pricing countries. I don't believe there's anyone in the deck here that had a dual-pricing country.

Could I quickly move to the question on your other chart here, with regard to the increasing refining and marketing costs. When you look at the comparatives here, it's a really good deck because it shows that the price of gasoline is just over...and then doubled, whereas federal taxes are fairly constant, just a bit increased, and provincial taxes are fairly constant. What's really significant is that there's almost a tripling of the refining and marketing costs and margins, including basically a significant jump even last year.

Has there been any explanation in terms of either refining techniques or any types of marketing requirements that have increased substantially from basically 1996 to 2007—

● (1715)

The Chair: Thanks for the question.

Just a brief answer, if we could.

Mr. Philip Jennings: I just want to make sure I understand your question. You're trying to understand why the refining margins have increased over time?

Mr. Brian Masse: So much different from the rest of the departments.

Mr. Philip Jennings: As I said, the current spike—you see a spike in the last couple of months—is really, as I mentioned before, a question of the inventory levels being very low in the United States. So we actually have an inventory level in the United States as low as it was after Hurricane Katrina. The second thing is that you have refiners that have gone off—

Mr. Brian Masse: I'm sorry, it's the percentage difference here.

The Chair: We're well over time, I'm sorry.

Mr. Brian Masse: Maybe what I can do is table the question to the committee later.

Thank you, Mr. Chair.

The Chair: Yes, Mr. Masse will table that as a question.

Mr. Brian Masse: Thanks.

The Chair: Mr. Bevilacqua, please.

Hon. Maurizio Bevilacqua: Thank you, Mr. Chairman.

Maybe this is not fair, because I'm not going to access all the skills you bring to the committee in the sense of experts in Finance as well as Natural Resources, but I do want you to speak to our constituents, knowing what you know about this particular issue. As a consumer, how does that knowledge affect you when you go to the pump?

Mr. Howard Brown: I'll be happy to volunteer on that.

I first confronted this when the hurricanes took out capacity and we really had a spike in gasoline prices. We put together some information for Canadians about how to save on gas, and I felt maybe I should actually put some of them into effect myself, as opposed to simply telling people what to do. So I slowed down from 100 kilometres an hour to 90 kilometres an hour, and I found that I actually got to my destination in exactly the same time. My brakes were used a little less frequently as well.

I don't mean to be facetious about this. There are options that Canadians can pursue to reduce gas consumption in the short term. Don't make unnecessary trips. If you have to go to three places in a day, do it at once, and don't make three separate trips. If you can get people together to go on the same trip, by all means do that. Make sure your tire pressure is properly inflated. Most important of all is to slow down.

Hon. Maurizio Bevilacqua: Anybody else?

Mr. Geoff Trueman: Buy your gas during the week. We all live in neighbourhoods; we've all seen the prices go up and down on weekends and holidays. Certainly I'm aware from speaking with my neighbours as the tax guy—they always quiz me on how much tax is in it and what not. Most are surprised that the federal excise tax is only 10¢, and that it hasn't changed in 12 years, that the diesel tax hasn't changed in 20 years.

We're certainly sensitive to the pricing issues out there, and we understand it's a concern for Canadians. One of the things the government has done well is, for example, the Fuel Focus, where there is more information available to consumers. There is a greater awareness, or there is starting to be an awareness of how the market works.

Ms. Lise Potvin: And when you need to replace your vehicle, buy a more fuel-efficient one.

Hon. Maurizio Bevilacqua: I'm going to ask this question. It was brought to my attention by Mr. McTeague. The question is in relation to one of the charts of the regular gasoline pump price components and the four-week average, May 15 to June 5, 2007. The question is about refining and marketing costs and margins and why this particular element of the chart is not subdivided.

Mr. Philip Jennings: Why are the refining and marketing margins not subdivided?

Hon. Maurizio Bevilacqua: Yes.

Mr. Philip Jennings: They could be, and we'd be happy to provide the same chart.

The Chair: Can we get that?

Mr. Howard Brown: I think the question that's being asked, though, Phil, is how much is profit and how much is cost.

● (1720)

Hon. Maurizio Bevilacqua: Yes, refining and marketing costs and margins, if those can be essentially subdivided. You say, Mr. Jennings, that is possible.

Mr. Philip Jennings: We can separate refining and marketing margins.

Mr. Howard Brown: You can separate marketing from refining, but the question is can you further subdivide the refining margin into profit versus cost, for example.

Hon. Maurizio Bevilacqua: Really, you should be asking your own question.

That's right. That's what we want.

The Chair: You have the floor.

