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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Ladies and gentlemen, I'm sorry I'm a minute late starting the meeting, our 69th meeting of the Standing Committee on Industry, Science and Technology.

Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle (Trois-Rivières, BQ): Mr. Chairman, yesterday I tabled a motion. I would like to know whether I have the unanimous consent of members to deal with it now, seeing as how I did not provide 48 hours notice, or should I simply wait until Monday?

[*English*]

The Chair: Do members have the motion?

[*Translation*]

Ms. Paule Brunelle: The motion reads as follows:

> Pursuant to Standing Order 108(2) of the House of Commons, that the Industry Committee hear from the Minister responsible for the Economic Development Agency of Canada for the Regions of Quebec, in order to enlighten the Committee about the legality and compliance with the *Members' Allowances and Services Manual* of the salary paid to Mr. Daniel Miguère, Political Assistant to Minister Jean-Pierre Blackburn, with the mandate to report back to the House of Commons with its findings.

[*English*]

The Chair: I'm informed that this does not have the 48 hours' notice. Madame Brunelle, I believe, is asking for unanimous consent to discuss this motion today.

[*Translation*]

Ms. Paule Brunelle: Can we deal with it now, Mr. Chairman?

[*English*]

The Chair: Mr. Byrne.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Under the circumstances, would you be able to rule as to whether or not this motion would be in order, were the time requirements enacted, given the fact that this seems a matter deemed more suitable for the procedure and House affairs committee?

The Chair: I would agree with you, Mr. Byrne. I just got the motion today. It seems like a motion either for procedure and House affairs committee or for the Ethics Commissioner. But to bring this to this committee is very odd, I would say.

I'd obviously ask for the advice of the clerk on this matter. But that's presupposing we would get unanimous consent to discuss this motion today.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): I'm just guessing, but I don't believe the government is going to agree to that. Could we get the parliamentary secretary's opinion on that? We're wasting the time of our delegates here and we can at least find out if there is unanimous consent.

The Chair: Okay. That's a good point. Let me ask the question, then.

Does Madame Brunelle have unanimous consent to discuss this motion today?

● (1535)

Mr. Colin Carrie (Oshawa, CPC): No.

The Chair: Okay. Thank you. *Merci.*

We'll get back to our scheduled orders of the day. We have a two-hour meeting, with five witnesses before us, to discuss gas prices and refinery margins. And this is our study pursuant to Standing Order 108(2).

As I mentioned, we have five witnesses today. First of all, from the Association québécoise des indépendants du pétrole, we have Ms. Sonia Marcotte, president and director general; Monsieur René Blouin, senior adviser; and Monsieur Pierre Crevier, president, Les Pétroles Crevier, and a member of the AQUIP's economic affairs committee. From the Canadian Independent Petroleum Marketers Association, we have Ms. Jane Savage, the president and CEO. And from L'essence à juste prix, we have Monsieur Frédéric Quintal, spokesperson.

I believe there is a five- to seven-minute presentation for each association. That's my understanding. Perhaps we could start with Ms. Marcotte.

Are you presenting on behalf of your organization? Okay, you can begin at any time.

[*Translation*]

Ms. Sonia Marcotte (President Director General, Association québécoise des indépendants du pétrole): Mr. Chairman, members of the Committee, let me begin by introducing the people who are with me today. Mr. Pierre Crevier is the Chairman of the Board of AQUIP and President of Pétroles Crevier. Mr. René Blouin is AQUIP's Senior Consultant. My name is Sonia Marcotte, and I am Chief Executive Officer of the Association québécoise des indépendants du pétrole.

We want to thank the members of this Committee for inviting us to present our position on these important issues. We do so on behalf of the members of AQUIP, which represents oil companies in Quebec.

They operate in the field of importing, distribution and retail sales of fuel, fuel oil and lubricants. Retail sales of Quebec oil companies total over $1 billion annually.

We do not intend to spend much time today talking about the strategic importance of independent oil companies, since it has been shown that their presence and the competition they introduce into the petroleum industry in Quebec, notably through the importation on cargo ships of finished products, provides Quebec consumers with a price advantage estimated at $361 million a year.

Today, we would like to talk primarily about increases in fuel prices that are raising such a hue and cry among consumers. In January of 1999, Montreal consumers were paying around 50¢ for a litre of gas. At that time, Montreal refineries were paying 11.1¢ for a litre of crude oil. They were demanding a refining margin of 4.4¢ before offering their gas for sale at the loading rack. Again, in January of 1999, the retailer's margin in Montreal was 3.6¢ a litre. That margin was not even sufficient to cover all the operating costs of an efficient serve station.

Now, let us look at how this situation has changed. The most recent data available show that, last May, Montreal refineries were paying 44.8¢ for a litre of crude oil. They were demanding a refining margin of 25.7¢ a litre, an increase of 484 p. 100 over January 1999.

The Chair: Ms. Marcotte, I'm sorry to interrupt you.

[*English*]

I've been asked by the translator if we could slow down just a little.

[*Translation*]

Ms. Sonia Marcotte: Still in May, the retailers' margin was 4.9¢. Since then, the price at the pump has continued to reach new highs. As we will see, these spectacular increased are the results of the combined increases in the price of crude and refining margins. It is clear that the significant increases in refining profits are no accident. They are the result of a strategy aimed at gradually weakening competition and creating an artificial shortage that drives up the price of fuel.

In recent years, sporadic supply outages have affected independent distributors, and even truckers, who have had trouble properly supplying their fleet. These harbingers indicate that the supply problem is real. It has in fact been exacerbated by the recent closure of a Petro-Canada refinery in Oakville, which is depriving Ontario of more than 100,000 barrels a day of petroleum products. Moreover, it is Quebec's refineries that are diverting a significant portion of their production to fill this void. When we know that a large portion of the production of Quebec refineries already leaves the province, to the point where Quebec's deficit is an estimated 150,000 barrels a day, there is clearly cause for concern.

Canada can contribute to initiating a movement which would make it possible to build new refineries and potentially increase the number of companies involved in refining. In addition to representing a profitable investment, the prospect of new refineries being built in Quebec and elsewhere in Canada would guarantee consumers, and independent oil companies, an uninterrupted supply, while maintaining downward pressure on prices. There is no question that these considerations respond to energy security concerns in Canada.

Finally, the idea of a special tax on excessive refinery profits strikes us as an attractive idea. We propose that revenues generated as a result of this special tax be returned to less well-off consumers. Quebec recently introduced similar measures which were not met with criticism.

Thank you for your attention.

● (1540)

[*English*]

The Chair: *Merci.*

Ms. Savage, will you be presenting?

Mrs. Jane Savage (President and Chief Executive Officer, Canadian Independent Petroleum Marketers Association): Yes, thank you.

The Chair: That's good.

Ms. Savage.

Mrs. Jane Savage: First, thank you for the invitation to address this committee on the subject of gasoline prices and refining margins.

I represent independent fuel marketers in Canada. Independent fuel marketers are those who purchase fuel at the wholesale level. Independents do not refine crude oil or produce gasoline; rather, they purchase gasoline, mainly from refiners, and then sell either to a retailer or to the consumer directly via their own gas station.

Increases in gasoline prices are almost always attributable to increasing wholesale prices, not to increasing retail margins. More specifically, the most recent run-up in wholesale prices is a result of record refining margins. Data shows that retail margins in fact have stayed relatively constant over the past several years, but refining margins have generally grown as refining capacity declines and demand for fuels increases.

As an example, comparing May 2007 to one year ago, May 2006, gasoline prices in Canada increased about 6.5¢ per litre to $1.12. This is a Canada average price. In that period crude oil costs actually dropped 6¢ a litre while refining margins expanded by over 13¢ a litre to a record 28.8¢ a litre. It's important to note that this level of refining margin is higher than what we saw in the month of September 2005, when Hurricane Katrina took place.

I'm often asked to explain why the price of gasoline is up again. The overly simplistic answer is that the world wholesale price of gasoline is up, and Canada operates in a global economy. This is all true. As a global player in an unregulated industry, our prices must reflect world prices; otherwise we risk supply shortages. But what this explanation fails to capture is that the wholesale price of gasoline in Canada is not only higher than it should be, but we are vulnerable to fuel shortages and price spikes in Canada, as we saw last winter.

Why do we have some of the highest wholesale prices on the continent, and why are we more vulnerable to fuel shortages? I would like to explain that and then follow with some clear recommendations we have for this committee.

First of all, why is it that we have some of the highest wholesale prices on the continent? First of all, there is too little supply. In several areas, especially Ontario and the Prairies, we import gasoline from outside the country. Both Ontario and the Prairies are landlocked in the winter, preventing large cargoes from coming in to mitigate supply issues.

