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Chair

Mr. David Sweet

Standing Committee on Industry, Science and Technology

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● (1530)

[*English*]

The Chair (Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC)): Good afternoon, ladies and gentlemen. Welcome to the third meeting of the Standing Committee on Industry, Science and Technology.

We have quite a number of witnesses here presently, and I'm going to go through their names and the organizations they represent. I just want to remind our witnesses that there is a ten-minute opening statement per organization. I see that some people have multiple representatives here from their organizations. If you are going to have more than one person speak, understand that you are splitting that ten minutes.

From the Canadian Independent Petroleum Marketers Association, we have president and chief executive officer Tricia Anderson; chairman of the board Allan MacEwen, who is president of MacEwen Petroleum Inc.; and David Collins, who is the executive vice-president of Wilson Fuels.

Could you tell me who will be doing the opening remarks for that organization?

Ms. Tricia Anderson (President and Chief Executive Officer, Canadian Independent Petroleum Marketers Association): I will be.

The Chair: Ms. Anderson.

Then from the Department of Natural Resources, we have Mark Corey, assistant deputy minister of the energy sector; Jeff Labonté, director general of the petroleum resources branch; and John Foran, director of the oil and gas policy and regulatory affairs division.

Who will be doing the opening remarks? It will be Mr. Corey. That's great.

From the Canadian Petroleum Products Institute, we have Peter Boag.

As an individual we have Michael J. Ervin, vice-president and director of MJ Ervin and Associates.

I will start with the Canadian Independent Petroleum Marketers Association for ten minutes.

Just before we start the clock, members, our first panel is from 3:30 to 5 o'clock, and then our second panel is from 5 o'clock to 6:30. At the end we will take a couple of minutes for a budget issue that I need your vote on with regard to expenses of witnesses.

Please go ahead, Ms. Anderson, for ten minutes.

Ms. Tricia Anderson: Thank you.

Thank you very much for the opportunity to participate in this study on the fluctuation of gas prices. As mentioned, my name is Tricia Anderson and I'm president and CEO of CIPMA, the Canadian Independent Petroleum Marketers Association.

I'm joined today by two CIPMA board members. Allan MacEwen is our CIPMA board chairman. He is president of MacEwen Petroleum, a Canadian-owned and operated business for over 30 years, and one of the first marketers to provide ethanol-enhanced gasoline in Ontario. I'm also joined by Dave Collins, who is vice-president of Wilsons Fuel Company Limited based on Halifax. Wilsons Fuels has a long history in the fuel business, and has a retail gasoline network in all four provinces of Atlantic Canada.

High prices and dramatic fluctuations in the price of gasoline are issues of great concern to Canadians and to our members, who are essentially the largest customers of gasoline in Canada. CIPMA represents independent fuel marketers. These are independent business owners who buy their fuel mainly from Canadian refiners at wholesale prices, and then market their product and service offerings to Canadians at retail service stations. Independents are generally family-owned, multi-generational, small and medium-sized enterprises. They have built their representations by being solid local businesses that reinvest profits in their local communities and local economy.

CIPMA members account for approximately 22% of Canadian retail gasoline sales on an annual basis. Some brands you might recognize include Mr. Gas, UFA in the western provinces, Canadian Tire, Parkland Fuel, Pioneer, Can-Op, and McDougall Fuels.

Our members play a key role in the Canadian fuel marketplace. Independent fuel marketers bring healthy competition into what would otherwise be a one-dimensional retail gasoline market. Historically, independent marketers, through efficient operations, responsive tactics, and innovative product offerings, have moderated the price that Canadians pay at the pumps.

Our members do not manufacture or refine the products they sell. CIPMA members purchase gasoline from the limited number of gasoline refiners in Canada. Some of our larger members are purchasing petroleum products numerous times a day from locations across the province, or in some cases across the country.

While we recognize that the committee's focus is on the fluctuation of gas prices, it's important at this time to also consider the impact of the higher prices we have been experiencing over the last several months. They have had a deleterious impact on our members and their businesses.

It may be helpful to use an example. I've developed a chart that I'd be happy to distribute later. It looks at the various elements that go into the price of a litre of gasoline. For purposes of today's discussion I've used the Toronto market and June month-to-date pricing.

The month-to-date pricing based on Kent Marketing Services data is $1.28 a litre. Crude accounts for about 63.8¢ of that, and refining margins for 17.9¢, for a total of 81.7¢, or 64% of the total price going to the producer refinery. These elements of the retail price are completely out of the control of the independent marketer.

Federal excise taxes, GST/HST that includes a tax on a tax, and provincial taxes account for an additional 39.4¢ per litre, or 31% of the overall price. These elements, of course, increase as prices go up. These elements are also beyond the control of the independent marketer.

So far we've accounted for 95% of the $1.28 a litre. The final 7.1¢ per litre, which is around 5% of the total price, is the operating envelope for the independent marketer. Note that this number, which is known as the retail margin, has been around 7¢ per litre in the Toronto market for all of 2011. It has ranged between 4.5¢ and 7.4¢ per litre on average across Canada over the last six years. There has been very little movement on that front.

It's important to note that is a gross-margin number. From the 7¢ per litre, independent retailers need to finance the purchase of the land; build the site; pay property taxes; pay transportation costs for delivery of the fuel; pay for hiring, firing, compensating, and training of site-level and support staff; pay utilities; pay costs related to collecting AND remitting federal EXCISE and provincial road taxes; and pay for all other operating costs, including credit card fees.

● (1535)

Credit card fees are an area of particular concern for our members. Approximately 40% of our members' customers opt to pay by credit card. Credit card processing fees, which are in the area of 2%, rise with every increase in retail gas prices. High credit card costs, currently around 2.5¢ per litre—about 30% of the overall gross margin that our members are dealing with—significantly erode operating margin and profits for our independents during times of higher prices.

Other operating costs increase with higher fuel prices as well, such as fuel surcharges, which increase delivery costs. Convenience store sales, which are often an important contributor to the bottom line of independent petroleum marketers, also drop off as consumers feel their disposable incomes pinched.

Returning to the issue of gas price fluctuations, it is important to note that dramatic price swings significantly impact independent petroleum marketers. As mentioned earlier, our members are essentially the largest customers for gasoline in Canada. They are notified by their suppliers each day between 3 o'clock and 3:30 p.m. of the price for various fuels for the next day at the rack. This is known as “rack pricing”, which refers to the price at the loading rack.

Our members generally have supply contracts with a major refiner as a way to ensure reliable supply of product to meet their business needs. Upon receiving notice of gas prices for the next day, independent marketers determine their purchasing tactics.

Given storage and transportation limitations, our members do not have the flexibility to buy and store fuel when prices are low. That said, larger members will use some specific tactics to mitigate the impact of large price increases, incurring extra labour and transportation costs to secure product before a price increase, or running inventory levels extremely low and keeping drivers on standby to take advantage of announced rack price decreases.

The impact of significant price swings can dramatically affect the viability of our members' businesses, so they commit a tremendous amount of time and resources to deal with big price swings, which come with very short notice.

Dramatic price swings also impact our customer relationships. Although we are price-takers and only control the last 5% of the price, and we're responding to price levels that can change dramatically from day to day, customers take out their frustrations on our members and their staff on the front line. Our members experience an increase in hostile encounters with customers, reductions in important store sales, and an increase in fuel thefts, or gas-and-dash incidents.

We encourage the committee to carefully consider the challenging position of the independent petroleum marketer during this review. As stated earlier, CIPMA members play a key role in ensuring a competitive market for retail gas in Canada.

Our members believe in an open and competitive marketplace. We believe that a closer review of the wholesale marketplace, a review of tax policy related to gasoline, regulation of the credit card and interchange fees, and more public education on fuel prices can contribute to a healthier marketplace for consumers and for our members, the independent small and medium-sized Canadian fuel marketers who are key contributors to Canada and their local communities.

Thank you.

● (1540)

The Chair: Thank you very much, Madam Anderson.

Now we'll move on to Mr. Corey for ten minutes.

Mr. Mark Corey (Assistant Deputy Minister, Energy Sector, Department of Natural Resources): Thank you, Mr. Chair.

We do have a deck that I was going to walk you through. As well, we did send over a brief in advance, a three- or four-page backgrounder. I'll just walk you through the deck now.

Slide 2 shows that the purpose today is to provide an overview of factors affecting the price of gasoline in Canada. This is the analysis that our department has done, and it's particularly focused on the last couple of years.

Slide 3 underlines that Canada has a market-based approach to gasoline pricing at the federal level. The provinces own the resources. As a result, federal responsibilities mainly relate to interprovincial and international trade and pipeline regulations.

In 1985 the Government of Canada adopted a policy to accept a market-based approach to pricing gasoline, accepting global crude oil prices as the basis of oil and petroleum product prices in Canada. That's the policy we've had since 1985.

As a result, prices are set in competitive markets to provide signals to producers and consumers regarding production, investment, and consumption decisions. I have to underline that in our department, Natural Resources Canada, we do not exercise any control over petroleum prices except in the case of a national emergency. In the case of a national emergency, we would actually have emergency powers.

Now, some provinces do regulate the price of gasoline: Prince Edward Island, Newfoundland and Labrador, Nova Scotia, and Quebec. I should add New Brunswick to this slide as well; it's in the backgrounder, but it's not on the slide. New Brunswick also regulates the price.

As for the impact of these controls, it's generally done to reduce price volatility. Interestingly enough, in a Conference Board study done in January 2001, when they looked at controls, they concluded that this does not necessarily lead to lower prices.

[*Translation*]

The next slide shows that our department generally plays a role in analysis and information. As a centre of expertise, we deal with petroleum products markets and analyze data on gasoline and crude oil markets and prices. This means: recognizing the importance of providing transparency and understanding of gasoline markets; producing analytical studies on the energy and petroleum product security; and finally, producing information for Canadians via the *Fuel Focus* bi-weekly report. In addition, we provide programs and information on energy efficiency and conservation efforts.

[*English*]

Our role is primarily one of analyzing markets and making sure we understand them. There are a lot of people who use the information that comes out of Natural Resources Canada, including members of Parliament, the Competition Bureau, companies that purchase fuels in the marketplace, and the general public.

We have a fuel focus website, which is updated weekly, and *Fuel Focus*, a report that is produced every second week, so we track these things.

Fuel Focus provides information on gasoline prices and markets so that Canadian producers and consumers can make informed choices about energy production and usage.

Also, as I mentioned, the Office of Energy Efficiency offers a number of programs, websites, and publications to assist Canadians in reducing the cost of transportation by reducing their consumption of fuel.

What I'd like to do now is turn it over to Jeff Labonté, director general of the Petroleum Resources Branch, and get him to take us through the analysis of recent gasoline price fluctuation and some of the factors we've seen that are behind them.

Jeff.

● (1545)

Mr. Jeff Labonté (Director General, Petroleum Resources Branch, Department of Natural Resources): Thank you for the chance to address this committee.

Looking at the differentials and price fluctuations, we can see that the average price for Canadian gasoline has climbed steadily since 2011 from about $1.10 a litre in January to $1.35 a litre in May. It has recently declined to $1.27 in June. So it demonstrates the rise and the variation of the pricing.

The peak for Canadian average retail prices at the pump, if anyone was looking for it, was in 2008, in July, when it reached $1.39 per litre for a period over a weekly average.

When we look at slide 7 in the presentation and the material we have from different cities, we can see that variations in price occur at many different urban centres across Canada. We track prices in larger urban centres just to identify and look at variations and look at the pricing structures. Our graph that we have provided here provides data from April to June this year, looking at Calgary, Montreal, Ottawa, Toronto, and Vancouver. One can see quite a bit of variation between those.

Looking at slide 8, in terms of the components, we see the variation in pricing of gasoline in Canada is predominantly driven by three major elements. Those elements are predominantly the crude oil purchase prices, and in the Canadian context this is half from western-produced crude oil in Canada or offshore in the Newfoundland and Labrador area, as well as imported crude oil that comes predominantly from the North Sea as well as from North Africa, from which the eastern part of Canada all the way to Toronto generally imports crude oil.

The second major factor that looks at the cost structures around gasoline is the refining and marketing cost and the margins associated with the refiners, as well as the retail distributors and different modalities between the business models that different retail outlets use to bring their product to market to consumers in Canada. I think the previous speaker addressed a number of those points from the independent perspective.

A third point that we'd want to look at is the other major variation between the different cost structures in gasoline, which is our provincial, federal, and municipal taxes. Those taxes take various forms and they differ greatly from region to region. There are further data that I can present on that in the next few slides.

Slide 9 looks at tracking from 2007 to 2011. The green graph demonstrates the price of crude oil. The red graph is the price of refining and marketing margins, when added. The purple is with the taxes. One can see that the price of gasoline tracks very carefully with the price of crude oil and that the variation is simply between the differences of the other two aspects. As crude oil increases in world markets, so too does the price of gasoline for consumers at the pump.