Hon. Maurizio Bevilacqua: Thanks, that's it.

Hon. Dan McTeague: Could I ask how you're going to do that if only two of the four major companies segment reports between refining and marketing?

Mr. Howard Brown: We were just consulting on that. I'm not sure that is doable.

The Chair: You have a minute.

Hon. Dan McTeague: Thank you, Chair.

It seems to me that if we have all the other components here, the one that remains the big mystery is the refining marketing cost, and we don't even have an idea of what those costs are going to be or what those margins are going to be.

We have a pretty good idea from the Competition Bureau that it's 5¢ or 6¢ a litre. It's 6¢ in Ottawa. It's 5¢ in Toronto. He didn't say that, but he knows I know that is the case.

Let me ask this question. What would prevent an industry that we've seen going from 44 refineries down to 17, if Canadians were to really get green and curtail by 10% the amount of use of this product, from just shutting down another plant or removing another two refineries from the equation, so you artificially bump up...so demand remains static while the supply plummets?

The Chair: Thank you.

A brief answer.

Mr. Howard Brown: I must say I'm slightly baffled by this. Most people would agree that part of the problem has been inadequate capacity in the industry, if you look back over the past 10 years and particularly look at recent experience. People are in business to make money; that's why companies operate oil refineries and oil wells and convenience stores and all the rest of it. So it seems to me that what we would want to do, if we want to encourage more oil refineries and more capacity, is allow people to make an adequate rate of return on those investments. People will not shut refineries in a competitive market unless the rate of return on those refineries is too low.

I will say I have heard from major oil companies that one of the reasons they have not built more oil refineries is that they expect oil consumption to drop.

The Chair: Thank you.

We'll go to Mr. Carrie, please.

Mr. Colin Carrie: Thank you very much, Mr. Chair.

Thank you for your presentations.

On one of the slides they mentioned gasoline supply and fuel quality regulations as factors affecting gasoline prices. I was wondering, with the environmental changes and everybody wanting to see us improve our environment, if we have cleaner fuels, is that going to increase costs? By how much will it increase refining costs? Have we changed our regulations in the last few years so that might have increased refining costs?

Mr. Howard Brown: We certainly have moved to ultra-low-sulphur diesel, which has a very stringent regulatory requirement and certainly has added to costs. Most people are aware the government has introduced greenhouse gas regulations and has also adopted long-term objectives for clean air. How that will play out, we don't know. What the cost will be is pretty uncertain, and my friends and colleagues at Environment Canada are the experts on that.

It is fairly safe to say there will be some cost entailed in those regulations.

Mr. Colin Carrie: I'll ask the tax people this. Do we have a competitive market as far as the competitive tax structure in Canada versus the U.S. is concerned to build refineries here to increase capacity? What role would you say regulatory disharmony plays in companies' decisions on where to build and where to increase capacity? With the environmental changes coming up, could you comment on that?

Mr. Geoff Trueman: It's a little broad and a little beyond our scope of expertise, to be honest with you.

Certainly a major oil company allocates a lot of capital to build a refinery. The various income tax provisions that are available and the environmental regulations would be key factors they would have to look at across jurisdictions.

Mr. Colin Carrie: Is our tax structure in Canada pretty good relative to the U.S.? I know in the budget this year, as far as manufacturing goes, we've given significant write-offs. How would you compare Canada versus the U.S. as far as tax structure goes?

Mr. Geoff Trueman: We'd look at long-term capital assets that are not covered in the current budget. We'd have to look at it and get back to you. It's beyond my area of expertise.

● (1725)

Ms. Lise Potvin: Our corporate tax rates are competitive. A commitment in Advantage Canada is to have the lowest marginal tax rate on business investment by 2011.

Again, on your question and on Madame Brunelle's question, maybe we can get back to you. We don't do corporate income tax.

Mr. Colin Carrie: Could you answer a question that I quite often get in the constituency? As an exporter of crude oil, why should Canada pay international prices for crude oil? How do gasoline prices and refining margins in Canada compare to our closest economic partners?

Mr. Howard Brown: We did an experiment on that. It's not often that you get to perform experiments in economics, but we did.

After the national energy program, I think many people will remember the famous headline in *The Economist*, “Canada Resigns From The World”. But however well intentioned it may have been as a policy package, I think the results were pretty dismal for Canadians and for the industry. We had a withdrawal of investment, and Canada's energy security was imperiled by that.

Since the NEP was dismantled, under both Conservative and Liberal governments, we've had a market-oriented energy policy in Canada. I think the results of that have served Canadians well. It's a booming industry, it employs a lot of people, it generates a lot of profits, and it pays a lot of taxes.

