House of Commons
CANADA

Standing Committee on Natural Resources

RNNR • NUMBER 009 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Thursday, June 15, 2006

Chair

Mr. Lee Richardson

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● (1105)

[*English*]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): We'll commence this meeting.

Thank you for being on time. We've got a full house, with perhaps one exception.

This morning we're going to be hearing, from the Canadian Petroleum Products Institute, Jack Belletrutti; from the Canadian Renewable Fuels Association, Kory Teneycke; and from Pembina, Jesse Row and Matthew Bramley. We have Alain Perez as well.

We haven't talked about an order to start, so I think we'll just go with the usual format of ten minutes for each group. You can split it up the way you want between your groups, and then we'll follow up with questions.

Why don't we start with Pembina? Would you like to kick it off?

Mr. Jesse Row (Director, Sustainable Communities Group, Pembina Institute): Actually, we had discussed it briefly, after you suggested it—

The Chair: Oh, you have talked about it? Okay.

Mr. Jesse Row: —and we were going to go third, actually. I can't recall who was going to go first.

Mr. Alain Perez (President, Canadian Petroleum Products Institute): I will.

Mr. Jesse Row: Okay, then we'll compromise. You can start.

Is that all right?

The Chair: Fine.

Go ahead.

Mr. Alain Perez: Good morning, and thank you, Mr. Chairman.

Thank you for the opportunity to present our views and answer your questions.

The Canadian Petroleum Products Institute, the CPPI, strongly supports a national policy on renewable fuels. Our primary mission is to represent the refining and marketing industry in Canada, but it must be noted that two of our members, Husky and Suncor, are our major producers and marketers of ethanol, and have been for many years. Two other members, Petro-Canada and Shell, have been, for quite some time, major shareholders in Iogen, which we believe is the Canadian and world leader in developing ethanol from biomass technology, which could be commercialized pretty soon. So we have been involved in ethanol for a while.

We also indicated our support for a national policy on December 16, I think, during the election. We issued a press release before any of the parties, particularly the Liberals and the Conservatives, issued their own statements on renewable fuels. Since then, we have been very active at the federal and provincial level in the process that is under way under the auspices of the Council of Energy Ministers in preparation for a white paper in August and then the rest of the process to build the policy.

We are also attempting to build an alliance that would involve ethanol producers, our friends from the Canadian Renewable Fuels Association, blenders, and marketers. We will try to approach consumer and environmental groups and to form an alliance that will be able to present views on this issue that cover all the aspects of what we believe should be a national policy on renewable fuels. It's a very complex subject.

Some of the issues that we believe the Canadian government needs to address are how to build in Canada a world-class competitive renewable fuels industry that will be able to compete successfully with the U.S. industry and other industries around the world; and how to create a policy framework that is respectful of existing national and international trade agreements, such as the interprovincial agreement on trade—the AIT—and NAFTA. The key reason behind our desire to see a national involvement on renewable fuels is because current provincial policies, whether in Quebec, Manitoba, or Saskatchewan, are in contravention of these treaties. You cannot blend or produce ethanol in Ontario and sell it in Saskatchewan without a huge financial handicap. So we hope those kinds of things will be part of a national policy.

The third question is how to harmonize Canadian policy with the U.S. policy in order to maintain a free flow of goods, whether it's ethanol, gasoline, or blends of ethanol and gasoline, across the border. So we maintain the North American fuels market, which has been essential, we believe, to the prosperity of the industry, but certainly for the benefit of consumers in delivering market price, low consumer prices, which is a subject we have tackled many times.

This question of harmonizing with the U.S. is going to be very difficult for the Canadian government. The U.S. started a long time ago, and even though they are supposed to be the world leaders in free markets, they have established a system where, at every level—farm subsidies, producer subsidies, blender subsidies—they have created a cascade of subsidies that are there and will not change. Harmonizing is going to be difficult, but that's more your business than mine. But if it's not harmonized, segments of the Canadian industry will be at a severe disadvantage versus those opposite. So it's something to keep in mind.

● (1110)

Finally, how do we develop and enforce quality standards for all renewable fuels, ensuring that once they're introduced they'll be accepted because they are safe and will get wide consumer acceptance?

I mentioned earlier that we want to fully cooperate with government and key stakeholders. Our policy proposals are already largely in line with the Canadian Renewable Fuels Association. They reflect the principles of harmonization, competitiveness, consumer acceptance, and support for promising technologies.

Our position has been outlined in two letters, which we attached to our brief, that were sent to Minister Strahl, then to Minister Lunn, with copies to their colleagues.

I'm going to switch to French, if you don't mind.

[*Translation*]

It's not easy to develop a national policy in the proposed timeframe, i.e. 2006, and we understand that.

Renewable fuels could help Canada to meet the demand over the next few years if this policy is developed at the same time as an effective conservation policy. These two policies could help reverse the present trend and lead to a decrease in the consumption of oil products, which we've been waiting for for a long time. However, important political issues could lead to unfortunate decisions if they are not taken into account.

The first one is that provincial governments will have very difficult choices to make. Will they give up some powers to Ottawa? Will they rather agree to harmonize their regulations with the national policy?

Finally, as far as the federal government is concerned, there is the fact that we are expected to solve all of the problems relating to renewable fuels in a few months only. Adding 5% ethanol to gasoline by 2010 would be relatively easy to do. It's a known product that works well in all vehicles and would not jeopardise their warranties. However, we believe that the federal government should resist any temptation to act precipitously about other renewable fuels, especially biodiesel. We have to be careful because there are no standards. We have to take account of the cold climate of Canada and of the facts that future consumers, especially truck drivers, do not yet accept this product.

We are convinced that those products have a future but there is still a lot to do before being able to establish some regulations.

In conclusion, may we remind you that renewable fuels will be blended and sold by us. We believe that our know-how is essential to develop a national policy. Our support is real but our concerns are just as real. We will not spare any efforts to make policy-makers aware of the challenges and opportunities of this industry.

Thank you.

● (1115)

[*English*]

The Chair: Thank you, Mr. Perez.

Mr. Kory Teneycke (Executive Director, Canadian Renewable Fuels Association): Mr. Chairman, honourable members, thank you for inviting the Canadian Renewable Fuels Association to appear before you today.

The CRFA is a non-profit organization with a mission to promote renewable transportation fuels through consumer awareness and government liaison activities.

Our membership is comprised of representatives from all levels of the ethanol and biodiesel industry, including grain and cellulose ethanol producers, biodiesel producers, fuel technology companies, and agricultural associations.

It should go without saying that we are very supportive of the government's commitment to require 5% average renewable content in gasoline and diesel fuel, such as ethanol and biodiesel, by 2010. We're also encouraged by the warmth with which this commitment has been received by various provincial and territorial governments. We believe that all levels of government—federal and provincial, from one coast to the other—are not only interested in the environmental benefits associated with blending renewable fuels; they are also interested in the economic benefits associated with producing these fuels domestically.

To this end, I'd like to make you aware of a comprehensive policy consultation process we are undertaking with our members to look at what barriers exist to the development of a vibrant renewable fuels industry in Canada, and what economic and regulatory instruments can be used to address these barriers.

Our final report is scheduled to be released on July 24, prior to the first ministers meeting in St. John's. So without prejudicing the outcome of that consultation process, I'd like to say in general that we need to have a stable economic and regulatory environment that is competitive with those found in neighbouring jurisdictions if we want to have these ethanol and biodiesel production facilities required to meet the 5% commitment built here in Canada.

This will be no small feat. Alain and CPPI correctly laid out that the United States and other countries have a big head start over our industry, and moreover, depending on how you do the calculation, the 5% requirement could be as high as three billion litres of renewable fuels. Today our annual production is only about 300 million litres, so you're talking about a tenfold increase.

Thankfully we're not starting from a standstill. A number of ethanol plants in the late stages of construction are going to be coming online to meet the ethanol requirements in Saskatchewan and Ontario, and that will take our industry to about 800 million litres by early 2007. These plants are being built not just by companies that are solely in the renewable fuel industry, but also by Suncor and Husky. They're being built not just in mandated provinces—one of the facilities is in Quebec.

So Canada is not alone in predicting such a huge growth curve for this industry. As impressive and large a number as three billion litres is, it's only a drop in the bucket in the context of the North American market, which is expected to exceed 38 billion litres by 2010. The U. S. industry has over 100 ethanol plants in operation today, with 30 more under construction. The market for ethanol in the United States, at 38 billion litres, will more than double over the next two years.