Moving to slide 10 and looking at refining and marketing costs and margins, I want to draw attention to two things. The first is the blue or purple line. The running straight line shows the average. If you have black and white it would be the top line in the graph, which provides the refining margin, which currently is slightly higher when one looks at an average across Canada, and levels. But one would note that as you look at the trend line, it is a cyclical graph, and certainly it is within the normally observed ranges.

I want to draw attention to one other aspect behind the model in this particular graph. The model looks over time at the benchmark price for crude oil on North American markets. If I wanted to draw your attention to November 2010, from November 2010 the benchmark price for crude oil in North America, which has traditionally been tracked very closely to the global crude price, separated so that North American crude oil price is actually lower than the benchmark crude oil price across the world. So given that Canada both exports and imports crude oil, the model hasn't taken up the variation that actually exists between global crude prices and North American crude prices.

The variation between those today is about $20 per barrel but it has ranged over the last seven months between $3 and $20 per barrel. So when one takes the consumption of imported crude oil at a higher cost into account in the model, the model actually reduces the margin that refiners see by about 6¢ per litre, which means that it is very close to the actual average that has existed for the last number of years in Canada. So one of the factors is the variation in the price of crude oil and what type of crude oil refiners are consuming when producing gasoline.

The second part is about the distribution in terms of retail margins, which is the bottom line. If one looks at that, one can see that the current retail margin is nearly exact to the average over the last number of years, so the variation in terms of that margin is not significant from a statistical point of view.

● (1550)

Turning to the third aspect on slide 11, provincial, municipal, and federal taxes, the federal excise tax on gasoline and diesel has remained constant at 10¢ and 4¢ per litre respectively. Across Canada the average provincial and territorial taxes were 5.5¢ per litre higher in 2011 than they were in 2008. Those variations are due to a number of factors. Certainly those have to do with differences between different transportation, carbon, and different levels of provincial taxation.

If one turns to slide 12, we provided examples of the different variations of federal tax, provincial tax, integrated harmonized tax, as well as carbon and municipal taxes that are available in different parts of the country. In British Columbia there's a carbon tax, for example, as well as a municipal tax. In Montreal one also finds a municipal tax. So those add to the cost at the pump for consumers in those particular parts of the country.

In summary, gasoline prices tend to closely track crude oil prices, refining and marketing costs, and margins tend to be cyclical. Those margins are slightly higher in some cases at this point but within the normal range. Certainly they have been part of the dynamic. The major differences in gasoline in different cities tend to be toward the different levels of taxation.

Thank you very much.

The Chair: Thank you very much.

Thank you for quite a bit of analysis is those ten minutes, Mr. Labonté.

Now we'll move on to Mr. Boag for ten minutes.

Mr. Peter Boag (President, Canadian Petroleum Products Institute): Thank you very much, Mr. Chair and members of the committee, for this opportunity to shed some light from a refiner and marketer perspective on the issue of fuel price fluctuations and transparency in fuel pricing. CPPI represents the companies that produce and supply gasoline, diesel, aviation fuel, home heating oil, and a variety of other petroleum products.

First, a few quick facts about our industry. CPPI members operate 16 refineries across the country that employ 17,500 workers. We supply 12,000 retail outlets with fuels across Canada. Retail operations across Canada—and certainly Ms. Anderson spoke to that—employ in total some 82,000 additional people. Our industry members invest on average $2.8 billion annually, and they contribute $2.5 billion to Canada's GDP on an annual basis. In the last ten years our industry has spent $8 billion on environmental improvements at our refineries—an investment, I might add, that has not produced one more drop of capacity in terms of producing fuels for Canadians.

Our industry understands Canadians' frustration over gas price volatility as they deal with the many decisions they need to make to balance their family budgets. And while some consumers may believe that gasoline pricing is not transparent, I would contend that the opposite is actually true.

Let me begin, then, by explaining the four factors that affect the pump price. Mr. Labonté has certainly touched on these, so some of this might be a little repetitive. Nonetheless, these factors are transparent, and they really are subject to unique influences that, independent of each other, can cause pump price changes. The first factor is crude oil prices; the second is the wholesale price for refined petroleum products; the third is retail markup; and the fourth is taxes.

Crude oil is a commodity that trades in world markets. The market price of crude oil at any time is a function of commodity traders' assessments of supply and demand conditions, both current and future. These assessments take into account factors such as economic conditions, natural disasters, and geopolitical or military events, especially in major oil-producing regions of the world.

The daily trading price and future price for various crudes—West Texas intermediate, for example, and Brent crude, which is another example, are set and posted on commodity exchanges, such as the New York Mercantile Exchange. They're quoted in newspapers, and they are available online at any time during the day.

Prices generally listed are futures prices, not today's spot price, which can sometimes confuse the relationship between crude prices and pump prices. Futures prices, as the name suggests, are a bet as to what the crude oil price might be at some future date.

Similarly—and I think this is an important point—wholesale gasoline is a commodity that is traded daily on commodity exchanges such as the NYMEX. However, unlike crude prices, these commodity prices, determined through trading activity, are rarely quoted in the media. Yet, since retail gas dealers buy gasoline, not crude oil, this wholesale price is a more relevant factor than that of crude oil in influencing fluctuations in the retail pump price.

Although crude oil is one factor impacting wholesale gasoline prices, underlying supply and demand conditions for gasoline, both current and anticipated, can often be more important in influencing trading decisions and ultimately the wholesale price of gasoline. Factors such as planned refinery maintenance, unplanned incidents, inclement weather, temporary surges or declines in demand, and gasoline inventory levels all have the potential to impact the supply and demand balance for gasoline and result in wholesale commodity price fluctuations independent of the price of crude.

As a result, wholesale prices, and consequently retail prices, can be increasing even when crude oil prices are decreasing, and vice versa. There's a chart in the submission we handed out that tracks the price relationships of crude, wholesale gasoline, and retail gasoline over the past four years.

Overall, Canada is a small segment of a large integrated North American fuels market. There is no unique Canadian market for fuels; hence wholesale prices in Canada generally align with prices in adjacent U.S. markets.

When commodity trading causes U.S. wholesale prices to rise, Canadian wholesale prices generally rise to ensure the product remains in Canada. Otherwise, U.S. buyers would purchase lower-priced Canadian fuel, leaving Canada in short supply.

● (1555)

Conversely, when U.S. wholesale prices decline, so too do Canadian prices. If not, Canadian retailers would end up importing cheaper U.S. wholesale fuel.

Local wholesale prices take into account the cost of transportation from the supply point to a retail destination, so you will see differences in wholesale prices from community to community across the country.

Pump prices fluctuate up and down, primarily in response to changes in wholesale markets, and while wholesale prices generally closely track crude prices, that is not always the case because of unique supply and demand dynamics in the commodity of gasoline. When wholesale prices and conditions are changing rapidly, pump prices can become quite volatile. The result can be a sudden change in the price as dealers move to maintain a viable marketing margin or attempt to gain a competitive advantage over competitors. These local price movements and volatility are signs of a highly competitive marketplace, although many consumers perceive the opposite.

Retail margins and taxes are the final factors that affect pump prices. Retail margins, as Ms. Anderson has indicated, include all costs of operating a retail operation, not just the profit, and as she indicated, the majority of retailers are independent businessmen and women who make their own pump price decisions, based on their business plans, even though they may do business under a major marketer's brand. Only 16% of all gas stations come under the price control of the three major national oil companies. And 74% of all gas stations in Canada are price-controlled by individual outlet providers or non-refiner marketers. They also offer a range of services, such as convenience stores, car washes, and automotive services.

Wholesale prices do not include tax, and that can often confuse the comparisons people want to make between the wholesale price and the retail price, because the wholesale price does not yet have the tax included. Retail prices include federal and provincial taxes, and in some municipalities, such as Vancouver, an additional local tax. In the submission there is a bar chart that shows the different prices and the different price components in major cities across the country.

Tax differences are a key reason why pump prices differ across Canada and are indeed a major reason why pump prices are generally lower in the U.S. than in Canada. Canadians pay, on average, over 35¢ per litre in fuel taxes, while in the U.S., the average tax per litre is only 12¢. That is an average difference of 23¢ per litre.

Finally, we should not underestimate the influence consumers have on pricing. Consumer behavior has a direct effect on pump prices, as retailers compete for their business. Consumers shop while driving, making purchasing decisions from highly visible prices on the largest price signs of any retail business.

Transparency is a hallmark of gasoline pricing. At every level of the value chain, price components are available and accessible for public viewing and consideration. They are critical for those interested in the value added through the refining, distribution, and marketing of petroleum products.

Thank you again for this opportunity to provide some insight into the factors that influence gasoline prices. I hope that this information is useful to members of the committee. We have more information available on our website, so I would encourage you to view that or to call us at any time if you'd like more information.

I look forward to your questions.

● (1600)

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

Now we will move on to Mr. Ervin, for ten minutes, please.

Mr. Michael Ervin (Vice-President and Director, MJ Ervin and Associates, As an Individual): Thank you.

Good afternoon, and thanks for your invitation for me to appear today before this committee on the subject of petroleum prices. The committee's invitation was based on our firm's reputation as an impartial expert in the field of petroleum refining and marketing. This reputation is reflected in the wide variety of clients and organizations we do business with, including federal and provincial governments. In fact, the data published on the NRCan website is collected by us in major part, but also large institutional consumers of petroleum products, academia, and of course oil companies themselves, ranging from multinationals to small regional independents.

Over the course of 30-plus years of my experience in this industry, the majority as a consultant in the sector, my firm and I have conducted numerous studies into the nature of petroleum marketing and competition relating to the sales of petroleum products, as well as ongoing monitoring and analysis of fuel prices, particularly retail gasoline prices and their constituent components.

One word that might characterize the impetus for this committee's current focus on fuel prices would be the word “transparency”. How transparent are pump prices, and what can be done to make them more so? My remarks today will address those two questions, and will provide some recommendations.

I'll apologize in advance that some of my comments might sound very similar to those of witnesses who have preceded me, but I think that does illustrate some common principles at play here.

To evaluate the transparency of the petroleum industry with respect to pump prices, one must look at the transparency of not one, but three, distinct markets: crude oil, wholesale fuels markets, and of course retail fuel markets.

Crude oil, being the raw material from which gasoline is made, is perhaps one of the most transparent of all commodities. With respect to gasoline, for what other product can a reasonably well-informed person on the street tell you its raw material cost? Many media outlets report crude oil prices on a daily basis, and the resulting transparency leads to the inevitable question, if crude oil prices dropped yesterday, why has the pump price not dropped today?

This typical observation actually illustrates one of the consequences of transparency, and this is that in an attempt to bring this transparency to a general audience, other equally available but critically important facts are often left out by the mainstream media. I think that's in an attempt to simplify things for the audience, not to mislead.

For example, when we hear that the price of crude oil today is $93 per barrel, as it was a couple of days ago, it is seldom reported that this is the price for delivery at Cushing, Oklahoma, not at a refinery in Toronto, for example. It is seldom reported that this is the price for a particular grade of crude oil, whereas other grades might be heavier and much less expensive to buy, but conversely much more expensive to process into gasoline. It also doesn't reflect differences in crude oil that might be supply and demand driven, as opposed to being based on grade differentials as well. WTI and Brent crude, which come from the U.S. and the U.K. offshore respectively, are similar in quality, but there sometimes can be upwards of a $10 per barrel difference in pricing as a result of supply and demand factors that play upon them. Most importantly, it's seldom reported that the price quoted is based on futures market trading, and not what refiners might be paying today or tomorrow, as Mr. Boag had mentioned as well.

These are the kinds of facts that are needed to better understand the relationship between crude oil prices and those at the pump, and even then they would not fully explain that relationship. The reason for this is there is a far more important benchmark to consider than the price of crude oil if one truly wants to understand the nature of gasoline prices, and that benchmark is the wholesale price of gasoline. Because petroleum marketers and dealers buy wholesale gasoline and not crude oil, it is the wholesale gasoline price that most directly influences the price at the pump, not the crude oil price.

Wholesale rack prices for gasoline do not simply follow the crude price. Although over the long term we see a relationship on a day-to-day basis, there are differences, and sometimes significant ones, because gasoline is subject to supply and demand variables of its own, causing its wholesale price to rise in times of tight gasoline supply, even if prevailing crude prices might be falling, or vice versa.

● (1605)

Wholesale fuel prices are also transparent. Many petroleum refiners post their rack prices on the Internet for all to see, and other organizations, such as ours, MJ Ervin and Associates and The Kent Group, collect and make available consolidated reports of these rack prices.

Unfortunately, the mainstream media do not routinely report rack prices, leaving many to continue to use crude prices as the basis for trying to understand yesterday's change in the pump price, which is, put simply, a very poor if not useless predictor of gasoline's day-to-day price movements.