Second, we have too few suppliers. Only a handful of refiners in Canada—in contrast to the United States, where there are many more—control the wholesale markets, and there is little price competition at the wholesale level. It is a suppliers' market. Contrast this with the retail markets, where there are many retailers competing for Canadians' loyalty and many gas stations on the verge of closing because retail margins are thin.

Third, pipeline and terminal infrastructure in Canada is controlled almost exclusively by this handful of refiners. Unlike the U.S., where common carrier pipelines and terminals are more common, in Canada there is little access to wholesale fuel markets by traders, wholesalers, and independents.

In combination, these three—inadequate refining capacity, few players, and full control of infrastructure, with the exception of one independent terminal in Montreal—have led to high wholesale prices, fuel shortages, and the potential for more fuel shortages, not only in Ontario and the Prairies but where there are no deepwater ports and in every region of Canada.

● (1545)

A fourth reason is that, unlike in the U.S., there's no accountability to the Canadian public of inventories. One could argue that petroleum products produced by refineries are essential products to the people of Canada. Although we are working hard to reduce this dependency on fossil fuels, the fact of the matter is that Canadians are still very dependent on petroleum products. We need heating oil to heat homes, diesel fuel to transport our groceries and goods, and gasoline to take our kids to school, commute to work and run our businesses.

In the U.S., refiners and terminal operators report inventories weekly to the Department of Energy as an accountability measure and an early warning system of potential shortages that can then be mitigated. No such accountability exists in Canada.

The fifth reason, the fifth reality, which came with glaring evidence during the fuel shortage, is the inconsistency of gasoline specifications with bordering states and the legislative inability for ministerial waiver of key specifications to enable importation of gasoline from our neighbouring states.

On paper, Canada and the United States have the same specification for sulphur in gasoline. It is the right specification and it's very low. But what we found during the fuel shortage is that while we were at tank bottoms in Ontario, the U.S. was awash in gasoline that we could not import because of some very slight differences between the way the specification is administered in the two jurisdictions.

Moving on to recommendations, we have five. I'll try to cover them quickly.

First, we must federally mandate cross-border consistency of fuel specifications with adjacent states to ensure the markets flow freely so that during the next fuel shortage, gasoline can be easily imported to relieve the supply and price pressure. At the very least, we must have ministerial capability to easily intervene in the event of a shortage.

Second, we need to investigate alternatives to the structure, ownership, and use of pipelines and terminals, encouraging more market participants and more supply of petroleum products. Pipelines are a federal jurisdiction in Canada.

Third, we would like to see implementation of a federal public accountability system, specifically tracking key inventory levels of essential fuel products on a weekly basis. Not only would this increase accountability, but it would also give us an early warning system that would enable wholesalers, importers, and independents to do what needs to be done to replenish inventories, so that if we get a refinery outage at a time when inventories are low, which is what happened in February 2007 in Ontario, we will be able to mitigate the effects of that refinery outage.

Fourth, we recommend that we rethink the costs versus the benefits of inter-refinery product exchanges. These were justified and approved on the basis of efficiency, but have resulted in lower inventories and higher vulnerability to supply disruptions. They also result in fewer players, reducing competition.

Fifth and finally, we would like to reiterate that to encourage and enhance competition in the retail gasoline business, we request that parliamentarians undertake a much needed modernization of the Competition Act. Without this modernization, little is being done to preserve competition in the retail gasoline industry. We reiterate that in both the wholesale and retail gasoline markets, there is no better instrument to moderate price than through competition.

Thank you for this opportunity.

● (1550)

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

We will now go to L'essence à juste prix, Monsieur Frédéric Quintal.

[*Translation*]

Mr. Frédéric Quintal (Spokesperson, Gasoline at a far price): Thank you, Mr. Chairman. I would like to thank Committee members for allowing me to make this presentation today.

This marks the fourth time in four years that I have taken part in the parliamentary process. I have already seen most of you.

I have been an observer of, and stakeholder in, the oil sector since the year 2000. Two years ago, I published a book on the subject, which presents an overview of the period from 2000 to 2005 with respect to what occurred in the oil industry in Canada.

The purpose of today's meeting is to explain recent fluctuations with respect to refining, primarily in April and May of 2007. I will give you a quick overview of the current status of refining margins.

In the 1980s and 1990s, there was a decline in refining capacity, an increase in demand and a common pricing system established for refined products. Starting in 1999, demand increased. Capacity also increased with demand, and since then, demand has been affected by speculation. This is what is known as refining margin fluctuations.

The refining margin system has been in place since June 1, 1985. In Quebec, Esso published this information in the media on Friday, June 21, 1985, and the same announcement was made in Toronto on July 2, 1985. I explain all of this in a documentary that will be released in the fall and which I have been working on now for several months.

Nowadays, oil prices are closely associated with the price of gasoline. No one in the oil industry has rushed to explain to the media the difference between oil listed on the stock exchange and refinery products, which are also listed on the stock exchange. For ordinary Canadians, all of that is still quite vague, ambiguous and confusing when, in actual fact, it is really quite simple. I will give you an example of a raw material on another market, which may be easier to understand. Oranges are listed on the stock exchange, but orange juice is not. There is competition.

I would refer to the important announcement made in June of 1985, because it was sharply criticized in the O'Farrell report. Mr. McTeague, I recall that you worked on that report. It made recommendations to the Conservative government in December of 1985 with a view to preventing the implementation of a new system of public pricing of refined products, ensuring that Petro-Canada, which was a Crown corporation at the time, would not follow the industry's lead.

Unfortunately, however, those recommendations were simply ignored. We are now suffering the full consequences of that, which are associated with the Free Trade Agreement. The pricing of refined products in Canada has to be in step with American pricing on the Nymex Exchange.

Since April and May of 2007, what has the speculative value been solely based on? Well, every Wednesday, the U.S. Department of Energy publishes the inventory levels of crude oil and refined products. If the inventory level does not meet the expectations of analysts, the result is speculation that the price will either rise or fall. Inventories are not in danger; they simply go from 37 to 36 days, and not from two to three days. There is no danger whatsoever, but this is enough to attribute a speculative value to a product that has no value-added for the consumer.

On April 30, on Nymex, the price of a gallon of gas, used as a reference for a litre of gas here in Canada, was $2.44, which is the same price as on August 30, 2005, during a period of high gas consumption, as a result of people travelling on vacation and Hurricane Katrina hitting some 16 refineries in New Orleans. The months of May and August 2007 marked the between season low. Refineries are not producing heating oil at that time and the period of strong demand for the summer holidays has not yet begun. However, the same record price of $2.44 US a gallon was achieved.

Where are we heading? Well, if that is not a demonstration that a crisis is about to occur, nothing is. Compared to the 1980s, the word “crisis” doesn't seem to be part of the vocabulary of government leaders, and that is unfortunate. It probably has something to do with globalization or the development of the wonderful world of communications and public relations.

It may be a good idea to consider more forceful political intervention. Some politicians who are here today have criticized me in the past for raising the spectre that goes along with that kind of terminology. Indeed, such interventions have been made in the past, and they were costly. Let me give you an example. The Auditor General's Report clearly stated that the cost of the imported oil subsidy program between 1974 and 1985 was $5.8 billion.

● (1555)

Some said that this caused the Canadian debt to balloon, and I was criticized as a result. On June 1, 1985, Canada's debt stood at $190 billion, and I do not believe that this factor was responsible at the time for causing it to swell. However, some people may have forgotten to mention that the national oil policy allowed Alberta oil producers to force everybody living west of the Outaouais area to buy their oil at a price that exceeded the world price for some 13 years, from 1960 to 1973.

The Bertrand report analysis, about which oil company supporters neglect to mention that they did not pass the test, shows that in 1980 constant dollars, refineries billed Canadian consumers an extra $5.3 billion. Yet nobody talks about that. In that regard, I mentioned more forceful intervention earlier. The most recent great invention coming out of the Conservative Party was the decision, last year, to cut the GST by 1 per cent. It would seem that is as far as they are prepared to go in terms of giving consumers a break. However, in 2005 alone, between January and August, the before-tax price of the same product fluctuated by 114 per cent. Between 1999 and 2007, it was subject to fluctuations of some 234 per cent.

If those percentages are not adequate proof that there is starting to be a real crisis for consumers… Here is another example. The industry was in crisis when, in March of 1986, the price of oil dropped considerably. The Conservative government decided at the time to eliminate or to cut more quickly than planned an oil and gas tax of a value of some $2 billion, and to force consumers to pay an additional tax of 3¢ on gasoline.

In 1986, we helped the industry, which was in crisis, and yet the only thing done since then is the 1 per cent cut in the GST. In February of 2003, Mr. Manley's budget gave the oil industry a massive tax cut. It allowed provincial royalties to once again be included with expenditures, and lowered the tax rate from 28 per cent to 21 per cent. I did the number crunching for only one item, and I noted that oil royalties in Alberta in 2003, 2004 and 2005, at a tax rate of 21 per cent, meant a tax reduction of $6.5 billion for the oil companies. And yet, the documentation prepared by the Minister of Finance talks about $165 million for that three year period.