Similarly, the market for biodiesel is expected to quadruple to about two billion litres over the same period; however, that's obviously a much smaller number and a much smaller market. This provides a potentially huge, growing, and lucrative market for Canadian renewable fuel production, and not just in Canada. There's an opportunity to produce these fuels and sell them in the U.S. market as well. However, if we fail to get that competitive and stable economic and regulatory environment established, it's far more likely that you'll see Canadian grains and oilseeds shipped to U.S. facilities, and the 5% requirement met with imported renewable fuel.

It is our belief and that of our members that the 5% renewable fuel standard can be met with Canadian ethanol and biodiesel by 2010. Furthermore, we believe it can be done in a way that respects our internal and international trade agreements—as CPPI has pointed out, that is not the case in some of the provinces today—gains the support of partners in the petroleum industry as well as the automobile sector, and includes strong participation by primary agricultural producers.

● (1120)

Let me close by saying that there are great social, environmental, and economic benefits for having a vibrant renewable fuels industry in Canada, but to realize them we need to get the policy right. We're working very cooperatively with the government in helping to do that right now. We're pleased with the process and the timelines that are under way. We would be more than happy to come back after our internal consultation process is over at the end of July, to give you more details in terms of exactly what mechanisms we think would be best for achieving those ends.

Thank you very much.

The Chair: Thank you, Kory.

Now we'll go to Pembina. Who's going to begin?

Mr. Jesse Row: I'll begin.

Thank you, Mr. Chairman and honourable members of the committee.

I'd like to take you through the Pembina Institute's submission to the committee here today. We will start off with a little introduction as to what Pembina is. I guess the easy way to talk about Pembina is to say we're an environmental, non-governmental organization with our focus on energy. This is very much within the realm of the research and the work that we've been doing for over 20 years.

Our experience with renewable fuels resides in the academic field, working with companies on preparing research as to where the current status of the industry is, working within government processes, such as the Council of Energy Ministers working group on renewable fuels, as well as working with other NGOs on their perspectives on the renewable fuels industry and sharing ideas between the different groups. So we're very well plugged in on this issue, needless to say.

As far as the submission is concerned, we covered four basic areas. One is in a larger, broader environmental policy context, so I think it's appropriate to talk about renewable fuels within that context, and I'll do a bit of that here today. We do talk about how a renewable fuels policy can maximize the environmental benefits, so getting the biggest environmental bang for the buck is something we are going to focus our comments on today primarily, since our interest is on the environmental side. As well, I think it is important to mention a few words on the competition with food and future opportunities.

Looking at the larger picture, if we do some quick numbers on where the 5% renewable fuels content will get us as far as greenhouse gas emission reductions are concerned, we can see that it's actually less than half of 1% of national emissions. If you consider the fact that three provinces have already put standards in place, or are in the process of putting standards in place, that means the federal action in this area is going to be less than half of 1%. And when we consider the fact that emissions in this country have gone up 30% since 1990, I think we're very much saying that this is a drop in the bucket as far as emission reductions are concerned and where we need to be heading.

The main message here is really that renewable fuels is only one component of a larger environmental policy and greenhouse gas policy within Canada, and certainly as far as industry is concerned, we need to be seeing more building and addressing emissions from vehicles and other areas as well.

If we look at the air quality impacts of renewable fuels—we have been looking in this area and talking to other people about what the air quality impacts will be—there's a wide range of research on this subject as far as what the benefits will be. At the very least, most researchers agree that renewable fuels will not make the air quality worse than it already is, but the degree of benefit that we'll be achieving is uncertain. There is no consensus on it at this point. That's an important point to raise as well.

When we get into how to make the best environmental choices when we're talking about setting policy, we are aware that this is going to be a rather significant industry, and by setting the right policies in place we can maximize the return on investment from an environmental perspective.

Of two things that are important to note, the first would be to recognize, as far as the environmental impact is concerned, that it depends on how you produce the fuel. So it's expected that most of the fuel in the marketplace meeting that 5% demand will be starch-based ethanol that will come from wheat and corn. We know from the research out there that there's very strong agreement that if you produce ethanol from cellulose sources—wood fibres—you get a much better environmental bang for your buck, as far as the amount of emissions reduced on a per-kilometre basis. Biodiesel is another fuel that will give larger emission reductions than starch-based ethanols.

So what we're suggesting in this case is that policies are put in place in order to provide targeted support for the cellulose ethanol and the biodiesels. Unfortunately, those technologies are not as mature as for the starch ethanols, so without targeted support it's expected that they won't play a very big role in the 5% mandate that has been announced. If we want to make an impact in this area and move toward where the big environmental wins are, we need to be providing support to those in the early stages.

● (1125)

On page 4 of the submission we've outlined a number of areas in which we can provide that targeted support. The first two points really come down to providing incentives and support for the development, commercialization, and production of cellulose ethanol and biodiesel.

When we look at some examples of what policies may look like, there's certainly the ability to introduce additional credits towards a renewable fuel standard, such as they're doing in the United States. As well, you can look at production incentives, consumer tax incentives, and accelerated capital cost allowances. This is a tool that's been used quite successfully. An example is the oil sands. In order to move this industry over the years into one that is mature, they have been allowed to write off 100% of their capital cost expenses. It was basically set up to get the industry on its feet. I think it's safe to say the industry is on its feet right now, and we'd like to see mechanisms such as this be transitioned towards new emerging industry areas in order to provide the next generation of technologies.

Another item that I'd like to mention is that agricultural practices have a big impact on the life cycle of emissions and the environmental impact of producing renewable fuels. So certainly we need to be targeting policies in this area in order to ensure that the production of the feedstock is done in the most beneficial way possible.

The co-products that are produced from renewable fuels are another area where there are big environmental benefits, if you're able to use the co-products. Examples of these co-products are the animal feed and the fertilizer. By using these products you're displacing production of animal feed and fertilizer from other areas, and this is where you get a lot of emissions reduction, by displacing those other products.

With the expected increase in renewable fuels production we're expecting to see that there will be a lot more of these co-products on the market. Basically, if the market gets flooded and you're not able to move these products, all of a sudden your environmental benefits for producing these renewable fuels will decrease dramatically. We believe there needs to be some work in the area of ensuring that these markets do develop and we do see the environmental benefits from the co-products that are produced.

To spend a quick minute on the food or fuel question, this is a question that should be considered, as it is very important to this country. The one point I want to make here is that it is possible to make both food and fuel from the same piece of land. Technologies like cellulose ethanol allow you to take the non-food portion, the stalks of the corn and wheat, and produce fuel from them. By advancing these types of technologies, obviously we're getting multiple wins in this area. So potential conflicts with food production that may be foreseen in the future will become less of an issue if we transition to these new technologies.

The final point I wanted to mention was on future opportunities. Certainly, the challenge that we face regarding climate change is beyond the next five years; it is a long-term challenge. What we require at this point is deep emission reductions over the long term. What we would suggest is that we prepare for that by encouraging vehicles that are able to use high percentages of renewable fuels.

I'm sure many of you are aware of vehicles that are able to run on both 85% ethanol and gasoline. By getting these vehicles into the marketplace today we essentially start producing a market for when high-concentration fuels make it into the marketplace. If we encourage these vehicles, basically the customers will be ready by the time we're ready to put more 85% ethanol pumps in the marketplace. So certainly, policies directed towards encouraging these flexible-fuel vehicles would be beneficial.

In closing, I'd just like to reiterate that certainly a renewable fuel standard is going to bring some environmental benefits. The degree to which we get those environmental benefits will depend on the details of the policy. To date we haven't seen anything concrete on what those details will be, so it's hard to say what the overall impact will be. Certainly there's a way in which we can introduce policies that will leverage this larger investment towards the largest environmental benefit possible.

Thank you.

● (1130)

The Chair: Thank you.

Mr. Cullen—or is Mr. Tonks going to start today?

Hon. Roy Cullen (Etobicoke North, Lib.): Mr. Tonks will start today. I'm just going through this, as I arrived a bit late.

The Chair: I understand.

Mr. Alan Tonks (York South—Weston, Lib.): There isn't going to be any fist fight over that, I can assure you.

The Chair: You're finished with your duties on Bill C-2, so welcome back, Mr. Tonks.

Mr. Alan Tonks: Thank you very much, Mr. Chairman, and thank you very much to the deputants.