This brings me to the matter of pump price transparency. Gasoline is fairly unique in its ability to be comparison-shopped for at sixty kilometres an hour. Increasingly, consumers are also able to comparison-shop for gasoline prices before leaving home, using the Internet or a smart phone. I would therefore suggest that retail gasoline is one of the most price-transparent consumer products in Canada by virtue of its price transparency at the levels of crude oil, wholesale rack, and retail markets.

Even if one agrees that fuel prices are transparent, that stills beg the question, yes, but are they fair? To properly answer that question, one must look at the four components of the pump price individually. Those four are the crude cost, the markup by the refiner from crude to wholesale price, the markup by the marketer from wholesale to retail price, and of course taxes.

One might suggest that crude oil prices are too high, driven by speculators or by oil cartels. For whatever reasons, Canadian producers sell crude oil at world market prices, and Canadian refiners buy that crude at those same market prices. Simply put, the price of crude oil is beyond the control of the Canadian oil industry.

Similarly, the amount of markup by the refiner, referred to in the industry as the crack spread, is something that cannot be arbitrarily set by Canadian refiners. Wholesale gasoline prices must be competitive with those in the United States. If they are too high, Canadian marketers will flock south of the border for their supplies. If they are too low, U.S. marketers would deplete Canadian fuel inventories, leaving consumers with low pump prices but no gasoline to sell at those low prices.

Is the retail markup fair? Fairness is a very subjective term, of course, but there are some objective data that would suggest an answer to that question. The fact that the number of retail outlets has declined from over 20,000 to under 13,000 in the last 15 years would suggest that this is not an easy business from which to profit. The fact that some traditional players in the retail gasoline business have in part or in full divested themselves of the day-to-day ownership or operation of their branded networks would also suggest that retailing of gasoline has not traditionally made a strong contribution to the corporate earnings of integrated oil companies. Finally, the fact that for the past 20 years the gross retail markup on gasoline in Canada has remained virtually stagnant in nominal terms and has declined in inflation-adjusted terms speaks to the fairness of the retail price.

I therefore suggest that a number of market mechanisms at the levels of crude oil, wholesale, and retail markets each provide for the fairness of pricing of petroleum products, although a fair price may not necessarily be a low price by the standards of the consumer. If, however, fuel prices are fair, then why is there such doubt about the fairness of pump prices?

Firstly, I think it's useful to understand that gasoline is a fairly unique commodity product among consumer products. It is what marketing academics would refer to as a low-involvement purchase. Unlike most other goods we buy, we don't care about gasoline's colour, smell, taste, or sense of security or well-being. As a result, the focus tends to be on the price itself.

Secondly, the visibility and volatility of pump prices, the very things that are indicative of its competitiveness, actually create the opposite impression in the minds of many consumers. This is a huge paradox: the significant transparency of the petroleum industry is the very reason why it has been strongly competitive for decades, yet the same transparency in many ways creates the opposite impression in the minds of the media, the public, and often regulators, who take their direction from elected officials.

● (1610)

I will conclude by making one recommendation, and that is to improve what is already a very transparent industry to be much more so by providing more comprehensive data on fuel prices across Canada. Right now our company, for instance, surveys pump prices on a weekly basis. With today's availability of electronic transfer of data, there's no reason why the coverage of fuel prices across the country cannot be done on a 24/7 basis for virtually every site in Canada. This would create a wealth of information and a wealth of transparency, which only requires some assurances from industry, and particularly the Competition Bureau, that the provision to a collector such as ours would not be seen as being in contravention of the Competition Act.

Again, these recommendations would make the industry even more transparent, but of course in an industry such as this there will always be regular scrutiny, such as now in times of increasing prices.

Thank you.

The Chair: Thank you, Mr. Ervin.

Thank you to all the witnesses for their opening statements.

Now we'll move on to our rotation of questions.

Mr. Lake, you have seven minutes.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for good presentations, a good way to start off the industry committee for this Parliament.

I'm just going to ask a question that my constituents would ask me, which I wonder about on a regular basis. It's pretty straightforward. You have four gas stations on the same corner; one of them raises the price and within 15 minutes the other three all raise the price as well. As scientific as the pricing is for gas, it can't be that scientific. That's what most consumers would say when they see that happen. Maybe you could explain why the prices seem to go up so quickly, all together at exactly the same time, particularly on a Thursday before a long weekend.

Mr. Allan MacEwen (President, MacEwen Petroleum Inc.; Chairman of the Board, Canadian Independent Petroleum Marketers Association): First of all, at the retail level, we refer to it as hyper-competitive. Often when there's a price increase like that, where one goes up and the other three follow immediately—which doesn't always happen quite that fast—it's because we're selling at cost or sometimes below cost, and we're pretty anxious to get to a positive margin. It can happen, but it's happening at the street. Our operators, the people who operate our stations, part of their job is to advise us of what the market is. If we've got a station at one of those corners, and the operator sees a competitor's price going up, he's to advise us immediately. We make a decision whether or not he puts the price up. We may say no, we don't want it to go up because we don't think that's a realistic number, but usually if there's a price increase it's related to wholesale fuel prices and crude and so on.

With regard to the comment about prices going up before a long weekend, if that happens, it's purely coincidental that wholesale fuel prices and crude have gone up, and if you get into the data that's available from the various organizations, you'll see that's the case. The industry...why would we do that? I think it would be very primitive to take advantage of our customers and say they're going to be driving more this weekend so we're going to gouge them. We don't do that. It's a coincidence if that happens. That's my view.

● (1615)

Mr. Mike Lake: Mr. Boag, do you have anything to add to that?

Mr. Peter Boag: Actually, I think Mr. MacEwen, who is actually a station operator, has answered that very well and I would defer to him, because that's the kind of real, on-the-ground experience that can probably illustrate that issue better than I can.

Mr. Mike Lake: Now to the Department of Natural Resources officials. I'm looking at slide 10 of the slides you had there, and it seems to me that the retail margin cost stays very, very close to the line. You referred to the cyclical nature of the refining margin costs, but I'm not sure I heard a reason for why it's so cyclical. It does seem as if it goes up and down pretty substantially, but I'm not sure I understand the reasons why that happens.

Mr. Jeff Labonté: With the refining margin and cost structures, you have to take into account that on an annual basis, refineries often have to have downtime for maintenance and have investments made in capital to keep the production facilities at the optimal level to be producing.

There are changes in the variety of crude oils that refineries use that often require them, on a kind of cyclical basis, to change again how they produce gasoline. Refineries are amazingly technologically sophisticated operations that try to extract the most out of every ounce of oil or crude they're putting in. So the cyclical typically has variations related to those aspects.

The other aspect is the source and price at which they're acquiring the crude. I had mentioned earlier the variation between the offshore crude and the crude that's from North American production. We're seeing some variation—what you would see here—in terms of the line that's moving as opposed to the average, which our model hasn't accounted for because of the variation between North American prices and global. It hasn't, for a long period of time, had a huge differential. Right now it's quite substantial and has been increasing over time.

We're looking at adjusting our model. We ran some other aspects to the model before we arrived here just to demonstrate in our minds that the cyclical nature is actually much more smooth when you look at the pricing of crude oil from global and North American markets.

So that's one thing to look at from the perspective of what aspects feed that particular variation.

Mr. Mike Lake: There was some mention—and I know others have talked about it—of price speculation in the futures market and how that affects the price of gasoline. Can you explain that a little bit?

Mr. Jeff Labonté: We can certainly try to give you some more information on it, but some of the other folks at the table probably have equally sophisticated views of it.

As was pointed out by a number of the speakers, the price of what the future cost will be of oil is speculation: it's what people believe the price is to be in the future. So that's what we typically will see in the media. It may not actually be the price at which they can acquire crude oil and get it shipped to or brought to the location at which they want it; it's a price at a place in the world.

In North America, it's typically Cushing, Oklahoma, which is the West Texas intermediate. In Canadian terms, you have an Edmonton par, which is delivery to Edmonton. But getting from Edmonton to Sarnia, there is a fair bit of distance that has to occur through pipelines and through tolls and a number of other things. Similar in the world is Brent, which is delivered to the U.K.

So it's the variation of moving the crude around as well as the type of crude we're speaking to. You see a lot of simplifications to help people understand, but they don't help us appreciate the variation we're trying to understand as consumers as it moves from a future to a reality to delivery, and then to actually being moved into a good that can be moved to a retail outlet for sale.

Mr. Mike Lake: Does anyone else want to comment on that? Mr. Ervin, or Mr. Boag?

Mr. Peter Boag: I just have a couple of comments with respect to that.

Some of the cyclical aspect you're seeing in those charts is seasonal. You do have the summer driving season, when there is a higher demand for gasoline. Certainly the supply and demand balance changes as you go into the spring as refiners try to build inventories of gasoline. That has an impact on the refining margin. Subsequently, as you go into the fall season, you see a drop-off in the demand for gasoline, so that has an impact on capacity utilization.

Then you have the seasonality of other products. Let's not forget that gasoline is only one of the products that are produced from a barrel of oil. One barrel of oil doesn't equal one barrel of gasoline. There are a number of other products, gasoline being the highest-value product.

So there are seasonal fluctuations with respect to the overall demand of what component of the barrel of oil is required for gasoline.

● (1620)

The Chair: That was the last question in that round.

Now we'll go to Mr. Masse for seven minutes.

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

I'm going to give a couple of minutes of my time to Mr. Thibeault.

One thing that was missed in the discussion here, and that's really important, is that this industry is the Canadian public's own product. It's operated by foreign multinationals that by far and large have had record profits and record bonuses and record payouts.

One chapter that hasn't been touched, and I'm rather surprised, is how much public subsidization goes into this industry. It's massively subsidized to the billions of dollars per year through a number of different things. I'm going to list just some of them that are important to note.

There are just the general corporate tax cut reductions that have been taking place over the last number of years. There is no doubt about that. I will remind everyone here that we're borrowing that money right now and paying interest on it until we get into a surplus right now. There's also the flow-through shares subsidy that's available, and the Canadian exploration expense subsidy. The Canadian development expense subsidy is available. The Canadian oil and gas property expense subsidy is available. And the capital cost reduction allowance subsidy is available.

When you take the last figures that are available, from 2008, this industry paid an average of 10.5% federal tax. Meanwhile, you had the manufacturing sector or small businesses paying 16.5%.

To Mr. Boag and Mr. Labonté, why do Canadian taxpayers have to massively subsidize this industry, given the fact that it has this profit margin in its multinationals?

Mr. Peter Boag: I'll take a first crack at that question, Mr. Masse.

First of all, I'm here to represent the downstream component of the sector. That's the refining and supply, and in some cases the retail component of the business. That's very much a manufacturing industry, and certainly that component of the industry enjoys the same level of taxation and the same level of investment tax credits, etc., as any other manufacturing industry enjoys.

Some of our members are not integrated member companies. In fact two of the largest refiners in Canada are refiners only. They do not have an integrated business model. They do not have upstream assets.

From the perspective of the refining component of the industry, this is an industry that's treated the same with respect to tax treatment and subsidies as any other component of the manufacturing sector.

Mr. Mark Corey: Mr. Chair, I would mention that all the measures that were mentioned really fall within the purview of the Department of Finance. We would probably need to get people from the Department of Finance here to explain the details.

I would mention that some of those are either/or. The companies don't get all of those. And I'd also mention that there was further reform in the last budget, and there were changes, for example, in a number of measures, which affected some of those that were mentioned.

Mr. Brian Masse: Yes, they still exist. If those subsidies were then phased out, do you have any reason to believe the industry would be harmed by that? I understand you're suggesting it's a finance department issue, but would this massive reduction of public subsidies out of the industry have any repercussion, given their bottom lines?

Mr. Mark Corey: Again, Mr. Chair, I would have to defer to officials from the Department of Finance to go into more of the details.

I would point out that a number of the measures that are mentioned are things that are...there are deductions, and there are things that are available to a number of various industries. I suggest you would need someone from the Department of Finance to go into the details of those measures.

Mr. Brian Masse: Similar to that—but I think it should be in your department, and I invite others to share in this—is with regard to the reduction in the GST that took place a number of years ago. What happened to that? We've seen profits rise. We've seen the price of gasoline rise. What happened to that 2¢ that was removed? Who benefited from that?

Mr. Jeff Labonté: I think it's fair to say, given all the factors we talked about that go into the pricing of gasoline, I can't give you the specifics to that particular moment when the GST was reduced by 1¢ and another 1¢ at a particular point. But at the point, if wholesale prices of gasoline were rising or crude oil prices were falling, one would have seen volatility in the price of gasoline based on all the factors. In other cases you see the harmonization between different rates of taxation. So there are a whole number of factors.

I can't comment on the correlation between a reduction in the GST and profit growth of any oil companies or otherwise.