If you are having trouble finding ways to come to the aid of consumers, why is it that you are finding it so easy to give huge tax cuts to this industry, which seems to be enjoying incredible increases in profits year over year?

Thank you for your kind attention, Mr. Chairman.

The Chair: Thank you very much for your presentation.

[*English*]

We will begin with questions from members. The first round is six minutes, and the second round is five minutes. Members have a very short period of time, so if I could ask witnesses to be brief in their responses, that would be very helpful.

We'll start with Mr. McTeague, please.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Chair, I just want to make sure we have the information I had requested earlier with respect to the relationship between Esso and the marketing of Canadian Tire gasoline stations, as well as copies given to members of Parliament before we terminate on the recommendations made by this committee to effectively amend the Competition Act of 2002, including the support at the time of the then Competition Bureau.

The Chair: I'm just advised that we could not find any public information on that.

● (1600)

Hon. Dan McTeague: Were you able to find any information?

Ms. Lalita Acharya (Committee Researcher): We had one of our librarians do a search of recent newspaper clippings, and she couldn't find anything in the public domain on that issue.

Hon. Dan McTeague: I'm pretty sure *The Globe and Mail* is where I saw the relationship some time ago, and it was very public. Nevertheless, thank you.

Mr. Chair, perhaps you would proceed with the other part, because I don't have the old copy of the 2002 recommendations we made, if you can believe it.

The Chair: The 2003 one?

Hon. Dan McTeague: The 2002 and 2003, and then the response by the government at the time, Chair, just under advisement.

Thank you.

[*Translation*]

I would like to thank all our witnesses for being with us today. Mr. Quintal came back to one point a number of times.

[*English*]

But I would like to say that the dynamic continues to change. However, the emphasis you put on the refinery, I think, is timely and important. We have often talked about crude, and the media like to talk about crude, but we all know that we don't put crude in gas tanks.

There's been a lot of discussion about the cost at the gas station level. People like to get worked up over the issue of collusion, but you could probably put the tens of thousands of gasoline station owners inside the SkyDome, or what we call the Rogers Centre now in Toronto, and fill them up. No one talks about the four refineries that control product from region to region in this country.

Given that the bureau has said there is no evidence of anti-competitive activity, and given that the bureau has not taken any time to look at the overall impact of mergers that have predated our concerns to date, I'm wondering....

Ms. Savage, you talked about some of the recommendations that could be considered and that would be helpful in at least attempting not just to restore competition and price, but also to ensure that Ontarians, among others.... I see that in western Canada, my good colleague the chairman is facing prices even higher than those in Ontario. What steps can we take to ensure that Canadians will even have supply, which I think is of greater or paramount concern to consumers? The price is arguable; it's too high. I thank you for making those presentations about the fat margins that are being made, but I'm also deeply concerned, as should every Canadian, about if we have enough supply, particularly in the winter.

So could you talk a little about your recommendation with respect to the tracking of inventory and how you think that would help?

Mrs. Jane Savage: As I mentioned, there'll be two benefits from tracking of inventories, our association and members feel.

The first is that it would increase the level of accountability. This is not an interventionist move; there are other more interventionist moves. This would at least report inventories—again, on the assumption that parliamentarians believe that petroleum products are somewhat of an essential product for consumers.

The second is the early warning system. And I've been challenged on this as to what exactly it would do for us. The early warning system, I cannot emphasize enough, is essential to bring in the product that we need. When the Nanticoke refinery went down in February 2007, inventory levels, without question, were at absolute rock bottom. So the impact of that refinery going down was huge. If inventories had been higher and we had known that, the impact would have been less.

Hon. Dan McTeague: We know on the infrastructure side that Ontario gets a bit of a benefit because of the presence of one very small independent player in the Montreal-Quebec region. I believe it's Norcan. Without them, I'm sure the prices would be a little higher.

Can you explain to us here why it is that with refinery margins of 25.7¢ a litre and with $10 billion a year—using Natural Resources Canada's own findings of 41 billion litres of gasoline sold every year—we don't see competition coming into this business to challenge those fat-loaded margins? Why oh why does it not happen in this industry? Why are there no new competitors coming into this industry to challenge those margins to give consumers the benefit?

Mrs. Jane Savage: There are two main reasons.

In the short term, product should be flooding into Ontario and the Prairies right now, and certainly should have been during that fuel shortage. But there are some restrictions on the ability to get product in, not just because it's landlocked and we can't get the large product ships in, but also because pipelines are totally controlled in this country by refiners, unlike in the United States.

In the longer term, and my second reason—which should really be asked of the refiners—is the economics of building a new refinery. That is a longer-term question. It certainly is an expensive endeavour, without question. I think they have very, very conservative economics, saying that they need to see these huge profits for a long time before they will put that kind of money into the business.

● (1605)

Hon. Dan McTeague: It went from 6¢ to 10¢ and, Mr. Quintal suggested, to 25¢, and it could be $1 and you'd still fundamentally have the same infrastructure problems of refineries being controlled by a handful of refiners. In fact, if I understand you well, no one is going to take those risks.

Natural Resources Canada and the Competition Bureau seem to sit on their laurels, content with the comparisons they're making—which, I see, the Ontario government uses as well—between Toronto and Buffalo; Montreal and Burlington; and Bangor, Maine, and the entire production in the Maritimes, and so on, right across the country. Are you satisfied that is a fair and honest comparison, or is it simply playing the consumer, as we've seen in the past?

Mrs. Jane Savage: I don't think it's a fair comparison. As an example, because of the specification issue and the fact that we could not import gasoline into Ontario during the fuel shortage, there was a 12¢ a litre discrepancy—which is huge in our industry—between the Toronto rack and the Detroit rack. That differential should be about a penny a litre, and it never is a penny a litre.

So there are some structural issues. Again, it's a supplier's market—a supplier's market. Basically, the price at the wholesale level is set based on the highest level the market will bear. That is significantly higher than in the adjoining U.S. states.

The Chair: Thank you, Mr. McTeague.

We'll go to Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle: Ladies and gentlemen, good afternoon. Thank you for being with us today.

We are meeting this afternoon because consumers are concerned. All of us are trying to understand what kind of action can be taken. This is a market where competition is not working particularly well, since we are seeing very significant price fluctuations.

Ms. Marcotte, these increases are a result of higher crude oil prices and refinery margins. I would like to focus on refinery margins. It seems that the refining cost is between 2.5¢ and 4¢ a litre. Your association had already stated that a refinery margin deemed to be adequate, in order to make a good profit, was between 4¢ and 6¢ a litre. However, in 2007, it was 28¢ a litre, which is five to seven times too much.

What kind of solutions could be considered? Is decreased refining capacity having an effect? We noted that the number of refineries has dropped considerably. Is that the real issue? What can we do to resolve it?

Ms. Sonia Marcotte: It's important to understand the price dynamic and how prices are set. First of all, in terms of prices at the pump, we all know that the crude sector is important. We know that the price of crude oil has increased steadily for a number of months now, and even a number of years. The same applies to refinery margins.

However, retail margins in Montreal, for example, have remained relatively constant, at between 4¢ and 6¢. Indeed, we have a document here that you can take a look at, if you're interested. We are seeing that the price of crude oil has increased, that refinery margins have increased, and yet, retail margins have remained stable.

Why have refinery margins increased to such an extent? Well, it's important to look at what is going on in the United States. Prices set in Montreal reflect what is occurring in the United States. And, prices are set on the basis of what is going on there. Back in 1981, for example, in the United States, there were 189 companies operating 324 refineries, while in 2005, there were only 55 companies left and 148 refineries.

So, it is clear that market concentration has occurred. And, if we took an even closer look, we would see that the 15 largest companies in the United State control 85.3 per cent of the refining capacity. That concentration has a direct impact on refinery margins.

The fact is that an artificial shortage is being created because inventories of petroleum products are kept at very low levels—just enough to meet demand, but extremely tight in terms of supply. As soon as something happens, margins shoot up.

● (1610)

Ms. Paule Brunelle: We were told this week, no later than on Monday, that there were fewer refineries, but that they are more efficient. I have a hard time believing they could be more efficient, given what we are experiencing these days.

Ms. Sonia Marcotte: Indeed, if they were truly more efficient, prices would normally go down, rather than shoot up. That is really the result of the small number of players in the industry, of the fact that concentration that has occurred and that they are able to maintain very small inventories of petroleum products—just enough to meet demand, but not enough to respond to unforeseen events.

Ms. Paule Brunelle: Mr. Crevier, you suggested in your paper that one solution might be to build new refineries, which would guarantee supply—something that is always a concern—and bring down prices.

But, what kind of action do you see the government taking in order for that to occur?