As you were going through your presentations, it occurred to me that we're occupying a very important window for moving in the transportation sector to a hydrogen-type technology. So the whole notion of whether we are making a massive reduction in greenhouse gases through ethanol transition has to be viewed against a whole bunch of other reduction strategies. My first reaction is that I don't think we should ever downplay the reduction, whether it's from a grain-based ethanol strategy or the Iogen technology, because it's part of a behavioural paradigm. We are looking for many tactical approaches in a whole spectrum of initiatives. And I don't think that any one deputant has been overly emphasizing that it will be one sector that's going to make the enormous contribution to the reduction in greenhouse gases. There are going to be many.

I think the committee would be interested in the biodiesel analogy that was used in a couple of the presentations. It seems that it is more problematic than the ethanol initiative. You cited, I think, Mr. Teneycke, transportation issues with the trucking industry and interprovincial legislation, and so on. Or maybe it was someone else.

Could you elaborate, generally, on why biodiesel is fettered by industry problems, as opposed to ethanol, whether it's grain-based or whatever?

● (1135)

Mr. Kory Teneycke: I'll give you a quick answer as to what I see as the difference between the two. And I think CPPI may have a slightly different perspective on some of this.

It's a much newer product in the North American context, so I think for that reason there are more questions being raised by users, be they truckers or others, who aren't as familiar with it as they are in the European market, where biodiesel has been a much larger part of the fuel mix for a longer time. Diesel fuel is different in Europe. The mix of automobiles is different in Europe. Diesel plays a much bigger role in the consumer vehicle market. So there are a number of differences.

Like any new product, there are early entrants and a bit of a curve to go through in acceptance, whether it's for biodiesel or anything else. I think the industry and consumers are working their way along that curve of increased comfort with and understanding of the fuel. There are different assessments of where on that curve we are, but I don't think it's because of anything structural in biodiesel itself. It's just a new product, so there are questions associated with it.

There are some infrastructure changes needed, as there are for ethanol, to accommodate it in a fuel mix. It would probably be much better to have Jack and Alain talk about the specifics of those things, because they're far more knowledgeable.

Mr. Alain Perez: It's probably an issue where there are nuances in the views of the CRFA and CPPI on renewable fuels. Basically we're saying we need to be cautious.

We do not believe that between now and 2010 we could have a policy that articulated set targets for biodiesel, because for one thing the people who are supposed to use it, in the policy statement we have seen, are the Canadian trucking industry, and they don't want it. They have their reasons. They are right in saying that standards are not clear yet; they're right in saying that there are issues around the cold climate that could create problems, as problems have been created in cold climates with the introduction of biodiesel.

We are suppliers of fuel. When it comes to ethanol, the car industry wants it, consumers accept it, and the product is going to be subsidized somehow in a way that will make it acceptable—either subsidized, or the consumer will pay more—but in the end it will be very competitive.

Biodiesel is very different. Furthermore, we are involved in researching what other uses there could be for biodiesel. A couple of my members, the international ones, are looking at ways to use biodiesel in their refineries as intermediary stock for some of their process units. The benefits environmentally would be the same in the end.

Why would you rush into a policy the truckers are not comfortable with, to say the least, and change the whole infrastructure of the country to deliver to trucks when potentially we could be using more of it inside the refineries? These questions are months or a year away from having a good airing.

So we're just saying be cautious about diesel. Do not include it in the same mandate. Make it as if there were two separate trucks, and for the biodiesel trucks, make it a longer period than by 2010. That's our position.

Mr. Alan Tonks: Thank you, Mr. Perez.

Thank you, Mr. Chairman.

The Chair: Thank you.

We're doing better today.

I'll ask Monsieur Cardin to proceed and to try to keep it under seven minutes as well.

● (1140)

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chair.

Good morning, gentlemen. It's a pleasure to see you.

It's obvious that there is a strong trend for biofuels in Canada at the present time among citizens, politicians, industry and even environmentalists. Obviously, I'm all in favor of protecting the environment.

Generally speaking however we know that there are still some concerns about biofuels, whether it be ethanol, biodiesel or something else.

Mr. Row has referred to the impact this could have on agriculture. There are two important levels of oil products. As we know, the price of oil is set on a global basis. It's never based on supply and demand and it always increases, which leads to significant profits.

Mr. Perez, you talked about the price of biofuels, i.e. ethanol, in the context of getting the best price possible in a competitive market within free trade. So, on the one hand, we know that oil prices are always very high and, on the other hand, we want to get to the best price possible for biofuels, among them ethanol.

Isn't there an imbalance there?

At a previous meeting, I asked if this could have a negative impact on agriculture. If people invest and the price of oil increases, the share of ethanol in the fuels mix will increase.

Mr. Row referred to the need to ensure there is some balance between feasibility, or environmental impact, and financial returns.

I would like you to try to give us an overall idea of the real impact of all this, both on agriculture and on oil companies. I suppose that the main objective of oil companies will always be to make profits and to make sure that we will keep using gasoline in the long run.

Could you give us an overall view of those components: the price of oil, the price of ethanol and all those other biofuels, and the impact on agriculture?

Mr. Alain Perez: I can talk about the price of oil and ethanol but not about the impact on agriculture, which is not my specialty. Mr. Row or Mr. Teneycke might have an opinion on that.

To tell you about the impact on oil products, let's try to simplify the issue by taking only the case of gasoline. The pricing system of gasoline on the North American continent and in Europe is well-known and is transparent. When you see the price at the pump, it's easy to understand: there is the price of oil and all the taxes and there is the wholesale price that you can find in Europe, New York City, etc.

When you blend in ethanol, you get a new product called E-10 which means it's gasoline with 10% ethanol. If our policy leads to harmonization of E-10 in Canada with other countries, there will be a global market for this product, prices will be transparent and the prices of gas and of gas-ethanol blends will probably be the same. The danger is that provincial or federal policies might create some isolated pockets in Canada that would be disconnected from this North American market because they would only be able to buy the blend within their borders. In that case, the price would be set according to local demand and I have the feeling that it would be much higher.

It is very important, when national policy is set, to be able to compare our prices to American and European prices. And, for this comparison to be done, refiners have to be able to buy their product anywhere, from Europe, Brazil, the US or Canada. That would ensure that the prices of our oil products, including those with ethanol, will be coordinated with world prices. If we establish a policy, like Saskatchewan has done, of encouraging people to buy only in Saskatchewan and to sell only what is produced there, we would probably have a different price in Saskatchewan, since people wouldn't be able to import from somewhere else, and that price would not go down. History has shown that in such a situation prices move as high as the market allows. Therefore, it is very important, as far as prices are concerned, to...

The only thing that you should put your mind to should be to make sure that we, the oil industry, will be able to buy those products from all the provinces, from the US or from anywhere else. If so, the integrity of the oil market will be maintained.

● (1145)

Mr. Serge Cardin: Is there enough time to get an answer about the impact on agriculture?

[*English*]

Mr. Kory Teneycke: I'll maybe take a stab at the agricultural component, just with a couple of quick words on the price issue.

Having open borders is going to be key to getting competitive prices. We're having a market for ethanol develop in North America with very transparent pricing. It's traded like other commodities on the Chicago Board of Trade. I think as long as the borders are open in North America, you should have a very transparent pricing system for ethanol; it's already largely developed. So I think we can protect against that.

As for agricultural producers, I would classify the benefits as falling in two different categories. One is the category of increased markets—and increased local markets—for the commodities they produce. So whether or not you are involved in an ethanol plant or directly as a primary agricultural producer, if there is one in your area—or even if there isn't, but there are just a number of them, broadly speaking, in Canada—you're going to get a lift in agricultural commodity prices, because you'll have a new market and a very large market for those primary agricultural commodities.

Most economic analyses show that within about 100 kilometres of a sort of standard 120-million-litre to 150-million-litre ethanol plant, you should get a 10¢ to 15¢ boost in local basis for your commodities. If it's corn or wheat, depending on what area you're in, that plant will raise the local commodity price for whatever the feedstock is. Everyone gets it, no matter what they're doing.

The second set of benefits would be specific to your being invested in the industry. About 40% of the plants in the U.S. are owned by primary agricultural producers. They're involved to one level or another in about 60% of the plant. These farmers are using the ethanol industry, and increasingly the biodiesel industry as it develops, as a natural hedge against the commodity they're growing. If canola prices are lower, your biodiesel plant should be more profitable, and a producer can use that as a bit of a hedge.

Value-added processing is something Canada has not done much of or done very well in the agricultural sector in the past. This is part of that story.

So larger markets for agricultural commodities, a chance to participate in those value-added businesses, and the combination of those two provide a substantial benefit to primary agricultural producers.

● (1150)

The Chair: Ms. Bell.