● (1625)

Mr. Michael Ervin: A change in the GST, if it were going up, would generally be passed along to the consumer the very next day. If a decrease in taxes were not passed along to the consumer, through our analysis, we would have seen a sustained increase in the rack-to-retail margin. We don't see that. It is very evident that underlying changes do get passed along to the consumer. Much in the same way, when wholesale prices go down, as they often do, we don't see retailers simply holding on to the extra margin. Because of competition, that margin drops to a sustained level, to an historical level in whatever market is applicable. So we do not see dealers benefiting from drops in the underlying costs they have.

Mr. Brian Masse: The industry in general, though, has received more profits than that, and I don't think it has been conclusively proven that consumers benefited from that reduction.

I'm going to pass my remaining time to Mr. Thibeault. Thank you very much for answering the questions.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you very much.

I know we're all here right now looking at gas price fluctuations, and we're all pointing our fingers at the big oil companies.

Ms. Anderson, you mentioned credit card rates and the effects that those interchange rates are having on the smaller retailers. Maybe you can elaborate a little more on some of those costs and how that's affecting the gas prices.

Ms. Tricia Anderson: Obviously, as I mentioned earlier, credit card fees are a percentage of the retail price, regardless of what products you're purchasing. What we see in the retail gasoline market is a high incidence of customers choosing to purchase by credit card, for lots of different reasons—convenience in terms of accounting for their purchases; maybe for business-related expenses, as well. So we see about 40% of customers choosing to use credit cards. As prices go up, as I mentioned, there's a direct relationship in terms of the 2% or 2.5% retailers are charged for credit card processing. Of course it increases with every increase in gasoline pricing.

As I mentioned, right now we're looking at a situation where credit card processing costs are about 30%, roughly, of the operating margin the retailer has to work within. With the balance of that, the other 70%, they're having to cover all of their other operating costs.

Independent retailers very much feel the pinch with rising prices and with customers continuing to use credit, perhaps even more so in a situation in which they're challenged with cashflow. And it really is impacting their ability to continue to operate. As I mentioned earlier, these are many small and medium-sized businesses that are providing, in many cases, vital services in rural communities and smaller communities and which are very much being impacted.

The Chair: Thank you, Ms. Anderson. That's all the time we have now.

Now we'll go over to Mr. McColeman, for seven minutes.

Mr. Phil McColeman (Brant, CPC): Thank you all for coming and helping us gain some education here.

Mr. MacEwen, you mentioned in your comments to the committee, in answer to one of Mr. Lake's questions, I believe, that at times you're selling at a loss. In other words, you're selling below your cost—I think those were your actual words—which would imply that at other times you're charging a much larger margin than the average margin. Is that the case?

I come from a business background in housing, which is similar to that. There are definitely peaks and valleys. Is that how retailers get to the average?

Mr. Allan MacEwen: No, it's not. Just because we end up selling below cost from time to time doesn't mean we charge an extra *x* number of cents per litre at other times at other locations. It's extremely competitive at the retail level.

Mr. Phil McColeman: I hear you about the competitiveness. What I'm trying to understand is the fluctuations that happen from time to time. Having owned and operated a business all my working life, I understand that at the end of the year I need a basic margin with which to operate my business, or there's no sense having a business. At certain times my margins were higher and at other times they were lower, and I came out with the average. So if you're selling below cost, that would mean that it would have to be much higher than the average at other times.

Does that make any sense?

● (1630)

Mr. David Collins (Executive Vice-President, Wilson Fuels; Canadian Independent Petroleum Marketers Association): Yes, absolutely. I would say that retailers do contribute to the price volatility. You're right. But what ends up happening, and what Allan's trying to point out, is that because it's so competitive, it will fall down. In some areas where motorists see large increases overnight right away, it's an effort to try to scramble back to what we would like to get to as a margin. So if we average 7¢, and we're down at zero for a day or two, you'll see us try to climb back to 8¢. And if that happens, then you'll see an 8¢ swing overnight.

At the end of the day, and to take full responsibility, retailers do set the price. How much impact do we really have at the end of the day? Are we contributors? Are we flywheels to that? Do they accentuate those price changes? Yes, but we tend not to profit from them. We tend to, with rising prices, find that our margins get wrecked, to put it simply. At $1.28, the banks are making far more than we are out of the sale of gasoline.

Mr. Phil McColeman: I appreciate your being candid about that, because you see, that makes sense to me. At the end of the year, when you look at your financial statements, you say that this is my margin on something, and therefore I should be in business because it makes sense, or not. It has to do with the fact that you are, at times, making larger margins and at other times are making smaller margins.

Mr. David Collins: Right.

Mr. Phil McColeman: I think that's something, though, that I'm not so sure is being communicated all that well or has been communicated here today. It explains some of the fluctuations and why they happen, at least at the retail level. So I appreciate your being candid about that.

This is a question for Mr. Labonté. I noticed that your latest *Fuel Focus* report mentions that the price of a barrel is reflected almost instantaneously in the price of a litre, notably because retailers use the last-in, first-out accounting method. In layman's terms, can you explain for Canadians what that method is, and how it could conceivably lead to price fluctuations?

Mr. Jeff Labonté: I can give you the lay definition, what it would essentially mean, but some of the other industry experts could probably talk to the motivation and how it actually happens.

As the price of crude oil would increase, retailers and other distributors would see what the future cost of replacing, roughly speaking, their inventory would be. So if crude oil is increasing rather quickly, the cost of buying gasoline in the future is also going to rise because refiners are going to be buying at a higher cost. Therefore, they are thinking about how much it is going to cost to replace the inventory they have. There are other huge aspects within that in terms of gasoline and wholesale, which others could probably speak to, but the first-in, first-out, how much it costs to get the replacement, is the simplest part of the concept.

Mr. Phil McColeman: I'd like to go to Mr. Ervin then.

Your independent analysis of the industry and what you've said here today I think focus more on the wholesale price of gasoline being the benchmark in terms of where the retail price will be versus the crude oil price. But what we've just heard, I think—and correct me if I'm mischaracterizing this—would be that people are actually looking at that crude oil price and making their own speculative judgment as to what the future price might be.

Mr. Michael Ervin: I would suggest that a large number of dealers don't know what FIFO means. When a dealer decides what price to set for gasoline today, that dealer looks at two things. One is what it cost to buy the load of fuel that he has in his tanks today, now. The other is, looking down the street, the competitors' prices. He has a decision to make. If that load is more expensive than the previous one was, unless he makes a retail price change, he will lower his rack-to-retail margin, perhaps down to a level that is uncomfortable for him. It might be comfortable for other dealers, though, I might add, because within a city dealers have varying throughputs that can give them less of a margin need. They can sell more convenience goods, which means they have less of a margin need.

So the level of comfort varies from one dealer to the other even within the same market.

Going back to that dealer, he's going to have to decide whether to keep his price the same—because if he raises it the guys around him might not follow—or bite the bullet and raise the price and hope to heck that the other competitors will if they are feeling the same pain. It has very little to do with accounting, and I really would disagree with Mr. Labonté on that mark.

● (1635)

The Chair: That is the end of your time, Mr. McColeman.

We now move to Mr. Regan for seven minutes.

Hon. Geoff Regan (Halifax West, Lib.): Thank you very much, Mr. Chairman.

Mr. Chairman, we have been hearing quite a bit from the government over the past while about the fragile state of the economy. We have heard that phrase over and over again. Maybe we should be talking about the fragile state of the Canadian consumer, particularly in view of the kind of impact we're seeing from rising prices of food and fuel. That has a particular impact on people with a low income who pay a high proportion of their income for those items.

There was actually a Canadian Press story today suggesting that the consumer sector was a drag on the economy in the first quarter of this year. In fact April's data suggested that consumers in Canada aren't ready or able to add much punch to the economy in the second quarter. So we should remain concerned about their impact on the economy.

We also know that higher gas prices are taking a higher proportion of people's disposable income. So in view of that, the question is, if the economy is a main priority for the government, then why is holding one day of hearings the only action they are taking to deal with this issue? I think this is simply window dressing, and I think we ought to face that to start off with.

Let me turn to Mr. Corey with a question.

At previous hearings this committee has held on this subject, it was told that one measure that might help would be a system to monitor inventories across the country. The previous Liberal government actually initiated a system of that sort, but the Conservative government abandoned it. I don't know why they abandoned it, and I'd like to know if they're planning to replace it. You'd think if they were serious about this problem they would be. What can you tell me about that, please?

Mr. Jeff Labonté: Excuse me for one second while I just reference....

Hon. Geoff Regan: Pardon me, I was looking at Mr. Labonté and saying Mr. Corey, so whichever of you wishes to answer is fine.

Mr. Jeff Labonté: I will answer the question through giving you where things situate themselves.

In the early 1990s NRCan gathered petroleum data directly and developed expertise in the markets, but these things were at one point moved out of the department as we had the opportunity to access expertise in the private sector that did the same kind of work. So NRCan began doing so in establishing the information aspects. We didn't continue the work of the OPPI, but we continued to produce the *Fuel Focus* report and the updated information on the website weekly. And we actually use the data, partly from Michael's company but others as well, that provide us information, as well as information that comes to us from the industry, which is provided to us confidentially, so that we can look at the different trends and patterns.

While we don't have a specific office as it was titled in 2005, a number of those functions and activities continue to be done at NRCan and are part of the analysis that we provide and the monitoring and regular tracking of things that we do.

Hon. Geoff Regan: I guess the concern is that this kind of information isn't available to the public.

This leads me to Mr. Ervin, who said “Gasoline is subject to supply and demand variables of its own”, which is an important basis for our discussion today, obviously. You talked about the need for more comprehensive data, particularly about fuel prices, but surely we need the data behind that. Isn't an inventory monitoring system an important part of the data that ought to be available to the public so that people can assess what's happening?

Mr. Michael Ervin: That would be a useful metric; however, there is a vast wealth of data that is accessible in the States that really paint, by and large, the picture of inventory ebbs and flows for North America, although it doesn't include Canadian data. That would be an enhancement to what already is a wealth of inventory information from the States. I'd be very supportive of seeing that happen in the interests of then having a full North American picture of inventory, as opposed to just a picture of what's happening in the United States right now.

● (1640)

Hon. Geoff Regan: Okay.

Let me turn to Mr. MacEwen, as we have only a few minutes, unfortunately. Seven minutes is a very short period in which to ask questions.

One of the things you were asked about was the long weekends in summer. As lay persons, we often have the impression that every long weekend in July we see it happening. Are we mistaken? Are you telling us that we are deluded in that and we are imagining it? Does it not happen?

Mr. Ervin is anxious to answer that for you and get you off the hook maybe, which is fair.

Go ahead, and then Mr. MacEwen.

Mr. Michael Ervin: As it happens, we are in the midst of doing the study of that very subject, and although I don't have formal data to present, our preliminary findings are that in the course of looking at the past five years' worth of long weekends, looking at the price before and the price after, and looking at price changes in the weeks immediately preceding and following those long weekends, the difference is negligible. It is close to zero. In other words, there are no objective data that bear out the myth that pump prices rise before long weekends.

Hon. Geoff Regan: So we shouldn't worry that in a week's time we are going to see a rise in pump prices again.

Mr. Michael Ervin: If I had a coin I could flip it and we could decide who is the winner, but my postulation is that I would be the winner half the time and you would be perhaps the other half of the time.

Mr. Allan MacEwen: My comment on that is that as retailers, we follow the wholesale prices. We do not make any extra margin on long weekends.

Hon. Geoff Regan: That's fair enough. Okay.

We saw that the Conservative government lowered taxes for the largest corporations in the country by 1.5% on January 1, and it's going to do it again by 1.5% next year. Meanwhile, Joe Smith or Jacques LeBlanc is paying more at the pumps. Whenever they fill up their gas tank they're paying more federal tax. So the big guy gets a break, and the little guy is getting hit every time, by more and more. Is that good for consumers? Is it good for the economy?

Does anyone want to answer that?

Mr. David Collins: Personally, in our company, and those of us around, we see it. I see it now at one step removed, but lower-income Canadians are really struggling with high gas prices. I think what ends up happening is that for those with lower incomes, the bottom 20% of income earners, they're spending.... In the United States, a study in the *Wall Street Journal* showed that 8.8% of their after-tax income was spent on fuel. That's too much. Especially when you have a high inflationary environment in food and fuel, it really slams them hard.

We see it. Luckily in the Maritimes we're small, and everybody's a lot closer, but people borrowing money to get gas to get to the hospital and things like that do go on. We operate cash-and-carry furnace oil, for gosh sake, and people on fixed incomes come and buy 20 litres of heating oil at a time. That exploded by 50% this past year.

It's troubling to see. I don't think our low-income supports are reflecting food and fuel inflation enough to support them in their daily lives. I don't know how to do that; I just go out and buy and sell gas. But if you could do something to help them, that would be great.

The Chair: Thank you, Mr. Collins. That's all the time we have now.

We're moving to a second round of five minutes.

Mr. Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you very much, Mr. Chair.

Thank you to all the representatives for being here this afternoon.