Mr. Pierre Crevier (President, Les Pétroles Crevier and member of the AQUIP's Economic Affairs Committee, Association québécoise des indépendants du pétrole): The government can certainly take action to reassure investors that the major companies—the ones that are already there—will not be allowed to pressure new players getting into the market. They could also reassure producing countries that they will be in a position to guarantee crude oil supply and that local governments will assist investors in setting up new refineries.

Ms. Paule Brunelle: Mr. Quintal, you talked about more forceful political intervention. Do you have suggestions to make in terms of the kind of force that would be needed?

Mr. Frédéric Quintal: The first oil shock occurred in 1973, at a time when the government was perhaps more courageous, in terms of taking authoritarian action, such as freezing oil prices. In 2007, given globalization and company strength, it would probably be going too far to think in those terms, but some producing countries do just that.

At one extreme, we have Venezuela. Mr. Chavez may be selling gasoline at a price which is too far below the market price—at 12¢ US a gallon, based on 2005 data, which is about 3¢ or 4¢ a litre. However, there are also other producing countries where government-owned corporations sell gasoline to the population at below market prices, and despite that, they do a good business.

If what Hydro-Québec is doing with kilowatt-hours allows it to be profitable to a certain extent, why would that not work with petroleum products? The kilowatt-hour is quoted on the Nymex Exchange in the United States and it fluctuates on a daily basis, whereas in Canada, the price is regulated and companies are still able to make healthy profits.

It is really only a matter of finding a happy medium between the two and perhaps reconsidering the Free Trade Agreement, which the U.S. did not hesitate to set aside when it came to softwood lumber. They dragged their feet on that issue for three and a half years. Why couldn't Canada do the same thing with petroleum products and also reconsider the infamous clause?

[*English*]

The Chair: *Merci.*

We'll go now to Mr. Van Kesteren.

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

Thank you, witnesses, for appearing with us today.

This study is actually somewhat frustrating. I say it's frustrating, and I said the last time—and I want to clarify it a little—that it's kind of like UFOs: everybody believes they're there, but the governments keep telling us they're not. It's the same thing with gas prices.

As we investigate more and more, we have some pretty good explanations for why gas prices are the way they are. When I look at the Toronto Stock Exchange, at last count I see that Shell and Imperial—and I guess they're owned by Exxon and all these others—are still trading; so you can still buy stocks, and they're still reporting back to stockholders. I'm not saying this is my take, but I'm really starting to form somewhat of an opinion. It seems to me these people have just gotten smart and have decided to stop blowing their brains out and have their refineries produce at near capacity. Keep the supplies tight, and as a result, they really don't have to worry too much about glut and subsequent dumping on the markets.

But isn't that just smart business? Is there anything illegal?

You're nodding. Maybe Mr. Quintal would like to make a comment on it afterwards.

Is there anything illegal about that?

● (1615)

[*Translation*]

Mr. Frédéric Quintal: No, the current system fully complies with market rules. There is no problem in that regard. However, the warning contained in the O'Farrell report which, in the fall of 2005, made it clear to the government that Esso's system of publishing the price of its refined products ran the risk of reducing, and possibly even eliminating, competition in the refining sector, was a serious one. Those recommendations were not acknowledged at the time. Now we are suffering the full consequences of that.

Even at the time, the then Minister of Natural Resources, Ms. Pat Carney, was still talking about the price of oil and gasoline in the newspapers. As I already explained, the advent of the new system of publishing the prices of refined products introduced a new element: the refinery margin. That margin did not fluctuate at that time, but began to do so to a considerable degree in 1999, when demand grew and exceeded capacity.

There is some competition when it comes to refining capacity. So, how is it that at a parliamentary committee in Quebec City, some three years ago, Mr. Perez, of the Canadian Petroleum Products Institute, and Mr. Montreuil representing Quebec, stated that a production level below 85 per cent meant a refinery was not profitable, and that in order to make a minimal level of profit, production had to be at about 93 per cent? Suddenly, in April of 2007, approximately six weeks ago, we noted that refining capacity is now 88 per cent. It is no longer 93 per cent, and companies are still making very healthy profits.

[*English*]

Mr. Dave Van Kesteren: I understand that, and I agree with that, but isn't that smart business? I guess you've answered my question, but still, what's stopping a group of people, investors, getting together and building a refinery and introducing some more competition? That's what we're all about. It's free market, it's free enterprise. The stakes obviously are high; there are great profit margins here.

Why aren't we seeing that?

Mrs. Jane Savage: Sure. It's a good question, and members of our association certainly would look at that, like others in Ontario, just to use that example. More product could come into Ontario, for example. we twinned the pipeline, built a new terminal in Toronto, and those sorts of things. This takes enormous amounts of money. The rack price, as an example, in Toronto is at a level higher than other rack prices in the United States, but, one could argue, not high enough to attract more supply into the.... And again, to your point, that's how business works.

It's important for you and other parliamentarians to understand, though, that the free market works extremely well when there are a lot of competitors. The fluid of competition is the number of competitors.

Mr. Dave Van Kesteren: So that's part of the problem; we just don't have enough. And they've done a pretty good job at reducing competition, which is smart business, which is good for their investors, and you and I can both invest in that.

I have just a final question. I think I have time for one more.

It has been suggested, and we had the competition commissioner, Ms. Scott, mention at our committee on Monday that prices in some regulated markets are actually slightly higher than prices in non-regulated. Do you agree with the commissioner's observation, and if not, do you have evidence to support the opposite view?

The Chair: You have 30 seconds, Ms. Savage. I think Ms. Marcotte wanted to speak.

Mrs. Jane Savage: Thank you.

If we use Michael J. Ervin data, which are the data that are generally used on the Natural Resources website, statistically there is no difference between regulated markets and unregulated markets. Those who are pro-regulation will cut the data to look like it is better to have a regulated market. Those who are against regulated markets will cut the data differently. If you look over a long period of time, using Mr. Ervin's data, there is no significant difference in the price, so I would disagree with Ms. Scott.

The Chair: Ms. Marcotte.

[*Translation*]

Ms. Sonia Marcotte: Prices in Quebec are regulated; there is a floor price. If you take Mr. Irvine's data and raw data, and if you take the price of gas at the pump and remove the taxes—because they vary from province to the next… if you compare prices in Quebec to those in the Atlantic region, Ontario and Western Canada, you will see that Quebec has the lowest before-tax prices. I believe Ms. Savage would agree with me on that.

A number of factors are responsible for the current situation. First of all, Quebec has a diversity of retail companies operating because of the fact that there is a large number of independents. We also have an independent importer who, in a way, acts as a sort of watchdog with the refineries.

Quebec has regulations, but it also has some of the best prices in Canada.

● (1620)

[*English*]

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

We'll go to Mr. Masse.

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

I want to start by looking at the concept of a world market, and it actually is a business model that's a free capitalist market. I just heard from Mr. Van Kesteren on this. You have, in this market here, a number of different state companies that set public policy that affect how much they extract. You have OPEC, which is a political body, essentially, that a number of American presidents have either made explicit requests to or rattled the sword, so to speak, to have them contribute more volumes onto the market, sometimes even fewer volumes. As well, the United States has a strategic petroleum reserve, which they've already drawn on, I believe, two times to try to influence the sale of gasoline to be lower. There's debate as to whether that has been successful or not, but they also have increased their capacity now to a billion barrels of refined capacity.

My question to start off is, given all these factors that are out there, where is the accountability that eventually consumers can go back to if there isn't a public policy related to this? I really believe that different governments can set target zones and so forth. Is that happening out there with other countries, and is it affecting the overall world market by government policies related to extraction and refinement?

Mrs. Jane Savage: I can't speak for the refining side of the industry; I speak for the independent marketers. I completely agree with you that there is no accountability in Canada and very little, although more, in our neighbour the United States. I would also agree with you that on a world scale, there is intervention in the free market, OPEC being the largest example of that—strategic petroleum reserve probably to a lesser extent, but certainly OPEC. So there isn't a completely free market worldwide, but generally speaking, the price of fuel we adopt here in Canada, which is for example the New York Harbor price, is for a freely traded commodity per se.

Mr. Brian Masse: The point is that there's public policy in different countries to protect consumers, or they just set what their objectives are, whether it's stability of price or whether it's lower pricing and so forth.

I note your recommendation, Ms. Savage—and this is open to the other panellists as well. Would it be in Canada's interest to mandate a certain amount of refinement that has to happen in this country that would bring forward some stability in terms of capacity that's online and available to us? The United States has spent billions of dollars to create the reserve funds they have. That would be extremely costly, and there would be environmental issues as well. It's significant for a country to go that route. Why not mandate a certain percentage of refinement of our own natural resources so we have value-added jobs and stock on hand before it disappears to some other country to do that job we should be having done in Canada?