Ms. Catherine Bell (Vancouver Island North, NDP): Thank you, and thanks to all of you for your presentations. They're very interesting.

Mr. Christian Ouellet (Brome—Missisquoi, BQ): Maybe we could ask you to ask the witnesses to make shorter answers. They could condense their answers.

The Chair: These are hard questions.

Ms. Catherine Bell: I hope that didn't eat into my time.

I have a couple of questions. All of you talked about the need for an energy policy or strategy in Canada, and I like the fact that you're thinking long-term. We've heard from other alternative energy producers in these meetings with respect to development of a policy, and some of you said we need to get it right, which I think is very important.

I'm wondering what role the alternate fuels sector should be given in the development of that policy. In that framework, could you touch on some of the things you see as important to be in a policy?

You started to touch on it in the last question, with open borders. I'm wondering how we achieve that. Mr. Perez, you've talked about the subsidies the U.S. has for their production incentive, and I'm wondering how we achieve this open border situation in light of that. What are we going to need to do?

Also, with regard to investments—some of you mentioned investments—there are subsidies for other energy producers in this country, specifically oil and gas, in the form of investment credits. I'm wondering, if you had the same kinds of things, how they would help the industry. And what kinds of research and development incentives are needed, or are any research and development incentives needed, or have there been some?

Mr. Kory Teneycke: Shall I take a first crack at that on the investment side?

As I mentioned, there are over 100 ethanol plants in the U.S. operating today, and 30 more in construction. In the biodiesel industry you have about a dozen large plants in the U.S. being constructed, and we have two that were recently opened in Canada.

We have within our industry a pretty good idea of what would constitute a good economic and regulatory environment to build in. What you want to be in is a jurisdiction that generates a return on investment that is competitive with that in neighbouring jurisdictions. If you're looking at doing a wheat-based ethanol plant or a canola-based biodiesel plant in western Canada, you're going to look at North Dakota and Montana versus Saskatchewan and Alberta. Your feedstock costs are going to be very similar irrespective of which side of the 49th parallel you build that plant on, and you're going to build it where you're going to get the best return.

It's no different from the auto industry, the aerospace industry, or any other non-resource industry in terms of being return-driven. Resource industries are different, obviously. You can't move the uranium in northern Saskatchewan to a tax haven: it's there and it's not moving. But you're not bound to a geographical location in the same way with a manufacturing industry such as this.

Being competitive in terms of return is very difficult. There isn't a simple answer to what that takes, because every jurisdiction is a bit different in terms of their tax policies or their labour laws. There are about 150 different factors in the equation that will generate what your return on investment is. Generally speaking, if you mirror the types of support programs that are available in the United States, which is the most important market to compare ourselves with, because it's so integrated, then you are going to be pretty competitive. I think we're realistic that the support threshold is at a number that's smaller than what exists in the U.S., but we have some advantages in terms of perhaps lower feedstock costs and other advantages.

I know this is not a simple answer, but I think you will know very quickly, based on whether people are actually announcing plants and are constructing plants, whether we've gotten the policy right. We're happy to pressure-test various ideas within our members' economic models to give you an idea whether or not it is right.

● (1155)

Mr. Alain Perez: Ms. Bell, first you have to decide who pays, the taxpayer or the consumer. That's the first critical question. If you don't match what's happening in the U.S., the Canadian industry will just not take off. If producers are not as subsidized here as they are in the U.S., U.S. prices will be lower, and we'll buy from the U.S. This is what's been happening in Ontario for many years. If the blenders do not get the same subsidies, you're going to have the Canadian producers unable to export into the U.S.

Overall, it's going to be very expensive, and who pays, taxpayers or consumers? If consumers pay, then you could probably have more flexible policies, but politically it's going to be difficult. If taxpayers pay, then I think the only way to address the policy is to look at each segment—agriculture, ethanol producers, ethanol blenders—and ensure that the prices and the costs to those segments on both sides of the border are the same.

The U.S. has started something that is very big, which they justify on security of supply. From security of supply, politically they'll digress to everything up to the war on terror. It's a paramount concern. A lot of money is being spent there, and that's something you need to consider.

Mr. Jesse Row: I think part of your question was focused on the larger renewable energy picture. If we look at that larger picture and try to develop the next generation of energy sources within this country, my short answer is that we need all of the above. We need to be providing incentives and support for research, commercialization, and production. It does need to be a comprehensive approach. If you only do one or the other, we're not going to get all the way to market maturity.

A lot of people say that in Canada we're not very good at commercializing. We lead the world in some of our technologies and research, but we don't get it into the marketplace. That happens in other jurisdictions, and the benefits go to other jurisdictions. So commercialization is one area on which we do need to focus in this country.

For some specific examples, I'll go back to the list in my opening remarks. If we're looking at the renewable fuels industry, you can see that within a standard, you can provide additional incentives to particular types of fuels that are not as mature as others.

Having biodiesel account for two litres, within the standard, for every one litre of starch-based ethanol or cellulose ethanol, you can give the same kinds of incentives: production incentives, similar to the wind power production; consumer tax incentives, such as the exemption of the road taxes on fuels; and capital cost allowance.

I would come back to the last one, since it's is a very big mechanism. Right now, in transitioning from conventional fuels, which are well established, it can provide multiple benefits to getting us the next generation of energy technologies we need.

Ms. Catherine Bell: Thank you.

The Chair: I'd like to pursue that for a second, since it's something that recurs. This question of capital cost allowances, and so on, has come up in the committee before. It's my sense that this referred more to the commercialization, building, and capital costs, as opposed to a capitalization of R and D.

When you commented, were you suggesting that incentives should be in the end product, providing an incentive to get to that point, because the product is going to be for sale or available? Or should the incentives be in R and D along the way—or both?

Mr. Jesse Row: Again, I think it's all of the above. If you provide only a production incentive, without providing any way for the capacity to be built, you'll never get to production. If you provide support for the capacity to be built, but they can't make a profit at the end point, then you're back to where you were before. I do believe it needs to be comprehensive.

● (1200)

The Chair: Kory.

Mr. Kory Teneycke: Mr. Chair, on that point, we've done some modelling on capital cost allowance. I think for our industry, it's a little different. It depends on what technology you're looking at and how high your capital costs are, versus how high your operating costs are. Some of these technologies are actually not very capital-intensive, so the actual benefit it would provide to our industry would be significantly lower than for other projects, such as an oil sands project, where capital costs may be exponentially higher.

I don't think there's a one-size-fits-all answer. It really depends on the technology platform you're looking at and how high those capital costs are for that particular type of technology.

We're looking at that question closely. Our early indications are that for ethanol and biodiesel, for more traditional methods it's a very low value. For cellulose ethanol, it may be a higher value because the capital costs are higher. But we'll be happy to provide to the committee members with some additional information.

The Chair: Thanks.

It was really a question of the kinds of companies. And it's also different when they're vertically integrated and capitalize their R and D. Then you get the capital cost allowance essentially on the R and D going in, which doesn't always apply to these guys, because there are different companies that create, invent, and....

Mr. Jesse Row: I think customizing based on the specific examples is highly appropriate.

The Chair: Mr. Harris.

Mr. Richard Harris (Cariboo—Prince George, CPC): Thank you, and thank you, presenters.

It's nice to see you again, Kory. It's been a number of years.

I have a couple of quick questions.

Obviously, you've been here visiting government before. You've laid out the needs, and you've laid out a bunch of recommendations. The benefits are evident from an environmental point of view.

How long have you been bringing this same message to government? What do you see is the most significant reason government has not acted and pushed this further down the road?

Mr. Kory Teneycke: I think the biggest change has more to do with the price of crude globally than it does with one government or another. Going into the last campaign Liberals, Conservatives, and NDP had virtually identical policies for our sector, so there's been a fairly strong consensus around some of these issues in Canada, and I think there's a very strong consensus in the United States. It may have been the only issue that Senator Kerry and President Bush actually were competing to agree on during the last campaign.

There's a political consensus, but I think there's been a shift in the economics of our industry vis-à-vis the economics of petroleum as crude. Our costs of production are tied to agricultural commodities, which have been very stable; if anything, commodity price is declining slightly over time. Crude oil, the feedstock for our gasoline and diesel fuel, has obviously had a major shift in price. How bullish you are on our industry depends on where you think crude oil prices are going to be ten years from now. Some people think they're going to be double what they are right now; some people think they'll be $35 a barrel.