I'd like to start with a question for the entire panel and have as many panel members as possible attempt to bring some clarity to this question. It's the question that I hear the most from my constituents when I talk to them about this issue.

We've heard from many of you about the various factors involved in the fluctuation of gas prices. Why is it that when factors cause the price at the pump to go up, the price goes up immediately, but when various factors cause the price to go down, it's a painfully slow process before that lower price is finally reflected at the pump?

● (1645)

Mr. Michael Ervin: I think your question illustrates something I spoke of, and that is the comparison that so often is made is the comparison to crude oil prices, not to wholesale rack prices. If you actually looked at pump price changes in relation to changes at wholesale gasoline, as opposed to crude oil, you'd find that there is far more of a rationale to the changes at the pump.

But specifically, we do see pump prices tending to go up in large amounts, and when they come down, they tend to float down in small amounts. Although that would appear to consumers to be anti-competitive, if you look at the underlying mechanism as to why that's happening, it's actually indicative of a very competitive market. I'll explain why as briefly as I can.

When wholesale prices are rising, dealers are very reluctant to pass that along until they get to the point, as Mr. MacEwen has said, where sometimes they're actually selling below cost. Somebody cries uncle, the price goes up, and it goes up by a large amount in order to get back to that level of margin.

Incidentally, in our data analysis, that increase, that restoration, does not go up higher than the historical in order to recover the loss. It generally only restores to the level of margin the market is accustomed to. When wholesale prices are going down, dealers are much faster to respond to that decrease, and they'll pass that decrease along more instantaneously, faster, and in smaller increments to basically follow that wholesale price down.

So again, what appears to be bad competition, based on comparing to crude prices, is actually highly competitive when you look at the underlying mechanism—using wholesale gasoline as the comparator, which is what dealers use in order to make their decisions.

Mr. Allan MacEwen: I don't think I can explain it much better.

To go back to one of my initial comments, it's hyper-competitive. There's one thing I will explain. To go back to Mr. Lake's question, you get four stations at one corner and let's say they're all selling at $1 even. One guy goes down to 99.9¢ and it's minutes before everybody else is at 99.9¢. It goes a tenth of a cent at a time and we all follow that. We'd like to be selling at $1, but the guy across the street is selling at 99.9¢, so it goes down slowly. In some markets what happens is this. Let's pick a price of $1. That dollar is based on wholesale gasoline. At midnight tonight my cost of gasoline is going to change. I know now it's going up. So tomorrow morning, when my stations open up in this market, ideally my price is going to be 2¢, I think, plus tax higher tomorrow than today. That's what I want to happen. But if one of the guys on the corner doesn't go up the full 2¢ plus tax and he only goes up 1.5¢ plus tax, then I won't get what I want.

The Chair: Is anyone else going to weigh in?

Mr. David Collins: I actually have a final question, if I could.

The Chair: The time has really elapsed. The full five minutes are gone.

We'll have to save that until the next round, unfortunately, with the time that we have.

We'll now move to Mr. Julian for five minutes.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you, Mr. Chair.

I'll be asking two questions and my colleague Madame LeBlanc will be asking one, and then we'll put it out to our guests to respond.

I must say, Mr. Chair, that I'm quite disappointed with the answers so far today. Right across the country, from the lower mainland to Atlantic Canada, Montreal, and Toronto, we have Canadian families who have been very, very, hard hit by the high price of gasoline. They need it to get to work, yet they don't have options. I don't think they have had, so far in this hearing, an adequate explanation of why the prices are so high. They're concerned about the spiking when crude oil prices go up, but we're talking about old stock still in the system. They're concerned about the stickiness. When the prices go down internationally, the prices at the retail level don't come down. They're concerned about the fact that the prices go up far higher than is justified by international variations.

I want to quote from a study that was done last month:

> At the price of $1.34 a litre being reported in the media in Toronto today, the industry is making an excess profit of 25 cents per litre, based on normal production costs, today's crude oil price, today's exchange rates, and taking into account all taxes.

I haven't heard an explanation of that discrepancy, which is taking money out of the pockets of ordinary Canadian families who are struggling to make ends meet.

That is my question that I would like to put out. I'd like to ask Mr. Corey and Mr. Labonté why the government has not yet implemented the recommendations from this committee. They date back to 2003. They very clearly called for a petroleum monitoring agency.

I'll now turn things over to Madame LeBlanc to ask our third question.

● (1650)

[*Translation*]

Ms. Hélène LeBlanc (LaSalle—Émard, NDP): My question sort of deals with the same concerns voiced by my colleague, Mr. Julian. Consumers are at the bottom of the ladder and they are greatly affected by the fluctuating price of gasoline. In addition, all of that has an impact on travel, transport, the cost of public transportation and production costs in farming, since food prices are also affected. The basic needs of consumers and Canadians are affected, including the need to travel to work and the need to feed themselves. All transportation costs will go up. It's that kind of thing.

After hearing the presentations, I realize that Canada has no power because there are many external factors. So how can we explain to Canadians the fluctuating price of gas? What tools do we have?

Mr. Mark Corey: Mr. Chair, perhaps I can tackle this first.

As I said, our department's responsibility is to analyze the market. Major factors are at play in setting the oil price. Our analysis is based on the work of people like Michael Ervin and others. We have to ensure that the market is truly competitive and that it works.

[*English*]

Again, our principal role is in information; it's the provision of information so that people can see what's happening in the marketplace.

I believe, Mr. Chair, you are having someone from the Competition Bureau here as well.

The Chair: That's correct.

Mr. Mark Corey: The Competition Bureau's job is to make sure there is a competitive market and that there is not price-fixing. I believe they've done six studies on that, so again I think that is a question you would put to them.

On the bigger questions of tax policy, again, that's not our responsibility. It's the Department of Finance, the Minister of Finance, and it would be better to put the bigger taxation questions to them. We do not deal with those big issues ourselves.

The Chair: Mr. MacEwen or Mr. Collins, do you have a comment?

Mr. David Collins: I heard talk that referenced old stocks. I don't think that most Canadians understand how efficient the retailing of petroleum is—how efficient we are as retailers.

If you take Walmart as being the gold standard of retailers, their top-line gross profit is 16% of the sale. They flip their inventories roughly once a month, sometimes a bit less. Allan and I get 5%, and we flip our inventories every 48 hours. The result is we do not have any slack. We hit the rack, we buy the product, and we get what we can on the street. And that's essentially what we get. What we find is that we end up at 5% and it's sufficiently competitive.

Since 1991, in my province we've gone from 940 stations down to 380. If it's so easy and we're making so much money then we would have more stations, not fewer. So how do you understand it? It's hard for most consumers to understand that if you don't carry the inventory and you buy at a higher price, you'll obviously look to raise the price to make a margin out of it. It's a level of competition in inventory flipping and low price margins.

There's a reason Walmart doesn't sell gas in Canada: they can't make money doing it.

● (1655)

The Chair: Mr. Collins, I'm sorry, the time has run out. I wanted to get as much of that answer in as I could.

We'll now go on to Madam Gallant for five minutes.

Mrs. Cheryl Gallant (Renfrew—Nipissing—Pembroke, CPC): Thank you, Mr. Chairman.

To the witnesses, I know that the calls to my office spiked around the same time that the lines on the Canadian Petroleum Products Institute spiked in May. Because that was a fairly recent point in time, it would be very helpful to use that timeframe as an example—the spike in May—to explain why it spiked. Bearing in mind the geopolitical aspects, supply and demand, what OPEC may have been doing, and futures, can you tell us why then there was such a surge in price?

I open that up to everyone.

Mr. Peter Boag: I think we'd go back to many of the factors we've talked about today and the underlying factors with respect to crude oil pricing. Certainly due to geopolitical events in the oil-producing regions of the Middle East, we've seen advances in the price of crude. It's also the beginning of the summer driving season. That's the time for a high demand for gasoline as refiners are starting to build inventories for the driving season.

So it's a combination of factors, all going back to those underlying principles of the price of crude, supply and demand dynamics of retail gasoline, and some increase in taxes in some jurisdictions. All of those factors together were probably behind it, if you look back historically. I look at historical information to try to read what happened, but certainly I think those would have been some of the factors responsible for the price increases we saw earlier this year.

Michael, you may have some additional information.

Mr. Michael Ervin: I think a lot of the concerns stem from the fact that consumers have seen close to record high pump prices. But crude prices were not at the records we saw in 2008. What happened in 2008 was that while crude prices were high, there was already a marked decrease in demand for gasoline in the United States. This led to a surplus of gasoline inventory such that crack spreads, the refiners' gross margin, were zero at that point in time—slightly below zero. We didn't see that seasonal crack spread that usually happens in the springtime in the United States, and by extension in Canada.

In the decades that we've been looking at crack spread seasonality, it didn't really happen in 2008. That created a situation where prices at the pump, although they were high, were about 15¢ per litre higher than they normally would be, given the normal seasonality of crack spreads.

If you jump forward to this year, we have seen increasing crude prices and normal crack spreads, so that's why the pump prices were much higher than perhaps consumers would have thought they should have been, when comparing them to 2008 in particular.

Mrs. Cheryl Gallant: Mr. Ervin, you talked about futures markets and how they might affect the price of a barrel of oil. Can you talk a little bit about futures, and moreover about speculation?

Mr. Michael Ervin: That's one of those debatable areas. Does speculation really cause crude prices to rise higher than they should? You can put the shoe on the other foot. Speculation caused crude prices to fall precipitously in 2008, when the world economy started tanking, and those very same speculators were actually betting on the downside. There's no question that this increases the volatility of crude oil prices. Does that actually translate into higher wholesale prices? Yes, if those futures prices are sustained over a period of time. When you see the speculation go up and down on a day-to-day basis, we don't see the pump price going up and down on a day-to-day basis as well because refiners don't buy today's NYMEX price. They buy the spot price, basically. So there's a relationship, but not as strong as one would think.

Mrs. Cheryl Gallant: Mr. Ervin, what's the relationship between speculators and oil companies? How closely are they linked, if at all?

● (1700)

Mr. Michael Ervin: Certainly oil companies do risk management in terms of buying futures for crude oil and buying or selling futures for gasoline. Those are referred to as wet barrels. In other words, institutional buyers such as municipalities will actually buy in these markets in order to normalize their price. But there are speculators who buy and sell before taking physical delivery, and that speaks to some of the volatility, to be sure. But it is as much of a risk reduction strategy as it is speculative. I reserve the word “speculative” for people who trade in dry barrels, not actually taking physical delivery.

The Chair: Thank you very much, Mr. Ervin and Madam Gallant.

Yes, Mr. Regan.

Hon. Geoff Regan: I think it would be helpful to all members here if we asked the officials from the Department of Natural Resources if they could provide us later material that would indicate to us what information they provide about gas prices and what information they've stopped providing about gas prices over the past decade.

Mr. Mark Corey: Yes, we could do that, absolutely, yes.

The Chair: Great.

We're going to suspend for a moment, but just before we do, I need a motion from one of the members. We have some expenses for our two panels of witnesses today. The budget will adequately be covered with $9,100. There's no guarantee that this will be the entire expense, but that's what will be needed if everybody claims.

May I have a motion to accept that amount so we can have that budget for this hearing?

Thank you, Mr. Carmichael.

(Motion agreed to)

The Chair: We'll suspend for five minutes and bring the next panel in.

● (1700)

(Pause)

● (1705)

The Chair: To try to give you as much time as possible, I'll briefly introduce the guests.

Thanks for coming.

From the Competition Bureau we have Mollie Johnson, deputy commissioner of competition, legislative and international affairs branch. Richard Bilodeau is acting assistant deputy commissioner, civil matters branch, division B.

From the Canadian Association of Petroleum Producers we have Tom Huffaker, vice-president of policy and environment.

And a familiar face is the Honourable Dan McTeague, director of tomorrowsgaspricetoday.com.

Why does that sound like a commercial when I introduce you?

Hon. Dan McTeague (Director, tomorrowsgaspricetoday.com, Lib.): Thank you, Mr. Chair.

The Chair: We also have by video conference Michael Greenberger, professor, University of Maryland School of Law.

I'll begin now with Madam Johnson. We'll have ten-minute opening remarks, and then we'll go to our question rotation. It's ten minutes per organization.

Madam Johnson, you have ten minutes.

Ms. Mollie Johnson (Deputy Commissioner of Competition, Legislative and International Affairs Branch, Competition Bureau): Thank you very much.

Thank you, Mr. Chairman and members of the committee. On behalf of the Competition Bureau I am very pleased to be here today to take part in your study on gas price fluctuations.

As the chair mentioned, my name is Mollie Johnson, and I'm the deputy commissioner of the Competition Bureau's legislative and international affairs branch. With me is my colleague Mr. Richard Bilodeau, acting assistant deputy commissioner of the civil matters branch. He has appeared before this committee on this issue in the past. We're both very happy to be here today to answer your questions.