Mrs. Jane Savage: Rather than mandating a certain amount of refining capacity or refinement of our own crude oil, I think the level of intervention we would like to see is one that would address the accountability issue. We could go further if necessary, but I would say the first step, as a minimum, is to understand where inventories are, because that is where the rubber hits the road. Without a knowledge of the industry by consumers and their representatives, there is no understanding at all of what is happening out there and when we're going to be hit with a price spike or a shortage. So that's as a minimum.

You can go further than that. You can mandate minimum operating inventories. You can say they can't go below that, and if they do, you have to take action. That would be a more interventionist step, for example.

You could go even further. Various steps increase the level of intervention, but I would say, as a minimum, knowing what inventories are is a relatively straightforward approach, we think.

● (1625)

Mr. Brian Masse: Are there any other comments?

[*Translation*]

Mr. Pierre Crevier: There is no doubt that inventory control is very important. As was stated earlier, inventories were really low in the month of February, when the Nanticoke refinery shut down. The same thing occurred in Quebec in 2004, when the Petro-Canada refinery shut down right in the middle of January. Refiners always wait until the last minute to advise people that their refinery has been experiencing problems for one, two or three weeks. As a result, inventories drop. I think there needs to be regular control of inventories and that all refineries should be forced to keep a minimum inventory.

[*English*]

Mr. Brian Masse: Would it also be of advantage to Canadians to have standards on gasoline similar to that of the United States? Say, for example in the auto industry, we have safety standards that are to be compliant and match up with the United States, and they actively work in transport to do that. What if those types of standards were placed so we had some common expectations with the United States about petroleum products? That would open up the issue that you addressed with regard to the other states' markets.

Mrs. Jane Savage: Yes, absolutely. I would go as far as saying there's a level of irresponsibility by not having that. I think it's reprehensible that we don't have consistent, or at least the ability for consistent specifications with our bordering states.

Mr. Brian Masse: Is our gas generally dirtier and worse than—

Mrs. Jane Savage: No, absolutely not. The specification is the same on sulphur, which is a very critical specification for gasoline. It's the same specification. It only varies in the administration, so during the fuel shortage we found that when we went to the tank to get the fuel, it was of a different quality from what we needed in Canada. It would not harm the environment one bit if we had the ability to waive our gasoline specification to allow that importation.

The Chair: Okay, thank you.

Thank you, Mr. Masse.

We'll go to Mr. Byrne.

Hon. Gerry Byrne: Thank you very much for your presentation.

In terms of the case study, the examples of gas price regulation at the provincial level, if the intention were to reduce gas prices, the evidence doesn't seem to substantiate that, but from your point of view, are there merits to provincial gas price regulation for the consumer?

Mrs. Jane Savage: I've recently undertaken a study of the four Atlantic provinces that have regulated, and every province, including Quebec, has a different form of regulation with different purposes. From my research, I would say that none of the provinces undertook regulation with the intent of lowering gas prices. The intent, by and large, generally was to enhance competition in the retail markets by ensuring a certain margin at the retail level. Quebec would be an example of that. It would be to stabilize prices to a certain level, rather than, for example, Toronto six months ago having 12 price changes a day. So stabilization was an objective in the five provinces that have regulated.

Also, there's transparency, so that when consumers fill up their gas tanks—for some people anyway—there's more comfort that the price was set by a transparent mechanism as opposed to refiners or oil companies. In some provinces, the benefit is, again, transparency for regions. We sometimes see extreme differences in prices between regions. Let's say in an urban market, prices might be much lower than in a rural market, or a far-away market. Those constituents who are in distant markets find it galling that there is such a price difference.

Those are the things that regulation tends to address.

● (1630)

Hon. Gerry Byrne: The margins at the retail sector are relatively low in comparison to the other two processes that occur, the crude oil price and the refining price. There is a certain concern that gas price regulation for the effect of lowering prices could inhibit retail competition significantly. If we're involved in gas price regulation, is there any circumstance in which refining price regulation would be warranted?

Mrs. Jane Savage: Regulating the wholesale price of gasoline, in other words. There is some intervention there that's possible, I would say. The big danger of regulating at the wholesale level...perhaps you recall electricity regulation in California. Intervention has to be done extremely carefully when you're regulating the price of a commodity; otherwise you will interrupt supply. If, for example, the wholesale price of gasoline in Canada were limited, say, by 10¢ a litre lower than New York or whatever, refiners in Canada, in this free market, would export all their product, unless you again force them—another degree of intervention—to sell fuel in Canada.

All the gophers have to be hit on the head, if you will, if you intervene in one spot.

Hon. Gerry Byrne: Ms. Savage, if I'm understanding you correctly, what you're really suggesting is that the answer to this may be to have more independent refineries supplying gasoline to the independents.

Mrs. Jane Savage: Independent or not, we need more supply. It would certainly help if we had more suppliers, because that implies more competition. So more supply, more competition, more ability, more infrastructure. If those things can happen, more supply can come in.

Hon. Gerry Byrne: One of the key factors of why there's not a greater supply is infrastructure-based pipeline ownership, and that's a real key concern.

Mrs. Jane Savage: It is.

Hon. Gerry Byrne: And that can be policy based.

Mrs. Jane Savage: I would leave that to National Energy Board, for example, to research. I think there are ways that we can have a percentage of the pipeline capacity available to non-owners of that pipeline, as an example, and not upset the market. In fact, it would help the market.

The Chair: Mr. Byrne, Mr. Blouin wanted to comment on your question.

[*Translation*]

Mr. René Blouin (Senior Advisor, Association québécoise des indépendants du pétrole): I would just like to add to that answer by saying that what protects consumers best is the presence of competition. The reason Quebec intervened in the retail petroleum products sector was the major crisis in 1996, when gas was being sold for 35¢ at the pump and for 56¢ at the refinery, to anyone who wanted to take his truck over to buy a litre of gas.

It was absolutely ridiculous. Under those conditions, it was clear that in the coming months, all the independents would be driven from the market. Why did the government intervene? Well, to ensure that a reasonably large number of businesses would continue to operate in the retail sector, so that there would continue to be competition.

Looking at this 10 years later, it is clear this strategy worked — first of all, because the independent sector has stayed strong, and also because we still have an independent importer who is able to keep refinery prices at a level similar to the one in New York. Furthermore, when all is said and done, prices in Quebec excluding taxes, as Ms. Marcotte pointed out, are lower than in any other region of Canada. We believe that modest regulatory action in Quebec has yielded good results. The system can still be improved, obviously, but it has yielded good results.

[*English*]

The Chair: Thank you, Mr. Byrne.

We'll go to Mr. Carrie, please.

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

My question is to Madame Savage, if she doesn't mind.

You say that if we had more refining capacity, more refiners, and more companies, the refining margin would come down. We'd have greater competition, therefore cheaper gas prices. Is that your point?

● (1635)

Mrs. Jane Savage: Yes.

Mr. Colin Carrie: In the States they have more refineries and more competition. Do you find that they have lower refining margins and lower prices?

Mrs. Jane Savage: The cost of crude plus the refining margin gives you the wholesale price. Wholesale prices in Canada are higher than in the United States.

Mr. Colin Carrie: Are they significantly higher? I'm looking at some statistics, and I'd like you to provide us with the statistics you're using. You mentioned Ervin. I have statistics that show the current refining margin in Canada is 22.1¢, and in the States it's 25.4¢, so Canada is a little lower. For the year to date it shows 16.2¢ versus 15.6¢ in the States, so we're a little bit higher. But it doesn't account for the large difference we're talking about here.

Do you have different statistics that show a major wholesale difference? Can you provide that to us?

Mrs. Jane Savage: I certainly can. I can't comment on your numbers, because they're not corroborating with my numbers.

Mr. Colin Carrie: They vary all the time, right?

Mrs. Jane Savage: Absolutely.

On wholesale rack prices, I can absolutely provide you with those data.

Mr. Colin Carrie: We had Natural Resources here, and they handed out a chart to all the parliamentarians. They showed us the prices, excluding taxes, of different countries in the world. It showed a 0.4¢ difference between Canada and the United States, with the Americans being 0.4¢ less.

Do you know how we would account for that?

Mrs. Jane Savage: Those are retail prices?

Mr. Colin Carrie: It says they are international gasoline prices.

Mrs. Jane Savage: So they're probably retail prices generally.

Mr. Colin Carrie: They are prices excluding taxes and pump prices—my apologies. The pump price does vary, but the price excluding taxes—crude, refining, and everything—is down about here consistently.

Mrs. Jane Savage: Your chart shows a flat line across those different countries.

Mr. Colin Carrie: Yes. It shows it for Canada, U.S., Italy, France, U.K., Spain, and Germany.

Mrs. Jane Savage: When I'm talking about wholesale price differences between Canada and the U.S., what I'm talking about is pennies a litre. We're not suggesting that Canada's wholesale prices are 30¢ a litre higher than those in the United States. They're not; they're within 6¢ to 8¢ a litre of prices in the United States.