To the countries that are more pessimistic in terms of what the price of oil is going to be, investing in renewables seems like a very good idea. If you are a net energy importer like the United States or China or Brazil, there are urgent national security and energy security reasons for you to invest heavily in this industry.

Globally speaking, I think that's the biggest change in terms of why we are seeing our industry in such a dramatic growth period.

Mr. Richard Harris: Different governments aside, the goal of creating an alternative fuel to help with our environment and emissions is one every government could agree on.

You've all talked about having to harmonize the regulatory environment, creating a stable economic environment, and putting incentives together. Is it based strictly on...? Is it the cart before the horse? Is the industry waiting for the profitability to become such that it's worthwhile producing this, or is the industry waiting for the government to make some changes so that they can begin to make the production of these alternative fuels more profitable? Or is it both combined?

● (1205)

Mr. Jesse Row: I'd like to provide a few thoughts on that. For me, the answer to both the questions you posed is really that there's a combination of factors, and right now we're coming to a point at which enough of them have come together that something has clicked. Kory talked about world energy prices; certainly that's a big pressure. In this country, you look regionally; we started in the prairies and realized this was something that could be very good for the farmers as well, so there's a component that's come together. If we put enough provinces together, all of a sudden folks like the petroleum retailers say that it's going to be really hard for them to make boutique fuels in all these different places, so why don't we standardize it? For me, that's another very big component to talking about this nationally: the fact that as soon as you get enough people on board, enough provinces on board, all of a sudden it makes sense to go to the full country, as opposed to letting it evolve one after another and having specialized jurisdictions.

If you put all those components together, something has clicked, and that's the reason we're talking about it today—multiple reasons.

The Chair: Alain, would you like to comment?

Mr. Alain Perez: On the economics of petroleum, once you massively invest in renewable fuels, in a sense you're betting that crude prices are going to remain very high. Nobody really knows what's going to happen. The price of crude oil today is $70. That $70 is at least $20 of speculation and fear of what could happen here and what could happen there, and probably $40 would reflect the current supply and demand tightness. It could go down or it could go up.

If you look at a world where Iran is not a threat or a perceived threat, if you look at a world where the Middle East becomes quieter, and if you look at a world where some conservation finally takes place—and I'm going to keep repeating that even if nobody asks me a question on it, because nobody talks about that, by the way—then crude oil's going to go down to $30 or $35.

If you look at a world where the threats increase, the fear factor keeps on having those effects, and no real conservation takes place, then you're going to have crude at $75 to $100. That's the range. A lot of it is within human control.

I don't know what it's going to be, but it's certain that with crude at $35, subsidization of other fuels is going to be a lot more expensive for governments or taxpayers than it would be if crude oil were at $70. But at $70, it already has inconveniences.

You have to choose the scenario for the future, and it's not easy. It's an added complexity to the policy that you're going to be defining. The policy will have to change or adjust to future petroleum prices, because the economics change completely.

The Chair: Thank you very much.

Mr. Cullen.

Hon. Roy Cullen: Thank you, Mr. Chairman.

Thank you to all the panellists for participating today.

First of all, I want to thank Pembina for the reality check on the biofuels announcement. It may do a number of things in terms of agriculture and clean air. I know I've had this discussion with Mr. Teneycke and I'm not sure he agrees with me entirely, but I think we need to understand that in terms of greenhouse gas reductions, it's not a panacea, to say the least.

I want to congratulate Pembina on the work they're doing on the oil sands too. They need to keep that up. I think we need to depoliticize that issue and deal with it as intelligent and mature Canadians.

Nonetheless, I have a question on the freeze, if that's the correct word; I know the terminology is nuanced from time to time. The freezing of the ethanol expansion program by this government, coupled with this government's statement that they want to move to biofuels and these ethanol targets, seems somewhat contradictory, in my judgment. On the one hand, let's move to a world with ethanol-based fuels, biofuels, and biodiesel, but let's freeze the ethanol expansion program.

Do you see any inconsistency in that? How would you react? Mr. Row, Mr. Teneycke, and anyone who wants to may answer.

● (1210)

Mr. Kory Teneycke: Well, maybe I'll talk about the ethanol expansion program, because it's something we're working on very closely with the government right now.

I think the ethanol expansion program was captured, along with many other government spending programs where the money hadn't actually rolled out the door, in a freeze that affected many other areas. One by one, these various programs are either getting a thumbs-up or a thumbs-down. Our understanding is that it's going to Treasury Board very shortly and the government is recommending that it proceed. We're encouraged by that. We think the money will shortly flow. If it doesn't, I would agree that it would be very inconsistent with the government's broader goals.

In terms of environmental benefits, I actually agree with the modelling the Martin government did on what the environmental benefits of a renewable fuel standard would be. There's a range of 4.5 to 5 megatonnes. Those are exactly the same numbers and the same models that this government is using.

Is an annual reduction of 4.5 to 5 megatonnes in GHGs for transportation the solution to climate change? Absolutely not. Is it a huge reduction compared to reductions that we've seen everywhere else across our economy in terms of GHG reductions? Yes, it's one of the largest.

To throw too many barbs at a 4.5 to 5 megatonne reduction would be an incomplete picture without also talking about exactly how much we have reduced GHG emissions in megatonnes. It's a big number in comparison to what else we've done.

Hon. Roy Cullen: Mr. Row, do you want to comment?

Mr. Jesse Row: I would agree with Mr. Teneycke that it is a step in the right direction, but I think the messaging we would provide around this is that there is a lot more to do. That's really the main message, that there are a lot of emissions out there that do need to be addressed that haven't been addressed yet.

To get back to your original question regarding potential inconsistency in policy, I think we've heard it many times today that if we have a renewable fuel standard without any way to ensure that some of the production occurs in Canada, likely we'll be importing all of it, and a lot of the benefits that we're going to get from a renewable fuel standard will go south of the border.

Certainly we do need to be having policies that are consistent, which maximize the benefits on the economic side, on the environmental side, and the social side as well.

Hon. Roy Cullen: Thank you.

Mr. Perez, you mentioned the need to have some common standards across Canada for interprovincial purposes and also so that Canadians can capture the benefits of looking at harmonizing what they're doing in the United States versus what we do here in interprovincial harmonization.

There was a meeting recently with the ministers where this commitment to biofuels was made. Was there any discussion, do you know, or was there any follow-on in terms of looking at harmonizing or creating uniform standards? Does that resonate with the government? Are they listening? Do they appreciate it as a problem?

We heard from the officials the other day that they understand that it's an issue and that they are working on it. Do you get the same sense that it's going to be resolved, or how is it proceeding?

Mr. Alain Perez: It's resonating, because no Canadian government is going to tell you that they want to do something that is in clear contravention with NAFTA. But at the same time I know that it's probably the most difficult subject in terms of federal-provincial relations.

If a province—not naming any—says "I want the ethanol produced in my province, using the corn grown by my farmers, and if it's not that way you're not getting any subsidies", and the subsidies are like 30¢ or 35¢ a litre, any Canadian government is going to have a fight on their hands unless they provide compensation, so we're back to how much money is going to flow from federal coffers to the various constituencies.

We think the danger there is that the kind of policy that Saskatchewan, for instance, has put forth not only creates trade issues between provinces and with NAFTA, but it creates also very small plants, which will not be competitive.

Co-op members are going to be competing with Archer Daniels Midland and with Cargill and with Suncor and with Husky, and maybe other oil companies. And the oil companies aren't going to build small plants. They're going to build plants that can be very efficient and export.

Encouraging a small farm co-op to build a small ethanol plant might make local political sense, but it's going to create long-term headaches for you. So it's resonating, but at the same time I see alarm bells going on, saying, whoops, politically difficult. And as to how you resolve that—good luck.

● (1215)

The Chair: I think we'll pick it up on the next round, Mr. Cullen.

Hon. Roy Cullen: Especially on that point, yes.

The Chair: Monsieur Ouellet.

[*Translation*]

Mr. Christian Ouellet: I believe Mr. Tonks asked a good question about incentives and the steps that would allow us to be effective in the reduction of greenhouse gases. That was where his question was leading.

You didn't talk about that but one may wonder if the results we could achieve by reducing vehicle gas consumption would be as significant. As was rightly said by Mr. Cullen, ethanol is not a panacea for the reduction of greenhouse gases, far from it.

Let's go back briefly to agriculture. Mr. Cardin asked you what could be the impact on agriculture and on food production. In my riding, grain corn is priced at $117 a ton. A few years ago, it was $180 a ton. If we start to produce ethanol a big way, what will be the price of grain corn? UPA believes that the price could go as high as $250 a ton. If they're right, this would have a huge impact on food.