Like you, we understand the importance of gasoline to Canadians in our everyday lives, and to the economy in general. No one wants to pay higher gas prices. As consumers, this is something to which we're all sensitive.

Over the years the bureau has done a significant amount of work in the petroleum sector, and I hope that our experiences will be helpful to the committee.

As there are some new members on this committee, I thought it might be helpful to take a few moments at the outset of my remarks to provide you with a better understanding of the bureau's role and responsibilities, before turning to the issue at hand today.

[*Translation*]

The Competition Bureau is an independent law enforcement agency headed by the Commissioner of Competition that enforces the Competition Act. Our goal is to ensure that Canadian businesses and consumers prosper in a competitive and innovative marketplace.

The Act applies, with very limited exceptions, to all sectors of the Canadian economy, including the petroleum sector, and sets out criminal and civil penalties for a variety of specific anti-competitive practices. These include: entering into agreements with competitors to fix prices, allocate markets or restrict output; abusing a dominant market position; and engaging in misleading advertising and deceptive marketing activities.

We are also responsible for reviewing proposed mergers to determine whether they will likely cause substantial harm to competition.

● (1710)

[*English*]

The last two years have been particularly dynamic for competition law in Canada. As you may recall, in 2009 Parliament passed the most significant amendments to the Competition Act in 25 years. Some of you here today were part of that process, and we thank you for your efforts.

Among other things, those amendments introduced a new two-stage merger review process to allow for more efficient and effective reviews of mergers. They also created a more effective mechanism for criminal prosecutions of hard-core cartel conduct, while establishing a new civil agreement provision that allows for the review of the competitive impact of other forms of competitor collaborations. They also authorized Canada's Competition Tribunal to award administrative monetary penalties against companies that abuse a dominant position in the marketplace.

With these amendments now in force, the bureau is now even better placed to protect Canadian consumers and businesses from the harm caused by anti-competitive activity.

When it comes to the petroleum sector, as with other sectors of the Canadian economy, our role is to detect and take principled action against anti-competitive behaviour that violates the provisions of the Competition Act. As you know, the bureau has a history of examining the petroleum sector. We have appeared before this committee on several occasions, and we've carried out examinations of the industry as a whole and in specific markets. From that experience, the bureau has developed a familiarity with the workings of the industry.

With respect to our examinations into price spikes, our investigations have not found evidence that these price increases resulted from anti-competitive conduct contravening the act. Rather, the bureau concluded that in those particular instances of price spikes, higher retail gasoline prices were the result of increases in the price of crude oil and other factors affecting the balance between supply and demand. Those other factors have included, for example, low inventories of gasoline in North America, and in the case of higher prices following Hurricane Katrina in 2005, severe damage to North American refining capacity. Factors such as these do not raise issues under the Competition Act unless, of course, they are the result of anti-competitive activity.

This takes me to the issue of our mandate. Not surprisingly, many of the complaints that we receive in this sector have come and continue to come when there are spikes in gasoline prices. I think it's important to note here that we do not determine what is or is not a fair price for any given product or service. We are not a price regulator, and high prices in and of themselves do not fall under the purview of the act unless they are the result of anti-competitive conduct. If, however, high prices result from a cartel, or an abuse of dominance, then we do not hesitate to investigate and take the appropriate action.

For example, the bureau's investigations into this industry have led to criminal charges for price-fixing, such as those laid in Quebec in the beginning of 2008. Our investigations in this case have also resulted in a number of guilty pleas, fines in excess of $2.8 million, and imprisonment terms of a total of 54 months.

The bureau has also secured remedies to preserve competition in markets in which proposed mergers would likely have resulted in a substantial lessening or prevention of competition, most recently in the 2009 merger of Suncor and Petro-Canada, when we required the companies to sell 104 retail gas stations in southern Ontario, and to share storage and distribution network capacity in the greater Toronto area for ten years.

To conclude, Parliament has provided the bureau with a specific role, and that is the pursuit of principled enforcement actions against individuals and companies engaged in anti-competitive behaviour. The responsible enforcement of the act is the most effective way for the bureau to have a positive impact in the Canadian economy for both consumers and business. Especially now that the 2009 amendments to the act have all come into force, we believe we have the effective tools to appropriately address anti-competitive behaviour in this and any other sector of the Canadian economy.

Mr. Bilodeau and I look forward to taking your questions.

Thank you very much.

● (1715)

The Chair: Thank you, Madam Johnson.

Now we move to Mr. Huffaker, for ten minutes.

Mr. Tom Huffaker (Vice-President, Policy and Environment, Canadian Association of Petroleum Producers): Thank you very much, Mr. Chairman and committee members. We're delighted to be here today. I'm Tom Huffaker, one of the vice-presidents of the Canadian Association of Petroleum Producers.

The Canadian Association of Petroleum Producers, or CAPP, represents the Canadian upstream oil and gas industry. Our members, and there are over 100, range from the very small to the very large, the largest Canadian companies, and the global super majors. Our members account for over 90% of Canadian oil and gas production.

As representatives of the upstream industry, I'm going to restrict my remarks to upstream issues and crude oil, not gasoline prices or retail issues, which I'm not really qualified to comment on. Mr. Boag of CPPI, who you just heard from, others on this panel, and others on the previous panel I believe are more qualified to comment on those downstream and retail issues than we are.

As you know, crude oil is a global commodity. The price is set in global markets for a variety of reasons. We operate in a period of relatively high oil prices right now. Price volatility, however, is part of our reality and always has been, as it is in other commodities and industries, and we expect it to be so in the future. As an organization, we don't engage in price forecasting.

While I won't comment on the current relatively high gasoline prices, in which crude prices obviously are a significant factor, I will take a minute to talk about the benefits the upstream oil and gas industry brings to Canada. In particular, we would note that even in times of challenging gasoline prices, very positive things come to Canada from a relatively high-price environment.

A number of the numbers and figures I'm going to cite come from a report recently done by Peter Tertzakian, the noted energy economist with ARC Financial Corp., a CAPP-sponsored report called “Turmoil and Renewal”. I commend that report to any and all of you as an excellent source of information on the financial structure and prospects for the industry. Mr. Tertzakian projects that over the next five years upstream oil and gas will continue to generate about $100 billion a year in revenue. Total investment yearly on the upstream side over the next five years can be expected to be upward of $50 billion a year, a very large industry, and since 2009 alone we've attracted almost $20 billion in foreign investment.

Turning to the government revenue side, the industry has tended to generate somewhere in the range of $15 billion to $20 billion a year in revenue to government over recent years, and is expected to in the future. Typically about a third of this is tax and about two-thirds of it is in the form of royalties. Exports in 2010 from the upstream oil and gas industry of Canada were about $65 billion, of which about $50 billion was from exports from the oil side.

A number of these figures obviously are price-sensitive. They tend to be higher in relatively high oil price environments. It would be particularly true of investment, the government share, exports, and also of course the employment needs and thus the jobs created by the industry. I would just note that the industry upstream accounts—direct, indirect, and induced—were somewhere in the order of half a million Canadian jobs.

With that, I will stop and will look forward to hearing from the other witnesses and to hearing your questions.

The Chair: Thank you, Mr. Huffaker.

Now on to Mr. McTeague.

Hon. Dan McTeague: Chairman Sweet and colleagues, former colleagues, and perhaps even future colleagues, it's a great opportunity and honour to be here. Thank you for the invitation as to appear as a witness, and thanks in particular to my colleague who's replaced me, Mr. Chisu, a very fine man. I look forward to great things from him ahead.

Chair, it's clear that there's arguably no other issue that gathers more attention, save and except the weather, than the price of fuel and the price we pay at the pumps. While there have been a myriad of inquiries and investigations, as has been indicated before, and of course plenty of ink that has been spilled commenting on the general inconclusiveness of those previous inquiries and investigations, the public remains unconvinced that the price they pay is justified. And they remain cynical about yet another series of inquiries. So you have your work cut out. Let me help you.

Above all, public angst with prices can be summed up in one word: volatility. It is this concern that I believe the committee has the ability to address head-on, rather than engage in a fruitless and half-hearted attempt to merely pay lip service to a common and growing frustration. As many of you know, as a parliamentarian I attempted to draw attention to the anemic state of competition in several sectors of our economy, including the grocery, telephone, telecom, pharmaceutical, and downstream petroleum industries, as well as improve and amend Canada's Competition Act, which was, as you know, redrafted in 1986 to permit levels of concentration that would not be tolerated in jurisdictions like the European Union or in the United States.

Concentration today at the wholesale level for gasoline and distillates, which is diesel, means lockstep pricing in most major urban centres across this country, and ironically, for me, at tomorrowsgaspricetoday.com the ability to predict accurately tomorrow's price for fuel at the pumps. Nowhere else, to my knowledge, does this happen or can it happen, simply because it can't. Under the restrictive language of our Competition Act independent retailers were forced from the market in droves. I believe one of the witnesses previous to this, from Wilson Fuels, quite accurately pointed out the treble drop in the number of players by his company alone. Mergers and takeovers led to fewer players and a rationalization of refinery and terminal operations, which once provided the competitive infrastructure that kept a check on prices. Rather than meet new environmental fuel specifications set out over the years by the federal and sometimes provincial governments, some refineries, such as Toronto's last in Bronte or in Oakville, if you will, were simply mothballed and converted into a storage terminal fed by pipeline or by rail.

The closure last year of Shell's Montreal east refinery also impacted price, particularly here in eastern Canada, and contributed in no small way to price volatility as it terminated supply contracts with independents, replaced production by purchasing from other refiners like Ultramar, or simply opted to import product with a unique and higher—and in this case I would ask you to read more expensive—30 parts per million sulphur Canadian fuel specification from either Europe or the United States. As such, Canadians in eastern Canada have become—and I want to repeat this point, I can't emphasize it enough—net importers of petroleum product, and are, unlike a generation ago, when energy self-sufficiency was *de rigueur*, highly vulnerable to international price shocks or volatility created by excessive speculation in the commodities futures markets.

Just how serious the state of competition is in the refining of petroleum products remains a matter of speculation. Despite a noticeable decline in the overall number of vigorous and effective competitors who have exited or merged the market in the past 24 years, and with no significant increase in outputs from the remaining refiners, the prospect of shortage as a driver of higher fuel prices cannot be ruled out. Indeed, outside of tax and retail margins, something that's been discussed here as well, wholesale racks in most of our country tend to be well above—not the same, not below, but well above—U.S. racks and are identical among all refiners, unlike the U.S., where such a parallel movement would almost certainly invite an antitrust challenge in the U.S.

● (1720)

[*Translation*]

But as Canada has abandoned the equivalent of the US *Weekly Petroleum Status Report* which obtains from the petroleum industry, weekly accounts for all its products, any assessment of the real impacts of the wave of consolidation of the past score on consumers here, has been left to others to figure out with motorists here paying the freight for a lack of true oversight.

[*English*]

Colleagues, no serious talk of fuel prices should be entertained without first understanding that the traditional means of price discovery for commodities as important and strategic as food and energy has been radically altered through supply and demand values and the hedging of risk between producers and consumers.

In 2000 Wall Street convinced Congress to allow commodity trades to occur outside the jurisdiction of the Commodities Futures Trade Commission. This exemption from oversight, known as the “Enron loophole” for which the exemption was made, had predictable consequences.

As you may recall, there were bogus excuses on the state of the electrical and electricity markets in the U.S.; trades with no capital requirements whatsoever; and of course new unregulated platforms apparently had no restraint whatsoever on the question of position, and no question as to risk adversity. They drove the electrical and natural gas markets to prices beyond economic sustainability, and caused, as you recall, serious economic dislocation. That brings us to today. Incredibly, the loophole was never closed, and over-the-counter trade platforms have since proliferated, along with their distorted effects on price.

When folks—your consumers and constituents—pull up to gas pumps, they usually have a choice: regular, premium, or in some cases super premium. Regardless of the gas grade, however, everyone is now paying a premium—a Wall Street, over-the-counter, traded-derivatives premium.

Canada must be part of international efforts urged by the U.S. and Europe, as part of our commitment to the G-20 in Pittsburgh, to ensure oversight, competition, and transparency on all commodity trades. After all, given the 35% rise this year alone in energy costs to Canadians, and now 25% in food, would it be too much to ask that the price we pay reflect the real global supply and demand picture, rather than allowing some to imperil, through loopholes, our collective economic well-being?

If Parliament is serious about tackling the vexing matter of price volatility, it needs to modernize its thinking about the state of competition in many parts of this country, particularly at the refinery level. It must also avail itself of a weekly inventory report similar to the U.S. model, and clue in to the havoc wrought by excessive speculation in the unregulated swaps and derivatives markets.

I would also finally say—because it doesn't matter that I addressed this or that all of us have attempted this at various times—that we must recognize the implications of taxation. Taxation, particularly as it relates to *ad valorem* taxes such as the HST or the GST, tends to compound the situation. So governments as a routine have an obligation, and Parliament has an obligation, to recognize that as prices go up, so does the impact of tax and the windfall in revenues. That must be considered and should be considered now, so as not to hurt and affect Canadians.