Here's the question for you as a parliamentarian: does 6¢, 7¢, or 8¢ a litre matter? When it comes to talking to consumers about it, I suggest it does. But that's my opinion.

Mr. Colin Carrie: I think if you asked anybody they would agree with your opinion as well—and the majority of parliamentarians. I'm just curious to know the difference. I want to see your statistics on that so we can clarify the data.

Mrs. Jane Savage: Sure.

Mr. Colin Carrie: I'll ask this to the panel. What would be an excessive amount of profit? How would you calculate it? Where do you think legislation would be appropriate?

The Chair: Mrs. Savage.

Mrs. Jane Savage: Do you mean what would be an excessive level of profit for the refineries?

Mr. Colin Carrie: How would you judge that?

Mrs. Jane Savage: It's interesting that you say “excessive”. Maybe Sonia can answer this. I don't think making money is evil, but there is a level of profit that....

The main thing here is that consumers understand where the profit is being made. Our members, the retailers, are often assigned that blame, and it's not retailers who are making the money; refiners are making the money.

I'll turn it over to Sonia.

The Chair: You have about 30 seconds.

Ms. Marcotte.

[*Translation*]

Ms. Sonia Marcotte: Take a look at the financial reports issued by the major oil companies, for example: in 1999, refinery profit margins were about 5¢ or 6¢. They were already making money back then with those kinds of margins. So, one can assume that 5¢ or 6¢ is a reasonable profit. However, it is when that starts to rise that profits become excessive and, right now, profit margins were about 25.7¢ in May. I believe that can certainly be deemed excessive.

● (1640)

[*English*]

Mr. Colin Carrie: If you have government regulations that cause increased refining or—

The Chair: We're over time here, Mr. Carrie. I apologize.

Mr. Colin Carrie: Okay.

Thank you very much.

The Chair: We'll go to Monsieur Vincent.

[*Translation*]

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

Ms. Marcotte, a little earlier, you quoted global data showing that there were 189 firms that own 324 refineries. In 2005, there were 55 firms and only 148 refineries. Do you have data for Canada?

Ms. Sonia Marcotte: In Canada, I believe the number went from 44 to 17 refineries. It's very similar, in terms of the proportion, to what there is in the United States, because the data you referred to are U.S. data.

Mr. Robert Vincent: Do you believe that the 17 remaining refineries are more efficient, in terms of their refining capacity?

Ms. Sonia Marcotte: I haven't looked at that. It is quite possible that production levels per refinery are higher, but if they claim to be more efficient, that should normally bring the costs down, rather than the opposite. What we're really talking about here is market concentration, because there isn't enough competition in that market where prices are very high. It's the same thing in the United States, and that is reflected here in Canada.

Mr. Robert Vincent: Mr. Quintal, I would ask you the same question. You mentioned that refineries are operating at 88 per cent of their capacity, as opposed to 93 per cent. Do you think that this is creating artificial pressures on the consumer—in other words, by reducing the refining volume, demand is created, and as soon as an unforeseen event occurs, there is a shortage of gasoline and the price rises?

Mr. Frédéric Quintal: There is no doubt that a refinery owner who is producing, say, 100,000 barrels of oil a day and sees that he is making more and more profit by maintaining a stable production… One may wonder why that company would really not be concerned about losing its market share if it's maintaining the same level of production and profits are going up, something which is not happening in other sectors.

We talked about the fact that there are fewer refineries. In Quebec, one of the example of that would be Ultramar, in Saint-Romuald, whose production capacity rose, over the years, from 160,000 to 200,000 barrels a day, then to 216,000 barrels a day into 2003, and increased again by 20,000 barrels. The number of refineries has decreased, but some have increased their capacity, possibly because of technological improvements. Also, on September 3, 2003, Petro-Canada announced the closure of its Oakville refinery, to avoid having to comply with the new sulphur content regulation in Canada. It gave up production of 85,000 barrels a day in exchange for a 15,000 to 20,000 barrel a day increase in production at the Montreal refinery. That represents a deficit of 65,000 barrels a day. I think it's important to remember that particular event. Petro-Canada said at the time that, in order to comply with the new sulphur content regulation, it would be looking at $250 million in conversion costs, whereas dismantling the Oakville refinery and increasing production at Petro-Canada's Montreal refinery cost the same amount of money.

Mr. Robert Vincent: What do all of you think of the Bloc Québécois' recommendations? The first is to levy a $500 million surtax on oil company profits. The second is to repeal the accelerated capital cost allowance for oil sands investment when the price of crude exceeds a threshold of between $40 and $50. The government announced that measure in its last budget, but it will only apply in three years' time. The third recommendation is to repeal the changes made in the tax system with respect to natural resources in 2003, which allow oil companies to reduce their tax liability by an extra $250 million a year. The fourth recommendation is to make the oil companies pay for any environmental damage they cause through the creation of an emission cap, coupled with a carbon tax and a permit trading system. What do you think of those recommendations that have been made to the government with respect to the oil companies?

Mr. René Blouin: My comment is that there is already abundant evidence that the oil companies can afford to pay more taxes. We see that in their annual reports, which indicate record profits year after year. You also talked about special levies that would apply to refineries. I would just like to remind you that in Quebec, there was a « budget crisis » last week. We witnessed an arm wrestling match which ended with the government deciding to add $150 million to its budget to meet the demands of the Parti Québécois, which allowed the budget to pass.

In order to fund that budget item, the government has decided to increase taxes on oil companies and banks from 9.9 to 11.9 per cent. As far as I know, there has been no hue and cry in Quebec about this and I don't think that, if the government does decide to take a little more money out of the pockets of those who have a great deal more than others, it is unlikely that many people will criticize them for being unfair.

● (1645)

Mr. Frédéric Quintal: With respect to taxes and the oil companies, in terms of what has been happening elsewhere in the world, Hugo Chavez, as part of his oil revolution in Venezuela, raised the oil royalty from 1 to 16 per cent. They talked about that in the documentary that was shown on RDI last night. Also, in Canada in recent years, as is pointed out in a report release by the Parkland Institute from 1992 to 1997, entitled “Giving away the Alberta Advantage”, while other countries maintained high oil royalties, the Klein administration discounted oil royalties to such an extent that it deprived itself of almost $3.5 billion in revenues on a yearly basis. Another example is the announcement, on September 3, 2003, of the closure of the Petro-Canada refinery in Oakville. That decision may have been retaliation — unfortunately, we can only engage in conjecture on that — but that same year, Mr. Ernie Eves' Ontario government increased the tax rate for processing companies. Why would this have been retaliation? Because the announcement of the Oakville closure was made the same day the provincial Conservatives launched their election campaign in Ontario — September 3, 2003.

The Vice-Chair (Hon. Dan McTeague): Mr. Vincent has gone over time. Mr. Bev Shipley is up next.

[*English*]

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair.

Welcome, and thank you for coming out to this interesting discussion on gas prices.

In 2003 the Competition Bureau and the chair at that time, the competition commissioner, said: “But we have never found any evidence of any kind of collusion except at a very local level, usually a bunch of stations getting together and trying to maintain the price at a certain level.” Do you believe there's collusion, and can you speak to me about whether you believe that at this time there is collusion and price gouging in the industry?

Mrs. Jane Savage: No, I don't believe there is.

[*Translation*]

Ms. Sonia Marcotte: I don't believe it was either. They don't need to talk to each other. There is only a small number of players. There are few market players and, as a result, they know full well that by keeping inventories fairly low, they will put pressure on prices. They don't need to discuss it, because it is to their advantage to limit the volumes of oil on the market.

[*English*]

Mr. Bev Shipley: Do you believe the Competition Bureau should be investigating this again, that government should be moving ahead and having another investigation into the price of gas?

[*Translation*]

Ms. Sonia Marcotte: No, I don't think so. That is not the issue.

[*English*]

Mr. Bev Shipley: You talked a little bit, Ms. Savage, in your comments about an early warning system, and I said it was an interesting talk that you had about it. Why have we not done that?

Mrs. Jane Savage: I think the genesis of the system in the United States was for defence purposes, first of all. This is a judgmental comment, but I think that in terms of fuel products the U.S. takes their security of supply extremely seriously. We in Canada, because we are a net crude oil producer, in the past have taken a fairly laid-back approach to that in comparison to the United States, but the fuel shortage has pointed out that crude oil has nothing to do with the issue; it has everything to do with refining capacity.

Mr. Bev Shipley: Do you think some of the changes over the last few years should have some change in our philosophy?

Mrs. Jane Savage: Should we in Canada have a change in philosophy? I believe we should get more intense about the issue of security of supply of petroleum products, yes.

Mr. Bev Shipley: Do you have a comment, Sonia?