So, one can't say that it couldn't have an impact on food and agriculture. It will have one, that's obvious. It will also have an impact on greenhouse gases because, the more we use wood fiber to produce ethanol, which is more effective as Mr. Row stated, the more we will cut carbon sinks since we will cut more trees. This is exactly what's happening now in Brazil where carbon is collected back on Earth.

Therefore, it's not necessarily an effective solution. One understands Brazil's position but we would have more difficulty to accept that becoming Canada's position because we already have oil. It's difficult to understand why you want big subsidies to produce ethanol instead of letting the market evolve freely.

Why you do you say that biodiesel has problems? That's what you said in your briefs. Why not ask for subsidies to set standards so that biodiesel would always be on an equal footing and the trucking industry and buses would be able to use it? Why don't we carry out serious research on cold climates and biodiesel? There's not enough money to do that. We're only doing small-scale studies.

Mr. Alain Perez: More time is needed. All I said is that 2010 is a bit too close to make a decision on biodiesel.

As far as conservation is concerned, we're not very credible in the industry when we tell people to cut down on their consumption. However, we would like that to happen, for all sorts of reasons that I could explain if you wish.

Canada is going to generate about 800 megatons of greenhouse gases or CO_2 equivalent. Here, we're only talking of 3 to 5 Mt. The automobile sector accounts for 25% of this 800 Mt. Keep this in mind: if today's vehicles were as heavy as in 1985 and if we were using engines with the same power as in 1985, we would be using 30% less gas, which represents 60 Mt.

So, we're all for a national policy on ethanol, absolutely, but why is there such a deafening silence on conservation measures when the benefits would be so obvious?

● (1220)

Mr. Christian Ouellet: We can't do one without the other. We can't choose ethanol without choosing at the same time to cut down on our consumption and to improve our energy efficiency.

Generally speaking, research is carried out by industry. Independent researchers are few and far between. You probably know Mr. Patzek who teaches at the University of California in Berkeley and who stated that, if one were to add all the activities required to produce grain corn — ground tilling, fertilizer making and spreading, pesticides made from all the molecules, harvesting, transportation, processing and distribution — taking into account the low energy efficiency of ethanol since we know that 1 litre of gas is equal to 1.5 liter of ethanol, the end result would be 6 units of energy used to produce 1 liter of ethanol. He's not saying you would need 6 L to produce 1 but 6 units of energy.

Other researchers have come to similar conclusions. Dr. Pimentel of Cornell University has concluded that you need 29% more energy to produce 1 litre of ethanol than what ethanol would give you afterwards because ethanol, which is an alcohol, is not very efficient.

What do you think of those independent studies compared to studies carried out by researchers who are more in agreement with industry?

[*English*]

Mr. Jesse Row: I think, from our research, we had exactly the same question. As an environmental organization, we want to look at it from an environmental perspective. Certainly if there's going to be no benefit to this, we don't want to be supporting it and seeing it being promoted as an environmental activity. So we did conduct our own research, and we have looked at the research of others. The large majority of the research says that there is a reduction in the life cycle of greenhouse gas emissions. I am aware of several studies that do not provide those same conclusions. For example, Dr. Pimentel is probably one of the more famous fellows who is not in favour of this. His research has been discredited by many. So at this point, as an environmental organization, we are fairly comfortable in the research that's out there and the research that we've done to say that there is a life cycle greenhouse gas benefit to this technology.

There are several environmental organizations in the United States that have taken the same approach and said we want to look at all the research and make sure we're actually promoting something that's good for the environment. They've come to the same conclusion as well.

The Chair: Thank you.

Next, could we have Mr. Allen, please?

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chairman.

I've got a couple of questions I'd like comments on. Mr. Row, you hit on it when you started to talk about "regional". When we start formulating a national policy about this, it seems like it starts in the west, and then there's the question of scale. I'm from eastern Canada, and when you start talking about these products based on agricultural products and things, we'd have to pretty well clear all our land to even have anything close to being the size and scale that it would take to get an economical ethanol plant. I understand that we're talking about somewhere in the area of 200 million to 300 million litres as the kind of target now for an economical plant.

So maybe you could share with me how some of the other smaller centres, whether they be in the U.S. or in other places in Canada, benefit economically when you consider transportation. That's the only thing you can do—transport it somewhere else when it's done—and then it's not economical any more. So how would a small centre be able to benefit from a renewable fuel strategy like this?

● (1225)

Mr. Jesse Row: Kory, you probably have better examples than I do.

Mr. Kory Teneycke: Yes, I think it's going to be very regionally specific. More of these fuels will be produced in areas closer to where their feedstocks are. So you're correct in pointing out that this is a bigger story on the prairies than it's going to be in the Maritimes. However, that's not to say that there aren't opportunities for production that are possible on a smaller scale because of the economics of various industries that are already located there. For instance, you would probably never on the prairies or in the midwest build an ethanol facility using potato waste, because you don't have as many potatoes growing there. There isn't an existing potato processing industry in Saskatchewan as there would be in P.E.I. and New Brunswick, but because there is potato processing in P.E.I. and New Brunswick, there is actually a potentially good feedstock.

Alain mentioned some of these other technologies very briefly, like Fischer-Tropsch technologies, in which you're gasifying wood fibre; or you could use a process similar to Iogen's, in which you're using enzymes to attack them. There's clearly a very vibrant forest industry in Atlantic Canada, which has generated feedstock that could be used for production of these fuels. Plus, there's also opportunity to import things like palm oil to make biodiesel. There's a company in Halifax that's making a biofuel using fish oil currently.

So there are some opportunities to do that, and the economics will be very regional, based on things that are already happening that are generating those feedstocks. So scale is important, but that's not to say that there won't be examples of smaller plants that, because of those local economics, are viable.

I think for Canada at large, this is a very good economic story. Saskatchewan doesn't have any oceans, but it does have agricultural land, so it doesn't mean supporting the fishing industry is bad for Canada just because Saskatchewan doesn't have an ocean. Having the prairie regions doing well I think is going to be good for all other parts of the country also.

Mr. Mike Allen: I'd like to have just a quick follow-up on that. My understanding is that once you get outside of corn and that type of thing and cellulose, and you get to potatoes, it is very energy-intensive to even create ethanol out of potatoes.

Mr. Kory Teneycke: Surprisingly, I don't think the issue with potatoes is so much energy intensity as it is that the starch content of potatoes is a lot lower than it is for corn and wheat. So I think it's less an issue of energy intensity and more an issue of feedstock supply and volume. It takes a lot more potatoes to make a litre of ethanol than it does corn or wheat. You need to have a lot of them available, year in and year out, in order to make that work.

That would be a risk factor associated with using potatoes. What happens if there's a bad potato crop? What happens if there's a very good potato crop, in terms of quality and the amount of waste potato that is reduced in that year? What are you going to do in terms of the feedstock for that one year in five where that might be the situation? I think that's more the issue for people who have looked at it: the risk associated with feedstock supply.

Mr. Mike Allen: Does anybody else want to comment? Go ahead.

Mr. Jesse Row: From my perspective, I actually haven't done a lot of research on the potato as a feedstock. That's primarily because it's not at the top of the list. We've been focusing very much on the big players in that game. So, no, I wouldn't have anything to add on that front.

Mr. Mike Allen: Mr. Perez, I have a quick point on one of the comments that you made before.

This is interesting. Every time you try to develop a policy, you always want to create a policy that is comprehensive enough, yet not so comprehensive that it restricts your flexibility down the road, because as you pointed out, who knows what fuel prices will be. In the world we live in right now, we can speculate that the prices won't go down in the future.

So what is that right level of detail, from your perspective? You said don't rush to get to a comprehensive strategy. At the same time, we've got to get somewhere, sooner rather than later, so how do we create something that is flexible enough for us?

Mr. Alain Perez: Thank you.

My comment about not rushing was specific to biodiesel. I said don't rush it, because instead of imposing it on the Canadian trucking industry, we believe it can be used in other ways that would provide the same benefits.

In terms of a comprehensive policy, I think you have to go back to the principles that we outlined. If you could have a policy that follows those principles, we believe it would be successful. You need to create a competitive Canadian industry. Those plants need to be able to compete with U.S. plants.

You need to create a policy that allows the free flow of product so that the market mechanism we have today stays the same. Then, you know why the price of petroleum is what it is, as opposed to, well, you know, it's a small niche market in Saskatchewan and therefore it's much higher.