I also want to point out a very interesting point with respect to my last comment on the question of futures, commodities, and excessive speculation. Today the U.S. released its weekly petroleum status report. As you know, the U.S. is the largest consumer of transportation fuel in the world. It tends to drive the supply and demand picture, so it's important that Canada be part of that. But this morning they reported that refineries there operated at 89.2% of their operable capacity last week. Gasoline production increased last week, averaging 9.5 million barrels a day.

If you want to see an example of the disconnect between supply and demand fundamentals and what is happening on the markets, you only have to look at the fact that tonight, most of the communities in eastern Canada will get a 2.2¢ to 2.6¢ per litre increase—higher supply, increase in price. If we don't understand how dysfunctional this market has become we will only continue to have these meetings; and more importantly, they will be predictably useless and irrelevant.

With those comments, I hope to further explore some of your questions and perhaps provide answers to some of the things you have collected over the past little while.

I thank you.

● (1725)

The Chair: Thank you, Mr. McTeague.

Mr. Greenberger, you have a maximum of ten minutes for your opening remarks.

Mr. Michael Greenberger (Professor, University of Maryland School of Law, As an Individual): Thank you very much.

It's an honour to be asked to testify before you today. We in America look with great admiration to Canada, because its regulatory controls softened the most recent great recession. There's a lot the United States can learn from the Canadian regulatory system.

I had the pleasure of being in Ottawa two weekends ago at the Canadian Economics Association conference, at which I talked. I learned a great deal, and we in the United States have a great deal to learn.

My comments really reflect agreement with much of what Mr. McTeague just said, and I want to expand upon that.

We are today, in the United States, engaged in a massive debate about whether the cause of price increases in crude oil, and its important derivative, gasoline, is a reflection of supply and demand or what we in the United States refer to technically, because of our statutes, as excessive speculation.

There's no doubt that when Congress passed and President Obama signed into law the Dodd-Frank financial regulation reform bill on July 21, 2010, the United States Congress weighed in heavily on the great concern about excessive speculation—which has nothing to do with putting money towards production—being not the sole problem here but a great cause of the problem.

In hearings about three weeks ago before the United States Senate finance committee, the CEO of ExxonMobil, when asked what the price of crude oil should be if supply and demand fundamentals were at work, said between $60 and $70. As you know, if you're looking at WTI, it's up at around $100. If you're looking at the Brent price, it's considerably higher than that.

In mid-April, Goldman Sachs, in an analyst's report, said that the present price of crude oil is reflective of excessive speculation, to the tune of about $25 to $30, and has nothing to do with supply and demand. At the same time, President Obama, in a press conference, said that the problem here is not supply and demand; it's one of speculation.

Let me talk a little bit historically about how speculation adversely impacts the market. One of the first pieces of legislation Franklin Delano Roosevelt sent to the New Deal Congress in 1934 was what became the Commodity Exchange Act of 1936. In those days, the only futures markets were agricultural markets. For 10 to 15 years before the Great Depression, farmers had complained about speculators coming into the markets that are designed to hedge either the producer or the consumer of production—hedging vehicles in the futures market. Excessive speculation distorted those markets and unmoored them from price-demand fundamentals.

President Roosevelt established the framework for the Commodity Exchange Act. When the act was passed in 1936, one of the goals of the regulation was to limit excessive—and I emphasize the word "excessive"—speculation in these markets. And the tools to be used to limit speculation were position limits. What were position limits? They were determinations made by commodity regulators, on a market-by-market basis, that drew a line between the liquidity needed in the market or the speculation needed in the market to create appropriate liquidity for the producer and the consumer of the commodity, and a ban or a bar on so much speculation that the market would become unmoored from price-demand fundamentals.

The futures markets are price discovery markets. You know how much to charge or pay for a barrel of oil by looking to the futures market. If the futures market is unmoored from price-demand fundamentals, the price everyone pays is unmoored from price-demand fundamentals.

From 1936 to 1991, with the regulation of these markets, while there may have been volatility, the volatility was always explained by supply and demand fundamentals, such as during the Arab boycott, in 1973, when they stopped exporting oil to western countries.

● (1730)

In 1991 Goldman Sachs received the first of a series of rulings—not by the Commodity Futures Trading Commission, which is the regulatory agency involved, but by its staff—that if investment banks were selling bets on the price direction of commodities.... That is to say, a customer approaches the bank and says, "I want to bet on the direction of a commodity" without the customer owning it. It's just a simple bet just as you'd bet on a soccer match. You don't own the soccer team, but you're betting on the results. Goldman, through its subsidiary J. Aron, convinced the staff of the CFTC that in hedging that bet, they were acting, in this instance, as an oil producer or an oil consumer. They had a business need to hedge their bets, and they therefore gained exemptions from the position limits.

So from 1991 to the summer of 2008 there were many people in these markets who were deemed commercials, who were doing nothing more than hedging betting. The betting has gone from about $13 billion in 2004 to about $450 billion today. The principal vehicle, although there are many for these kinds of bets, is as follows. Goldman and Morgan Stanley offer wealthy customers—pension funds, private equity, other banks, wealthy investors—the ability to come to the investment bank to place a bet. You can only place a bet that the price of the commodity will go up.

The vehicle is a commodity index swap, an unregulated entity prior to Dodd-Frank, which is a basket of 25 commodities assembled by the investment banks, allowing the customers to place a bet that the basket will go up. The basket is very heavily weighted toward WTI, the United States benchmark for crude, and Brent. The basket became more heavily weighted to Brent quite recently, which is an explanation offered for the divergence between WTI and Brent, Brent being a much more expensive but much less reliable fuel source.

Using these exemptions, these investment banks have come into the futures market and laid off their risk from their bets with their customers to buy long positions that correspond to the commodities in the commodity basket. That is why we are experiencing a price spike today not only in crude but also in copper, rice, cotton, wheat, etc.

The United States Congress, when it passed Dodd-Frank, passed a provision that said in markets that were previously regulated and in markets that were previously unregulated, the Commodity Futures Trading Commission shall impose aggregate position limits to limit this kind of speculation in order to bring the markets back into conformity with supply and demand fundamentals.

On January 26, 2011, in the Commodity Futures Trading Commission, on a four-to-one vote, there was a proposed rule that essentially codified the status quo ante. In other words, they acknowledged that the speculation hedging should continue. The vote was four to one, with two commissioners firmly in support and two commissioners saying they likely would not support this rule when it came back in final form. On that day a signal was sent to these markets that Dodd-Frank would not be implemented. There weren't even three of five votes for a weak regulation on speculation.

As you know if you look at the date, since January 26 the price of oil has gone up in the neighbourhood of 35% to 40% because that was the day a signal was sent.

Congress is beginning to again go through an exercise of trying to recraft what they did in Dodd-Frank. Although there is tremendous resistance to the regulation, the House Republican-controlled Congress just voted for a 15% decrease in CFTC staff, which would take that commission, with $300 trillion of jurisdiction and new legislation, down to 500 employees.

● (1735)

But there is an effort being made to once again limit speculation in these markets to get the CFTC to adopt strong limits. One might ask what Canada can do. I would suggest that Canada can do what France just did. President Sarkozy, in anticipation of the G-20 meeting for agricultural ministers that is coming up, announced that France was in great support of meaningful position limits. The European Commission is moving in this direction. If I had to say who the culprits are out there now in terms of governments, I worry greatly about my own government, the United States, and the United Kingdom—

The Chair: Mr. Greenberger, that will have to be your final word. I've given you some latitude on the time, but—

Mr. Michael Greenberger: I appreciate that. Thank you.

The Chair: Thank you very much.

We'll move on to our first round now, for seven minutes.

Mr. Carmichael.

Mr. John Carmichael (Don Valley West, CPC): Thank you, Mr. Chair.

I'd like to begin by directing my question to Mr. Huffaker.

I understand consolidation, and our earlier witnesses talked to consolidation in the retail industry and a lot of the issues around throughput, how to generate the volume on thin margins. I believe the retailers used a margin of 5%—which I have to believe is a gross margin—and from there they deduct all their hard costs, including credit costs and some of what we heard about earlier in the testimony.

Mr. Huffaker, could you just give us a brief understanding, for those of us who are new to this committee, of how the price of a barrel of oil is constructed, how that throughput factor affects the retailer? I don't know if you have that experience, but I'll leave it with you. As I was thinking of it, one of the other retailers talked about a 48-hour turn on his inventory, and obviously that's part of the throughput—you have to put more through, and the faster you put it through, obviously, the better you are at recovering on your margin.

I wonder if you could just talk about that thought on constructing the cost of a barrel. I'd be appreciative if you could also comment on the Canadian perspective relative to speculation. We heard some of that earlier, and Mr. Greenberger has just referred to that as well.

● (1740)

Mr. Tom Huffaker: Mr. Carmichael, thank you. I'm afraid on some of these questions we go to the retail end. I'm apologizing in advance. I may be a frustrating witness before this committee. I really would refer to the folks who are expert on the retail end, and people like Mr. Boag, who was with you earlier. I have no experience, personally, on the downstream or the retail end of the industry, so I'm really not qualified to comment there.

The comment I would make is around the tremendous competitiveness in the Canadian upstream oil and gas industry. I mentioned the fact that we have over 100 members. If you roll in the small players, who all compete very aggressively.... There are several hundred upstream oil and gas producers operating in Canada in an extremely competitive environment.

Obviously, the cost of finding, development, and extraction feeds into the cost of a barrel of oil, but the price for the crude oil is set in international markets. We've had a fair amount of discussion around to what extent that is driven strictly by supply and demand, to what extent speculation may have an impact on that, and I would add to what we've heard that obviously there are situations in which political risk is also a significant piece of that. I would say all of those things flow into it.

Again, I apologize if I didn't get to a great deal of your question, but I really don't feel qualified to answer it.

Mr. John Carmichael: Mr. Greenberger talked to 89.2% capacity at the refineries in the U.S. in the last couple of weeks. I wonder if you could give us some understanding of what our Canadian refineries are working at.

Mr. Tom Huffaker: I'm afraid I'm going to be frustrating again. I really feel bad about it, but again, on the refining end of the industry, it's really CPPI. Mr. Boag and those folks represent the refiners, we do not. I could not even venture to guess, because it's not something I follow day to day, what the refining capacity utilization is in Canada.

Mr. John Carmichael: I'm not trying to be difficult—

Mr. Tom Huffaker: Oh, no, I know you're not.

Mr. John Carmichael: I just felt, from a refining perspective, you might have some of those answers.

Do you know or do you have any thought as to what influence your member companies would have over the pricing of a barrel of oil? Or would they have an influence at all?

Mr. Tom Huffaker: My instinct would be that they don't have an influence over the price of a barrel of oil. They're out there competing in a global economy, with a global commodity, doing their best to be able to produce the product at a price that allows them to make a profit when they sell it into that global market.

Mr. John Carmichael: Obviously, as politicians we're receiving calls from our constituents, so we're at the grassroots. We're hearing from people at the pumps who are frustrated. They can't understand why all four stations on a corner spike their prices within minutes of one another. Our job is try to find some understanding or answers so that hopefully we can bring some sustainability to this, rather than just continued volatility.

As you've come here today, you knew what we were talking about.

Mr. Tom Huffaker: Yes.

Mr. John Carmichael: Do you have any thoughts, in your experience, as to what should be done to stabilize prices so that we can provide less fluctuation and better answers for the consumers and our constituents across Canada?

● (1745)

Mr. Tom Huffaker: I really don't have an answer to that question. We believe in competitive markets. Our members compete in highly competitive markets. We accept that some movement in price is part of the reality. Obviously, from an industry point of view, there are times when the industry is very profitable and there are times when the industry runs very, very tight profit margins. Our bias is towards letting the market work those things out.

I guess we could say that if we create a regulatory environment and a fiscal environment that incents production but that has to be almost on a global basis, such that more product comes on the market, that will have some moderating impact on prices. If you look at natural gas, not the topic today, the tremendous robustness of supply has clearly been shown to have a very, very sharp impact on prices.

Mr. John Carmichael: Maybe I'll ask one last question, then. I'll try to hit something that I think might be a little closer to home for you.

I wonder if you could give us a sense of what is returned to Canadians through your industry. Now, you covered some numbers, but in terms of the sector's direct contribution to the economy—jobs, pensions, other investment funds, things along that line—you talked about 500,000 jobs and exports of $65 billion, $50 billion on the oil side, and I wonder if you could maybe give us a little more information in that area that would help us better understand the scale.

Mr. Tom Huffaker: Yes, I could a little bit.

The Chair: Mr. Huffaker, I'm sorry, the time is up. If you can save that question of Mr. Carmichael's and then maybe on another person's question you jam some of those stats in, that would be great. I apologize. All the members have heard me say before that time is always our enemy in this.