[*Translation*]

Ms. Sonia Marcotte: I have nothing to add.

[*English*]

Mr. Bev Shipley: You talked about having no accountability of inventory. I think those were the words. What is the best way to get started on that? I know you touched on it earlier, but if we're going to do it, what's the best direction that you would have for us?

● (1650)

Mrs. Jane Savage: I think we need to look at the way the U.S. does it, first of all. They have regions, for example. Obviously we need to choose a lead ministry on it, and probably Natural Resources Canada is in the best position to do that, although again that's my opinion. We need to look at regions, look at where the most vulnerable regions are, and perhaps start with one region. For example, the landlocked regions, the Prairies and Ontario, would be the places to start, but I think also places like Quebec. Even though we have an independent terminal there, sometimes we have winters when the river is completely blocked with ice and we can't get ships in, so Quebec also is vulnerable, although one could argue that it is less vulnerable. You could take that approach.

Mr. Bev Shipley: If anyone else has another opinion, that would be great. I'm just trying to get some questions in, because I've only got one go here.

The Chair: You have a little over a minute left, Mr. Shipley.

Mr. Bev Shipley: Okay. I'm interested, because in business we talk about the high investment in terms of having more refining capacity, yet when I look at Mr. Quintal's figures, Esso's profits in this particular one—the refining margins—are records. They are over 100% in six years. So I'm wondering what the barrier is. It doesn't matter if it's $100 million or $50 billion if its margins are huge. If margins are large, what's the barrier, do you believe?

[*Translation*]

Mr. René Blouin: There are a number of conditions that need to be met in order to carry out such a project. First of all, you need the financial wherewithal. That is not easy to come by. Building a refinery can cost $2, $3 or as much as $4 billion. That's my first point.

The second point is that you have to have not only the ability to get it built, but also the ability to keep it operating subsequently when you are coming up against the big oil giants, whose financial resources are practically unlimited.

That's exactly the reason why, when we proposed that a new refinery be built in Quebec, we suggested that governments rely on their international relations to work with oil producing countries that are on a fairly strong financial footing and could get involved in a project such as this.

If partners such as these were willing to come on board, such a project would not only be feasible, but it would work. If we don't have solid financial partners, such as the ones I've mentioned, our fear is that once the refinery is built, it would suddenly face fierce competition and profit margins in that particular sector systematically drop for a number of years. Without really solid financial resources, the business could fail fairly quickly.

[*English*]

The Chair: I'm sorry, we're way over time here, Mr. Shipley. I apologize.

We'll go now to Mr. Masse, please.

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

One of the things we haven't talked too much about is updating the pumps themselves in terms of the retail stations and where that's going to go in the future, because we have new biofuels being introduced.

In the United States there's a program to introduce E85. In Canada here, I think there are only two stations that can actually do that, so how do we get public policy around this? What suggestions do you have, or are there any, to introduce this into the market here? If we go our current route, we can't even get refining capacity increased, let alone investment into the actual stations themselves. I think the producers have a responsibility to do that. Do you have any suggestions on how that can be done through public policy? The United States has a co-payment program that General Motors actually has been pushing as well.

Do you have any thoughts in terms of introducing that infrastructure into our country?

Mrs. Jane Savage: Not really.

Mr. Brian Masse: No, okay.

It's a huge thing. We want to get the cleaner technology on the road. We have record profits at the pump, we have record payouts to the CEOs, and we've got record payouts even to stockholders. And on one of the interesting decks that we have—and I don't have it here—when they looked at the price of crude it had doubled from 1996 to 2007. The taxes were relatively the same, but refining and marketing percentages had tripled.

We have no plan whatsoever to introduce the infrastructure necessary to cleaner technologies to the stations. Is this something, where the industry has no plan, that we have to mandate, or should we mandate it?

● (1655)

[*Translation*]

Ms. Sonia Marcotte: In fact, as regards new products such as biodiesel and biofuels, the independent distributors began marketing them long before governments asked them to. Ethanol has been for sale in Quebec for some 15 years now, and the same probably applies to Ontario. The independent distributors are the first ones to have offered it for sale. Nowadays, some independent Quebec distributors are starting to sell biodiesel, as part of a number of pilot projects. They don't just sit back and wait; they are the ones launching these projects. I guess what they need is support.

[*English*]

Mrs. Jane Savage: Just to add to that, absolutely. For example, the single E85 site in Ontario is a UPI site, which is an independent site. That particular independent has taken a big risk by putting that site in. With the price of ethanol where it is, which is high relative to gasoline, he has to charge a lot more for his E85 than he does for his conventional gasoline. So business risk is there, but diversification and marketing planning is extremely important to independents. That's why we are always on the cutting edge of biofuels.

I think your question is best directed at the refiners.

[*Translation*]

Mr. Frédéric Quintal: Let me give you an example in another area. With profits growing exponentially in the market, there has been some scientific testing with a view to developing products such as liquid hydrogen.

Several years ago in California, Shell set up a number of service stations, or added the necessary infrastructure to existing service stations, to be able to supply vehicles that run on hydrogen. Personally, I think that was a good public relations exercise, to let people know that attempts had been made to market hydrogen. The network is limited to just a few service stations. People who want to give up gasoline in favour of hydrogen unfortunately have no choice but to live in the area where those service stations happen to be. It is as though the company wanted to show its good will through this public relations exercise, but really had no intention of going any further with it.

Also, when gasolines and biofuels come onto the market, we may want to avoid the same mistake in terms of large numbers of refining formulas. California has its own formula for CARB gasoline, and the American Midwest and Illinois have their formula for producing ethanol. Formulas for determining the right sulphur content in gasoline were developed in 1999. When the sulphur content regulation came into place in 2005, we were not on the same schedule as the Americans. There was a six-month lag. So, with new, more environmental fuels coming onto the market, we will have to be careful to try and avoid ending up with too many formulas. I think we will need to look more to standard, consistent products.

[*English*]

Mr. Brian Masse: You mentioned California.

The Chair: You have just a few seconds, Mr. Masse. Quickly, please.

Mr. Brian Masse: How will their proposal to link greenhouse gas emissions and the production of oil and gasoline products affect the market? Has there been any analysis on that? I know it's just a proposal now, but what's the position of the industries with regard to that? Because that will eliminate some products in their market if it goes forward.

The Chair: Ms. Savage.

Mrs. Jane Savage: Yes, it will do that. We haven't done a lot of analysis on that yet, but certainly from an environmental point of view it's a step forward.

The Chair: Thank you, Mr. Masse.

We'll go to Mr. McTeague.

Hon. Dan McTeague: *Merci encore*. Thank you.

I want to pick up where Mr. Carrie left off with respect to the contention—and I've heard it many times—that gasoline in Canada is less expensive than the United States ex-tax. To clarify the specifications between Canadian gas, which is from coast to coast pretty much the same, and the U.S. may cost quite a considerable amount for the Government of Canada to undertake, given that there are so many qualities and specifications of gasoline. Is that correct, Mrs. Savage?

Mrs. Jane Savage: There are different specifications by state in the U.S. The one that I was addressing is sulphur in gasoline, which is consistent across both countries.

Hon. Dan McTeague: So it would be unfair for the Department of National Resources to compare Canada-U.S. prices without making that important caveat, that there are dozens of specifications in the United States.

Mrs. Jane Savage: I see what you mean. Yes, there are. We call them boutique fuels.

Hon. Dan McTeague: Let me ask if boutique fuels should cause a price increase, which should suggest why the prices in Canada ought to be much lower.

I'm concerned about data collection information. I was surprised when you said that MJ Ervin was still posting information on behalf of the Canadian government. This committee has spent a considerable amount of time suggesting that there ought to be a more transparent body, not an organization that derives most of its money from funds from major refiners and oil companies in Canada. Does it concern you that the information being supplied may not be as accurate or may not be as transparent as one would see? Do you not believe that the Canadian government itself should be involved in providing its own benchmarks, as opposed to the industry itself—that is, the eyes and ears of the Canadian industry?

● (1700)

Mrs. Jane Savage: Yes, I do. I think that's important. I think transparency is incredibly important. MJ Ervin is truly the only source right now, so I have no way of knowing if it's good or not good. But from a philosophical point of view, yes.

Hon. Dan McTeague: That makes sense. I certainly wouldn't see that in other industries.

The other day, Mr. Carrie asked a question about why there were shortages of certain types of gasoline. I saw the same on my way up from Pickering. At several Esso stations they were out of premium and mid-grade. Is there any reason why that happened, in your view? Is it due to specifications? Is it due to an outage we don't know about? Is it an inventory problem? Is it from trying to implement the new Ontario regulations with respect to ethanol?

Mrs. Jane Savage: There are some issues with the implementation of the ethanol mandate in Ontario. It's to do with a specification called read vapour pressure, RVP, which is a measure of the volatility of the gasoline. Mid-grade cannot be blended on-site with non-ethanolized premium without exceeding the RVP. Whether that's the reason for the shortage, I can't comment.