So we're not saying don't rush. By 2010, we believe there could be a national policy that could provide the umbrella for a competitive free trade industry in Canada. We're sure about this for ethanol; for other fuels, we're not sure.

That's all we're saying. Give us a bit of time to try to find how other biofuels could be marketed. You don't have to pay for the research; we're doing it.

● (1230)

Mr. Jesse Row: I would like to make a comment on biodiesel, if I could.

There has been some conversation as to where the biodiesel industry is right now. There are questions as to whether it's going to be acceptable to the consumer. The trucking industry is one of the more vocal and larger consumers out there. We've actually been working with some large energy companies on the biodiesel issue and trying to figure out what the biggest market concerns are. Certainly the fuel properties and meeting the standards that are currently out there are their biggest questions.

The conclusion that we've come to—and we've been working in cooperation with these energy companies and have similar conclusions on this—is that it's the cold flow properties that are the big challenge. Their feeling is that they will be able to meet the standards for cold flow for diesel that is in the pumps right now. They'll be able to take biodiesel and meet the exact same standard they're reaching right now with diesel. That's where they need to be. That's their bottom line.

We agree with that. If you put a product out there that's not going to be successful, basically, that's not good for anybody.

The energy companies say they can do it. They just need to do a little bit of work to make sure that they can get there. Absolutely, I think this work needs to be done. I see a very bright future for biodiesel in this country, and I believe it is coming. From their perspective, they're ready to do it.

In my opinion, they're probably not going to jump in with their own two feet without some sort of signal from the government that this is the direction we're headed. So I think a signal around biodiesel needs to come in order for us to get there.

Mr. Alain Perez: I would support what has been said.

The Chair: Mr. Tonks.

Mr. Alan Tonks: Thank you, Mr. Chair.

I want to follow up on Mr. Allen's question with respect to the sustainability of regional capital investments in ethanol, be it cellulose-based, grain-based, biodiesel.... And I appreciate working toward a national strategy with respect to renewable fuels.

Yesterday or the day before we had solar and wind technology producers or investors or whatever you want to call them, and we talked about the opportunity with respect to the energy grid changing from a north-south direction to an east-west direction and what was in that for wind in terms of integration with hydro. There are lots of opportunities out there.

But the politics of all this appear to be very competitive. We have the softwood lumber issue with the United States.... Are the forces of integration in terms of capital formulation, in terms of investment incentives through NAFTA or other means—are we looking at those with respect to a continental approach? What's your take on the most recent trends in that regard? It's one thing to have a strategy paper that says it's good for Canadians; it's another thing to convince Americans from an overall consumer perspective it's also good for them.

My question to Mr. Perez is what can the committee do once this policy paper is ready? What can we do to assist you in the challenge of a more integrated, broader regime on a more competitive scale that will act as a full factor for our own more regionalized investment?

● (1235)

Mr. Alain Perez: The U.S. refining industry is very big and the Canadian refining industry is smaller, but the Canadian refining industry can produce at the same cost as the U.S. We beat them and we export, even though we're smaller. So you have an example of an industry that, albeit smaller, is not just competitive, it's better than the U.S. refining industry.

Let's project that to ethanol. First, you need to build plants of the scale that can compete with the U.S. That's pretty clear.

In terms of NAFTA, unfortunately, the U.S. started their policy long before we started discussing this here. So in this case you're going to have to adjust to what's already there. That's a fact of life. If you don't adjust your agricultural policies, these members will buy their grain in the U.S. unless you erect barriers, and you cannot, politically or by fair treaty. So it's a question of adjusting. It doesn't mean spending and matching them dollar for dollar; we can be much more creative.

Where I think Canada could have an edge is where Jesse has been making an eloquent pitch for the development of new technologies. Iogen is Canadian. Most of the work done on users of biodiesel and the energy company he's talking about are Canadian companies or Canadian affiliates. Canada has a long history of developing technologies ahead of the U.S., from the telephone on. But you have to look beyond 2010.

Let's do something for 2010. Beyond 2010, what can you do to encourage the development of Canadian technology? And with all due respect to your committee, I'm surprised the federal ministry of industry is not involved. Agriculture is involved; environment is involved; you're involved; that's totally appropriate. Where is the federal agency that is supposed to look at new technologies, competitiveness, etc? I think they should also be at the table and they should look beyond 2010. We can beat the U.S. beyond 2010. Between now and then I would suggest if you want a national policy, you need to adjust to what they've been doing so we will remain competitive.

Would you agree, Kory?

Mr. Kory Teneycke: Yes.

I'll give one illustration of what Alain's talking about. Jesse referred to it earlier as well; it is this problem with commercialization.

Many of the members of this committee have toured the facility at Iogen. It is state-of-the-art technology; it's getting press all around the world in recognition of that. The commercial development and the programs to have that first cellulose ethanol plant built are not anywhere close to being competitive with what's available to Iogen to do that in the United States. They're not even close. They're not within 100 kilometres of close.

That is a shame, because it was a Canadian-developed technology. The Canadian government invested $20 million in R and D in developing it, and just as the goose is ready to lay its first golden egg, we sell it for one dollar to the United States. All the economic benefits associated with that investment we made end up being realized in another market. Why? It's because we won't provide a loan guarantee for it, because there's some philosophical opposition to loan guarantees within the Department of Finance—and, frankly, there's very little engagement from the industry department on this issue.

I think we are about to have another example of that—not that we need a lot more to demonstrate that we have a problem with commercialization of new technologies.

There are similar challenges on biodiesel. I could go on, but I'll just use the one example for reasons of time.

● (1240)

Mr. Alan Tonks: I have a comment on that.

When we were having our hearings on environment and sustainable investments and so on, we found that we couldn't get the right players at the table. We were reaching out to see if we could have committee meetings with industry at the time. I would suggest that at some point we should have industry and finance together, to find out what their strategies are and what their disposition is towards loan guarantees.

We should be seeking out answers because there's a huge opportunity lost when you look at the competitive units of scale that are the reality within our investment community. As Mr. Perez has pointed out, this is a window of opportunity that is rather narrow in general terms, so at some future point we should be looking at that kind of a meeting.

Thank you very much, Mr. Chair.

The Chair: Thank you. Thank you for your responses.

Mr. Paradis, do you have any questions? No?

Then Mr. Trost is next, please.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): Christian and I will split our time here.

I have one very small, almost off-the-topic technical question here. Your remarks about biodiesel caught my attention. We were talking about greenhouse gases, etc., but my understanding is there's quite a push to go to low-sulphur diesel.

Mr. Alain Perez: I'm sorry, there is a...?

Mr. Bradley Trost: There's quite a push to move from high-sulphur-content diesels to low-sulphur-content diesels. Isn't that correct?

Mr. Alain Perez: This has been done; this is done.

Mr. Bradley Trost: Yes, yes, I understand.

One of the benefits, according to a technical expert I talked to, is that mixing in biodiesel is one of the better solutions for mixing in with low-sulphur diesel. Is that correct? Is that potentially...?

There's a very big difference for the trucking industry for moving to a 5% biodiesel, or are you just doing it as an additive? There are real technical differences between using it more as an additive and using it as a fuel. Would that change the approach of certain industry responses?

Mr. Alain Perez: The biodiesel would have no sulphur, because it does not come from fossil fuel. If you add that, it will lower the concentration of sulphur in diesel. That's a plus, even though it would be a very small amount. You put 2% in something that already has just 10 parts per million, because we've gone down from 500 parts per million to 10 parts per million effective June 1 of this year—so we're there.

Do you want to say a word about the technical issues around biodiesel, so it's clear in the mind that it's indeed back on sulphur?

Mr. Jack Belletrutti (Vice-President, Canadian Petroleum Products Institute): First of all, low-sulphur diesel is essentially a new product that basically starts June 1 for on-road vehicles. It hasn't been extensively tested with biodiesel, for example, so we're not exactly sure how that's going to work out. It's not the same as testing it with 500 parts per million, so it's something that lies ahead of us to test out, to make sure....

Even on its own, very low-sulphur diesel does tend to reduce the lubricity of the fuel, so we need to find out if we have to make any adjustments to make sure the low-sulphur diesel performs in the vehicles—in the trucks—to the same degree it did before.

Mr. Bradley Trost: This is a bit of a technical question. Someone made a suggestion that biodiesel would help the lubricity. John Deere evidently uses it for all of their.... So there was some talk that from a technical perspective, it might actually be better.

● (1245)

Mr. Jack Belletrutti: That's one of the pluses, but there are pluses and minuses. And the minus, the big one, was mentioned by Jesse.