Mr. Colin Carrie: I have one more question.

If the government were to establish a petroleum monitoring agency, do you think it would result in lower prices? There was one, to my understanding, and it was cancelled by Prime Minister Martin. Do you think it's a worthwhile thing to make a difference?

Mr. Philip Jennings: The agency was set up at a time when we were regulating prices. There was a necessity for that type of information.

As I said, through decisions that were made a few years ago and ones that we implemented as early as last year, we feel the information that's now collected by Natural Resources Canada and the products we produce through Fuel Focus, through the report as well as the website, give sufficient information to provide Canadians with information on how the market works and how the products they buy in their markets compare to other markets across Canada, as well as provide tips to Canadians on how to use energy more efficiently.

The Chair: Thank you.

Thank you, Mr. Carrie.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you, Mr. Chairman.

I know that you have no control over taxes or anything that has to do with taxes. This is normal and has existed for years. Canada can intervene only with regard to the profit margin made by refineries. The price of refining is so high that oil prices can remain steady or fluctuate. The prices change and they are set on an ad hoc basis.

In your document, I see that the estimated cost of crude oil is fairly stable, but the curve of refining costs is staggeringly steep. You said that crude oil prices were set by other nations. Therefore, we have no control over crude oil, and the taxes do not change. However, can we do anything about the price of refining?

Mr. Philip Jennings: I will try to answer your question.

First, the graph on page 8 shows that the government has implemented regulations over the years. These regulations partly account for the rise in profit margins for refining. Here, it has to do with regulations for benzene and sulphur.

It was also said that the rise in prices was accompanied by a decline in demand. However, we noted that demand in Canada and in the United States still remained quite strong. There was an increase in refining capacity, but it was not sufficient to bring the difference between supply and demand back to what it previously was.

We note that the profit margins for refiners are higher because demand is still as strong as before. This was the first time in decades that we heard proposals to build new refineries in Canada. At present, we know of three proposals to build refineries, and this could make a difference, because an increase in refining in Canada could have an impact on prices.

Mr. Robert Vincent: We know that refineries have been closed down in order to increase demand. As a matter of fact, the refineries could have continued working, but that would have been useless because there would have been a plentiful supply of gasoline and there would not have been any way to explain why the prices had gone up instead of going down. So, why is nothing being done about this?

Mr. Philip Jennings: Despite the decline in the number of refineries in Canada over time...

● (1730)

Mr. Robert Vincent: However, they are being opened and closed at will.

Mr. Philip Jennings: Canada's total capacity has gone up. For example, we had 30 refineries in 1990. However, at present, 19 refineries are producing more than what was produced in 1990. Canada's refineries have increased their production by about 5% over the past 15 years. Therefore, the relevant factor is not the number of refineries, it is their production capacity.

Mr. Robert Vincent: The same graph shows that sulphur in gasoline was regulated in 2002. However, it was not sufficiently regulated. Why was there further regulation in 2005? I understand that there was an increase between 2004 and 2005, but sulphur in gasoline was regulated in 2005, and the price of refining went down, it went from 16.3¢ to 16.1¢ due to the regulations, we are told. Here, the regulations are accompanied by a decrease in price...

The Chair: Please come to your question.

Mr. Philip Jennings: In fact, regulations are not the only factor affecting price changes.

As I said, demand is very strong and still on the increase despite an increase in production capacity, which is not as quick as the increase in demand. Moreover, some very specific events took place last year and this year. In fact, refineries had to be closed down for various reasons. For example, in Ontario, the Imperial Oil refinery in Nanticoke was shut down for five weeks, which decreased supply and increased the prices.

Therefore, with regard to the 24.3¢ profit shown in the graph for 2007, we note that the closing of refineries had a specific and substantial impact on gas prices in Canada, because one of the 19 large productive refineries was shut down for a duration of five weeks. This brought about a decrease in available inventory. When demand remains strong despite a substantial rise in prices, there is a substantial effect on gasoline prices.

[*English*]

The Chair: Thank you.

I'm sorry, we're well over time, but I do have a few questions and I want to take the last spot.

First of all, let me take you to the graph of the two pumps. It's the Canada average pump price components for the 2006 average, 2003 average.

I think most Canadians, when they follow the price of crude oil and they follow the price of gasoline, don't understand why there's not an exact replication between the two, or they often see prices the same. I think if we break it down, as you have done here, we can go through each section.