[*Translation*]

Hon. Dan McTeague: My question is for Ms. Marcotte and Mr. Blouin.

I heard today that the major oil companies' price will be 64.6¢ in Montreal tomorrow morning. Mr. Quintal may also like to comment on this, but the price on the U.S. Stock Exchange was $215.53. At a rate of exchange of $1.0661, I arrive at about 60.7¢ a litre in the U. S., which means it will be 3.9¢ higher in Montreal and 5.2¢ higher in Toronto.

How does one go about explaining to consumers that the price of products supplied here in Canada, which is determined by the market, is higher and that it is the same in every region of the country, without exception? How is it that the refineries' prices can be the same in Montreal, Toronto and Ottawa tomorrow morning? Is there no competition between these cities?

Mr. Crevier, are you able to answer that question?

Mr. Pierre Crevier: It's simply because the rack prices…

Mr. Robert Vincent: Mr. Chairman, on a point of order.

The Chair: Excuse me.

Mr. Vincent has a point of order.

Mr. Robert Vincent: Mr. Chairman, it is already 5:05 p.m. and we still have a second item on our agenda. Since we have to go and vote at 5:30 p.m., I think we should move immediately to the second item on our agenda, because we have barely a half-hour to address those two topics—that is, piracy and intellectual property. If not, we will never be able to get through them. Also, if we want to draft our report as we said we would, we will need to take the remaining 25 minutes to finalize it, because we have two or three small sections to deal with still.

So, that is my proposal. That is the point of order I wanted to raise, Mr. Chairman. We will see what other Committee members are inclined to do.

[*English*]

The Chair: Mr. McTeague has one minute left.

I have Monsieur Arthur. I wanted to ask questions. I don't need to ask questions, if that's the will of the committee, but I would like to get Mr. McTeague and Mr. Arthur. Is it the will of the committee to move to counterfeiting after Monsieur Arthur's questioning?

[*Translation*]

Mr. Robert Vincent: Mr. Chairman, I would like my point of order to be put to a vote. I asked to change the agenda so that we move immediately to the second item.

I understand your role, but the Committee is master of its agenda. It therefore has the right to take a position on my proposal. I can always make a motion and table it with the Committee; I can make a recommendation. I can do that in any number of ways.

But if we limit ourselves to that and we finish tomorrow or Thursday, then it will be done with.

[*English*]

The Chair: Monsieur Vincent, you cannot move a motion on a point of order. You raised a point of order on an issue, which I was then seeking the will of the committee on, that after Mr. McTeague has finished and the witnesses have an opportunity to respond, and after Monsieur Arthur has five minutes to ask questions, if it is the will of the committee, we would at that time move to discussion of counterfeiting. So you cannot move a motion on a point of order.

You raised an issue on a point of order, which I, as the chair, was seeking to address, saying that after Monsieur Arthur, we could then move to counterfeiting. I think, as the chair, that's the best way I can handle this.

Is that the will of the committee?

Mr. Carrie.

● (1705)

Mr. Colin Carrie: I think we have enough time that if any member who hasn't asked questions would like to—for example, Mr. Arthur and you, Mr. Chair—there would be five or ten minutes. We're still at a quarter after.

I believe the votes are at 6 o'clock instead of 5:30, aren't they?

The Chair: My understanding is that they're at 5:45.

Mr. Colin Carrie: So we should have time.

The Chair: Okay, well, I'm going to finish with Mr. McTeague. He's put a question on the floor. I'm going to allow the witnesses to answer. Then we'll allow Monsieur Arthur. I will defer my questions, and we'll go to counterfeit after Monsieur Arthur.

[*Translation*]

Hon. Dan McTeague: Mr. Chairman, I believe it's Mr. Crevier's or Mr. Blouin's turn to respond.

Mr. Pierre Crevier: If rack prices are not identical from one city to the next in Canada, the reason for that is simply that they are not in any way connected to a refinery's production costs. They are simply based on replacement cost—in other words, the highest price a refiner in a given region can fetch for the product being sold to the independents.

In Montreal, the price is lower than in Toronto, because the product comes into Montreal by boat. In Toronto, the product has to be imported by truck from the United States or from Montreal. Rack prices in Western Canada are probably even higher than in Toronto, because it costs the independents more to ship the product there. So, it has absolutely nothing to do with production costs which, as you say, should be equivalent across the country.

Hon. Dan McTeague: That's it for me, Mr. Chairman.

The Chair: Thank you, Mr. McTeague.

Mr. Arthur.

[*English*]

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): *Merci, monsieur le président.*

If you'd accept, I would be quite ready to split my time with you. I know that you have a very interesting question, Mr. Chair, so I will use only two and a half minutes.

[*Translation*]

Ms. Marcotte, at the present time, how much refined product is being imported into the Quebec market by your members?

Mr. Pierre Crevier: It's the equivalent of almost a billion litres annually.

Mr. André Arthur: And what percentage of the total volume sold in Quebec does that represent, Mr. Crevier?

Mr. Pierre Crevier: About 7 per cent.

Mr. André Arthur: Is there reason to believe that the ability to import refined product and roll it in with other products sold by Canadian companies results in downward pressure on prices?

Mr. Pierre Crevier: Yes.

Mr. André Arthur: So, just for the sake of argument, if it was possible to add 10 per cent refined products to total Canadian consumption, there would be significant downward pressure on prices for a product coming out of the refineries?

Mr. Pierre Crevier: You need to be able to redistribute it from the point of entry. As Ms. Savage was saying earlier, product distribution is also a factor.

Mr. André Arthur: I understand.

We know that, at the present time, there are barriers to the entry into Canada of Brazilian ethanol. If those barriers were to be eliminated, would that not have the effect of bringing significant downward pressure on refinery prices?

Mr. Pierre Crevier: There is a good chance it would. You're right.

Mr. André Arthur: Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Arthur.

Mr. McTeague.

[*English*]

Hon. Dan McTeague: I see no difficulty, given that we're doing very well in time, in permitting the chair to ask a question. I think we talked about a couple of things. I would encourage the chair to ask the question. I think he clearly deserves it.

The Chair: Thank you, Mr. McTeague. The trouble is, I have about 20.

First of all, I want to thank you all for coming. I want to thank you all for focusing on the refining margin, because that is where we have most of the questions, I believe.

I'll just limit it perhaps to Ms. Savage. I very much liked your presentation because it was very specific and straightforward. I'll put out a few questions. If you can answer them quickly, I'd appreciate that.

On inadequate refining capacity, my understanding is that we have 19 refineries operating at 95% capacity. The first question would be, how many refineries, ballpark, would we need to address that issue?

For the second question, you talked about too few suppliers in the wholesale market. Again, could we have an estimate on your part as to how many more suppliers we would need?

Then you talked about a very small number of refiners. Is that the same as suppliers, or are you distinguishing there?

Then in terms of inventories, how difficult is it to actually keep a system of inventories as to how much we actually have?

I have many more questions, but perhaps I could get those answered. If we could have some of that information, I believe we have to have it translated, but if we could get these recommendations from you, we will translate them into both official languages for all members.

Could you address those three questions for me?

● (1710)

Mrs. Jane Savage: On the first one—I have a good memory, but it's short—you were talking about the number of refineries and how many more we need. I'm afraid I don't have those data handy in terms of what we would need to balance supply and demand; in other words, to eliminate....

It's also very regional, I might add. There's the broad Canada question, and then there is, for example, Ontario or the Prairies, which is a different answer. Certainly, directionally, more refining capacity is necessary.

The Chair: In terms of suppliers, because I think you're distinguishing suppliers from refineries—

Mrs. Jane Savage: Right.

The Chair: —how many more would be optimum?

Mrs. Jane Savage: Well, on the number of suppliers, again, we're talking about that fluid of competition. What makes markets perfect is an infinite number of competitors. Ideally you have a huge number of suppliers, but in terms of going from a handful of refiners to double that or triple that...and I am talking about suppliers in the broader sense, not just refiners, but wholesalers, traders, independent suppliers, and so on.

The Chair: And then there's the inventory question. Is this actually difficult to track and to keep a record of?

Mrs. Jane Savage: It would take some work, no question. This is not a straightforward one-person job. I'm not suggesting it's a huge bureaucracy either. I think it's something we could accomplish quite easily.

The Chair: Thank you for that.

If there's anything further any of you would like the committee to have, please feel free to submit it to me or to the clerk, and we will ensure that all members get that.

Thank you very much for your attendance here today. I apologize for the shortened meeting, but we do have votes, I believe, in about half an hour.

So we are going to suspend the meeting for a couple of minutes. We will clear the room, and then we will go in camera for our discussion of the counterfeiting and piracy report.

Thank you for being here.

[*Proceedings continue in camera*]

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