Mr. Bradley Trost: Cold flow, yes.

Mr. Jack Belletrutti: It's cold flow because of Canadian conditions. And there's a significant difference between biodiesel and fossil-fuel-based diesel.

Mr. Bradley Trost: Could you give the number you're using for cold flow? I've heard all sorts of things. It's all over the board, the difference in cold flow between biodiesel and regular diesel. I've literally seen three or four different sets of numbers, and I'm not always sure what to believe.

Mr. Jack Belletrutti: The measure that's used is called cloud point, and it's in degrees Celsius.

Mr. Bradley Trost: Yes, I'm familiar with that.

Mr. Jack Belletrutti: What I have for biodiesel is anywhere from minus 3 degrees Celsius to plus 11 degrees Celsius, whereas ultra-low-sulphur diesel is between minus 1 degree Celsius and minus 47 degrees Celsius. That's really the big discrepancy.

So if you get very cold in Canada, you have a problem.

Mr. Bradley Trost: I understand the physics.

Mr. Jack Belletrutti: There are additives that one can add to the blend to counter that effect, but it's very limited, how much you can do. You can improve it by one or two degrees. That's basically the effect of additives.

That's the fundamental issue on the negative side.

The other one, quite honestly, is that the sources of biodiesel are so varied. I mean, they can come from french-fry grease, grains like canola and soy, or animal renderings, and when you turn those into biodiesel, the properties are quite a bit different.

Mr. Bradley Trost: I understand there are arguments about the European and the American...and how we should go from there.

Kory, do you want to answer the question?

Mr. Kory Teneycke: I think Jack just made the point I was going to raise. The reason there's such a variation and why you've seen different numbers is that it's very affected by what feedstock was used to make the biodiesel. And even those have their pluses and minuses. The rendered animal fats have worse cold flow properties, but higher cetane, which is also something that is of value when you're blending it. So I think it's quite possible that the type of biodiesel in demand will have some seasonal variance.

The largest plant in Canada is using a mix of tallow and canola oil. They aren't making biodiesel from just canola or just tallow; they're doing about a 50-50 mix, which gives you totally different cold flow properties and cetane numbers.

So it is very difficult to give a hard and fast answer on that because it really depends on what you're making the biodiesel out of and whether it's a blend—

Mr. Bradley Trost: But that would depend, then, on Canadian technical standards, what we'd come up with on our technical standards.

Mr. Kory Teneycke: The CGSB is looking at these issues. They have a B1 to B5 standard in place. The ASTM is looking at the cold flow issues as well. The Europeans are. It looks like the North American standards are going to tighten a bit and the European standards may loosen a bit, and we may have something that is more of a global standard.

There is lots of work being done by the petroleum industry, by our members, by other agricultural organizations like the soybean growers in the U.S., plus the standard-setting bodies that are looking at these issues. There's one thing everybody agrees on, and that is we want to make sure we have a safe fuel that works, that isn't going to cause problems. Hence, there is very close association and work with OEMs, engine manufacturers.

Mr. Alain Perez: Since we're not having the discussion on ethanol, because there are no issues there, the only point we've made and will keep on making is that we're sure we can achieve 5% ethanol by 2010. But because of these discussions, as you can see, we're far from sure that the same could be achieved for biodiesel specifically. That's our only point.

Mr. Jesse Row: I just want to make one quick point on the numbers we've heard, the minus 1 °C to minus 47°C for the diesel in Canada. That varies, depending on the season and where you are. In most of the country, obviously, you're going to have a higher number in the summertime and a lower number in the wintertime. So most of the country doesn't need to get down to the minus 47°C, but I believe minus 30°C is the number I've heard in the research we've done. So in the range we're trying to deal with, in the majority of the country, the gap isn't quite as big as the numbers had indicated previously.

The other point we should keep in mind is that if you're blending 5% into the fuel mix, then obviously you don't need to overcome that gap with 100% of the fuel. You're able to do it with a smaller contingent of it.

So these are all the issues we did work on with the energy company I had mentioned, and certainly they are confident that they will be able to overcome that gap.

Right now, what systems are in place? What systems do we need to put in place to make sure that we have a high guarantee? When we talk about producing biodiesel, it's not the guy in his garage we're talking about. It's these large-scale plants.

Right now, the plants that are out there test every batch that comes out. They know exactly what's coming out, the standards that are coming out. We're not going to see the range in the literature. The literature just basically says this is what people are making right now. But when you go and buy biodiesel, you're going to know exactly what those properties are. So assuring that it's mixed properly is probably the biggest question out there at this point.

● (1250)

Mr. Jack Belletrutti: I have a paper here that provides a chart you could look at. It basically shows, as you add more and more biodiesel, how that affects cloud point and what the effect of some additives could be. I'd be quite happy to leave that behind, if you want to have that.

The Chair: When you look at it, Mr. Trost, perhaps you'd be kind enough to explain it to the rest of us.

We do have some housekeeping matters on the agenda. We have a notice of motion before the committee. So I'm going to have to wrap it up now to get to that before one o'clock.

Thank you very much. That was fascinating and very helpful. In addition, I'd like to perhaps put you on notice that we may like to have you back in the fall. It sounds to me that there is some interest in this matter and we may want to pursue it further. So thank you very much for this time, and in anticipation of future meetings.

We have a notice of motion before the committee. It has been circulated, but I'm asking that it be circulated again.

To begin this final portion of the meeting, I'll ask Ms. Bell to move the motion.

Ms. Catherine Bell: I guess I'll just move it and then talk about it afterwards.

The motion is as follows:

> That witnesses be given 10 minutes for their opening statement; that, at the discretion of the Chair, during the questioning of witnesses, there be allocated as follows:
>
> Round 1 (7 minutes): Liberal Party, Bloc Québécois, New Democratic Party, Conservative Party;
>
> Round 2 (5 minutes): Liberal Party, Bloc Québécois, New Democratic Party, Conservative Party.

The Chair: I think you all have the motion in front of you. This has arisen because we have given some latitude to questions in the last while; it kind of got a bit out of hand and the questions got a little longer, so it resulted in us not getting around.

I have also asked the clerk to distribute the original motion, for your information. This was one we had some considerable debate on at the first meetings.

The current system we are operating on, if we would stick to it, gives every member an opportunity to ask a five-minute question. That is based on the makeup of the committee and the makeup of the House. It would coincidentally give every member a five-minute question should we get to the fourth round.

We haven't gotten to the fourth round, and that has precluded the opportunity for the Bloc to have a third question and the NDP to have a second question, because in the earlier rounds we just took too much time.

As chairman, I apologize for that, because we have allowed a little more latitude to these people, but my sense is that if we did stick to the original program, we could actually get everybody in.

Be that as it may, you have that information. There is a motion in front of you, and now I will ask for any debate.

Did you want to discuss it further, Ms. Bell?

● (1255)

Ms. Catherine Bell: Thank you.

The issue came up from the clerk, I believe, and was circulated. I've substituted for other members on other committees, and what I'm proposing in the motion is consistent with other committees—the seven minutes and five minutes.

As much as I appreciate the latitude of the chair in allowing debate and discussion longer than five minutes, I can see that it would cause some problems at some point, with points of order and things like that. So if we're going to have rules, I think we should stick to them. If the rules are not adequate, then perhaps a change is in order.

The Chair: I think that says it pretty well. If the chair sticks to the original motion we may be happy with that, otherwise we had better make some changes.

Are there any other comments?

Mr. Harris.

Mr. Richard Harris: I can't support the motion because the numbers become a little bit skewed. In fact, if you look at the total time in the current situation, the NDP is getting ten minutes in round one. Asking that it be changed to seven and five will really only give the NDP two more minutes, but at the same time it will take three minutes away from the other parties in round one. So for the sake of two minutes and losing three, I think it's better that we stay the way we are, with ten minutes in round one.

The Chair: Does anybody else want to comment?

I think it's pretty clear what we have here.

Ms. Bell.

Ms. Catherine Bell: Just to comment on Mr. Harris's point, we've never actually made it to round two in this committee.

The Chair: Actually, we make it to round three almost every time.

Ms. Catherine Bell: Okay. I'm thinking of the whole round.

The Chair: Yes, your second round, which would be round four.

(Motion negatived)

The Chair: I will just advise the committee that I have a commitment with the World Urban Forum in Vancouver next Tuesday. I've asked the vice-chair, Mr. St. Amand, to chair the meeting next Wednesday.

Until then, we'll adjourn to the call of the chair.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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