If you look at the 2006 average price of 97.7¢, you have crude oil, which is 45.8¢. I want to clarify this in terms of this component. Canada produces about 3% of the world's crude oil, so we are a price taker. Is there anything we can do as a nation, other than implement another national energy program, to affect the crude oil price that we have there?

Mr. Brown.

Mr. Howard Brown: No.

The Chair: If we look at the federal and provincial taxes, obviously this is something within the ambit of the federal, provincial, and in some cases municipal governments, the 10¢ excise tax, the GST, 6%. Now you have broken down the refining market and marketing margin. The marketing margin is basically the retail margin, is that correct?

● (1735)

Mr. Philip Jennings: That's correct.

The Chair: And most retailers tell me—and you can tell me whether this is correct or not—that a lot of retailers are not in fact making money on their gasoline now, they're making money on their other products. They use gasoline to draw the customers in. Is that a fair assessment?

Mr. Howard Brown: I think that's fair.

The Chair: Now, in terms of the refining margin—and I just want to clarify this because I think you addressed this, Mr. Jennings, but about three slides later—the refiner/operator margin is very erratic; it goes up and down much more than the marketing/operating margin. I believe you said it's volatile and seasonal.

Can you give us an explanation as to why it is so erratic?

Mr. Philip Jennings: Let me deal with the seasonal first. The demand for gasoline is typically higher in the summer months, so the product is worth more, and so the refiner is able to sell it for more. You tend to have an increase. The estimate is typically between 5¢ and 6¢ higher over the summer months compared to the rest of the year.

In terms of the really high peaks, if you see July 2005, that's explained by Hurricane Katrina, where you had over 20% of the refinery capacity in the U.S. that was put out for some time. So that explains that big peak.

The recent peak is explained largely, as I said, by a lot of unanticipated events that have shut out some of the refinery capacity. One of the largest ones actually was what happened in Ontario with the Imperial refinery in Nanticoke, which was out for five weeks. So that was an unplanned event. We've had other events in Canada and quite a few in the U.S. that have been the cause, for various reasons, that refiners had to shut down operations in times that were not planned.

What that has led to, as I mentioned before, is that because demand is so strong in the face of higher prices, inventories are getting drawn down; and the lower the inventory is, essentially the higher the demand is for that product in terms of people trying to secure product for the market.

The Chair: Can I just clarify this? You said that refineries are running at about 95% capacity, they cost about $5 billion to build—that's a new refinery—but there are.... How many refineries are being considered for Canada now?

Mr. Philip Jennings: I've heard of quite a few. We characterize three of them as being more serious in terms of being considered, in Canada. All of them are in the order of about 150,000 to 300,000 barrels a day. That would be additional capacity.

The Chair: If you look at refining margin and you look at crude oil, can you actually separate cost from profit? If you look at crude oil, if you're dealing with tar sands, the cost of extracting that from the earth is a lot more than the cost of extracting it from the sands in Saudi Arabia. The cost of refining certain types of crude is much more expensive than the cost of refining other types of crude. Is there actually a way in which to measure at least that extracted and refined within Canada, as to what is actually cost versus profit?

Mr. McTeague, I'd like the witnesses to answer.

Hon. Dan McTeague: Chair, you're over your time. You asked the indulgence of the committee.

I'm simply talking to my colleague here. If you have a problem with that, I can certainly put it on the record.

The Chair: I thought you were answering—

Hon. Dan McTeague: It's 3¢ for light and 5¢ for heavy—[*Inaudible—Editor*]...which is in your riding.

The Chair: Mr. McTeague, this is my last question, and I'd just like the witnesses to answer this.

Hon. Dan McTeague: That's your interruption, Mr. Chair, and I have the right to respond to it. I didn't interrupt you; please don't interrupt me.

The Chair: I'm not interrupting you, Mr. McTeague, but there are a lot of conversations going on at the side tables. I just want the witnesses to answer this question if they can.

Mr. Philip Jennings: Just to clarify, the graph actually shows the price of crude oil for a light sweet. It actually doesn't make any assumptions about the mix of crude, slate, and so forth. What's used to compare in the graphic on page 9 is a light sweet oil. So it doesn't take into account the different products, as I said, in Canada.

We're comparing the price of gasoline with what oil costs at Edmonton Par and WTI.

The Chair: Thank you very much.

I want to thank you for coming in today. And I want to indicate that if there's any further information—and I believe Mr. Masse had a question he was going to table, and also Mr. Bevilacqua—with respect to separating that one chart to show the difference between refining and marketing, that would be very helpful.

Members, we'll suspend for a couple of minutes and then we'll go in camera for the counterfeiting report.

[*Proceedings continue in camera*]

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