Now we'll go over to Mr. Masse for seven minutes.

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

Thank you for being here.

To Mr. McTeague, you noted some important issues: the volatility, our becoming net importers—and a lot of Canadians or Ontarians wouldn't even realize that—and as well as the issue with the United States. There's been a proposal to have an ombudsman office. Can you expand on the volatility issue, and then also whether or not an ombudsman office, with dedicated resources, which could go directly to the minister, would provide some empowerment and oversight and maybe a better playing field—we've seen a lot of vertical integration in this industry—and whether or not that could actually be addressed through that type of an office?

Hon. Dan McTeague: Mr. Masse, it certainly wouldn't hurt. There are a lot of vested interests. In my experience of 19 years of looking at this, a lot of people have looked at this and from certain perspectives have used the industry's own figures to summarize what I've just done. I'm glad to see that Mr. Greenberger agrees with some of the comments I've made, including the irony of supply increasing today yet the price of fuel going up in Canada as in the United States.

The idea of an ombudsman who would in effect be an independent umpire is perhaps an idea that should be considered very strongly, considering the not-so-subtle but dramatic changes that have taken place that are affecting the bottom line, bread-and-butter affordability issues for Canadians.

When we refer to gasoline, this is only one of many where we have seen substantial increases. Probably Mr. Greenberger and I would agree. We have never met, nor have we spoken before, I can assure you of that. Wheat this past year alone is up 78%. Corn is up 52%. Gasoline is up 37%. Crude is up another 30%.

What is really critical to understand here, and perhaps Mr. Huffaker and I would also agree on this, is it does the industry no good to have prices, as we saw, go up without any rhyme or reason or any bearing on supply and demand fundamentals, to $147 a barrel, then three months later drop to $31 a barrel. I can tell you that was disruptive, not only to the oil industry but it did nothing to ensure that in the long term Canadians could rely on greater refinery capacity.

I suspect that in the United States, with Sunoco having shut down some of its refinery capacity, some of the decisions that were done with respect to Montreal east last year had a lot to do with that unpredictability. The volatility can be controlled, and it must be the role of governments, however they can do this, to ensure there is global oversight over the commodities derivatives markets. If we avoid this point, I don't care how many competition inquiries these committees do, you are going to fail to address the fundamental concerns of Canadians on volatility. An independent ombudsman would be an important step that could bring together the shortcomings of Natural Resources Canada supplying to the United States weekly petroleum information for Americans.

Page 29 will show you we're providing Americans data about their own industry and what we're supplying here, but we're refusing to give it to Canadians.

We've ensured the Competition Bureau is brought up to speed with some of the other best practices, with which they are very involved around the world, in terms of how Europe and the United States are dealing with their antitrust legislation.

We could at the same time resolve this problem of economic interests of economists, who might be in favour of efficient markets, and those out there who obviously have a stake in protecting their territory.

At the end of the day, an umpire would be there to serve as an officer of Parliament, perhaps, and ultimately serve to expose and to ensure that the truth is maintained on a monthly, bi-weekly, or whatever basis you choose. It is an idea whose time has come.

● (1750)

Mr. Brian Masse: Thank you.

I'm going to turn the rest of my time over to Mr. Thibeault, but I just want to quickly thank Mr. Greenberger very much for participating. Your testimony is very important, and we would like to follow up to hear more on it in the future.

Just to correct the record, our banks here in Canada attempted to Americanize themselves but were fended off by a number of us here in Parliament, and the record shows that. I have the decks from the lobbying they did of my office, saying they needed to become like the U.S. to protect our economy.

Mr. Thibeault.

Mr. Glenn Thibeault: Thank you.

How much time do I have, Mr. Chair?

The Chair: You have three minutes.

Mr. Glenn Thibeault: That's wonderful.

I'd like to start my questions with either Madam Johnson or Monsieur Bilodeau. I would like to hear your thoughts on the fact that gas prices seem to vary from region to region but then within those regions different retailers' prices always seem to remain identical.

Mr. Richard Bilodeau (Acting Assistant Deputy Commissioner, Civil Matters Branch, Division B, Competition Bureau): Thank you for your question.

As we heard in the previous panel, prices in regional and even local retail markets are affected by a number of different factors. Leaving aside the price of crude oil and the wholesale price, there can be a variety of factors in the rack price, such as the type of gasoline station in the market, whether it is a high- or low-volume gas station, the throughput, the number of competitors in a particular market, and also the aggressiveness of competitors. There are possibly markets—and I'm not even talking about regional markets.... In some local markets a competitor can be a maverick, if you want to believe it, who likes to price as low as he can. A variety of factors will affect retail prices in different markets.

As to your question about why we sometimes see prices move in lockstep, what we heard previously is true. It is a market that is fairly transparent. At street level it is very easy for clerks in individual gasoline stations to look across the street or down the street or even drive around the local town to identify what the price movements are and make a decision at that point either to move them upward or downward or to have them stay where they are.

Mr. Glenn Thibeault: I'll give you an example. I'm sure that Mr. McTeague can comment on this as well.

If you're leaving Toronto and driving north, up to my community in Sudbury, you're filling up in Toronto—I'm going to pick a number out of the air—at $1.28. You get up to Parry Sound and you're at $1.30. You hit Sudbury and you're at $1.39. Go west for a half an hour and you're at $1.26.

What gets us, especially in northern and rural areas, is that there seems to be some type of...I don't want to use the word “collusion”, but that's what the communities are talking about. That's what people are talking about, right? They're asking why it is that they can drive 20 minutes outside of my community and get gas at 15¢ to 20¢ a litre cheaper. So if we're looking at competition, there seems to be something going on.

Mr. Richard Bilodeau: Again, going back to the different factors, if you're coming out of Toronto and you're heading out of town, different things can affect it—how far a certain local municipality is located from the refinery.... You add transportation costs. Obviously that's one of the—

Mr. Glenn Thibeault: Then here's what my question would be, and maybe I'll direct this to Mr. McTeague, just to give everyone a fair shot at this. Why is it that in Sturgeon Falls, which is farther away from a refinery than Sudbury, gas prices are cheaper than they are in Sudbury?

The Chair: Mr. McTeague, I'm sorry, your response is going to have to be in the bank as well.

Voices: Oh, oh!

The Chair: You'll see that I do treat every member the same, though, and—

Hon. Dan McTeague: And former members.

The Chair: That's right.

That exhausted the seven minutes.

Now we'll hear from Mr. Chisu for seven minutes.

Mr. Corneliu Chisu (Pickering—Scarborough East, CPC): Thank you very much, Mr. Chair.

I would like to address my questions to Mrs. Mollie Johnson and Richard Bilodeau from the Competition Bureau.

I understand that the Competition Act and Canada's competition regime changed significantly as a result of the amendments passed by Parliament in March 2009. These amendments, which represent the most significant changes to the act in over 20 years, were aimed at modernizing the legislation and bringing it more closely in line with the competition laws of Canada's major trading partners. This means that you have the latest tool to protect customers.

In view of my background in engineering, and as a regulator of the largest professional engineering association—the professional engineers in Ontario—I have quite a familiarity with the complaints process, so I have to address four questions to you.

Number one, in your opening remarks you indicated that you receive an influx of complaints at the bureau when there is a spike in gas prices. Typically, what is the nature of these complaints? Could you please explain to committee members what steps the bureau takes when it receives complaints?

That is my first question. Would you like to have all three, Mr. Chair? May I?

● (1755)

The Chair: Certainly. Go ahead, Mr. Chisu. Whether there'll be time enough to answer them all is another story, but go ahead.

Mr. Corneliu Chisu: Does the commissioner need to receive a complaint in order to begin an investigation?

How do the recent changes to the Competition Act help you crack down on anti-competitive behaviour in the petroleum sector in different regions?

What powers do you have to investigate and punish anti-competitive practices in the gasoline business?

Last, what does the typical investigation look like? If you get a well-founded complaint, what is your process for following through, and how long does it take?

Ms. Mollie Johnson: Maybe we'll break that up between the two of us.

I think for the purposes of today's discussion there are two parts of the amendments that I'd like to flag for you. In 2009 the Competition Act was amended. There are two provisions I think are most pertinent to today's discussion. The first was that Parliament amended our merger process. What that did was introduce a two-stage process so that it streamlined the process but also put us in a position where we're better able to receive information and get the information we need from the merging parties so we can properly and effectively assess the competitive impact of the transaction and then impose remedies as required. I think in my opening remarks I mentioned the Suncor and Petro-Canada transaction. That was the first one that we actually moved through the process in 2009. That was the first set of amendments that came through that I think has relevance today.

The second provision is the criminal conspiracy provisions. Those came into force in March 2010, so a year after the bill was passed. Those removed the requirement to prove there had been economic harm as a result of the conspiracy. It used to be that we had to prove economic harm as well as the cartel. Now all we have to do is prove the existence of the cartel—for example, that there had been fixed prices or there had been an allocation of markets. Then we also increased the penalty from $10 million to $25 million, I believe, and then from five to fourteen years.

With those new provisions, we believe we are in a much better place to first of all get the information we need when we're doing merging transactions, and then also, when we are able to prove and have evidence of a cartel, more effectively move ahead with those cases.

I think those are the relevant provisions of the 2009 amendments.

I'll turn it over to Richard.

Mr. Richard Bilodeau: I'll go in the order you asked your questions.

In the first one, you asked about what kinds of complaints we get when prices increase and there is a price spike. I think the most common complaint we get in those situations is basically a complaint that prices have increased and they think something's going on in the marketplace. It is the most basic complaint: prices are high and consumers don't know why. What we do in that situation is look at the market and try to determine what's going on in the market that either could explain or could not explain the price spike. In terms of gasoline and the types of complaints, that's what we look at in the initial step.

You asked also whether we need a complaint to start an investigation. The commissioner has the ability to initiate an investigation or an inquiry in a number of different methods. Usually, in the vast majority of cases, it is through a complaint. She does have the ability as well to investigate issues on her own if she identifies a concern in the marketplace or through reading the newspapers or a report on the Internet. She has the ability to start asking questions and investigate. The minister also has the ability to direct the commissioner to initiate an inquiry.

How we conduct our inquiry.... You asked a question about our powers and how our investigations are conducted. It really breaks down into four components. On the initial complaint, the initial concern that's raised either by us or by a complainant, we look at the situation, we examine the complaint, and we try to determine at the first step whether the issue that's being raised is something the Competition Act can address. Is there legislation or are there sections of the act that the conduct would apply to?

If the answer to that is yes, we'll dig a bit deeper. We'll start asking questions of the complainant, try to understand what's going on in the marketplace, do research on the Internet, potentially talk to other players in the marketplace to better understand the dynamics and what's going on.

After that preliminary step, if we feel there are serious concerns or grounds to believe that the act has been potentially violated, we have the ability to recommend to the commissioner, and the commissioner can follow this to initiate a formal inquiry to dig deeper and to determine the facts of the situation.

By virtue of going on inquiry, she has access at that point to a variety of what we call statutory investigative tools. She has the ability to subpoena documents, subpoena witness statements, and subpoena written responses, if you like. In the case of criminal investigations, she has the ability to ask the court—and again for subpoenaing documents we do need permission from the court—for the ability to search businesses, what we call search warrants.

The final step of that investigation is that if we feel there is conduct that needs to be addressed, we will in most cases talk to the targets of our inquiry and seek remedy at that point. And in the cases where we are not able to secure a remedy we think is necessary, we'll address our matter to the tribunal in the case of civil matters or to the criminal courts.

● (1800)

The Chair: Thank you, Mr. Bilodeau. It's amazing that you got all those answers in.

I just want to advise members that we'll follow the Standing Orders. We'll get as many questioners in as we can, and when the bells ring we'll adjourn.

As one last thing, I would like to extend the appreciation of the committee to our witnesses, because we will quickly gavel and head over for votes afterwards. So we will thank you very much now.

Mr. Hsu is first up, for seven minutes.

Mr. Ted Hsu (Kingston and the Islands, Lib.): Thank you.

I'm going to use some of my time and then pass it back to Mr. Regan.

My first question is for the Competition Bureau. Does the Competition Bureau look at local markets? The reason I'm asking is that I had a constituent contact me to let me know that in Kingston, their home town, on a particular day the price is such and such, but in Gananoque, which is just 15 to 20 minutes down the highway, the price is very different. This person understands that prices go up and down and that gasoline markets are very competitive, but the person could not explain this price discrepancy.

Do you examine competition at a local level like that? If somebody were to file a complaint, would you investigate?

Mr. Richard Bilodeau: To take that a step further, if somebody were to file a complaint for a situation similar to what you just described, we would ask questions, ask what is going on, what prices they are seeing in the market. At that point we would also take a look at what's going on in the marketplace in terms of the crude oil and wholesale gasoline affecting that region.

I think it's important to note that as I mentioned earlier, different prices in different local markets can be affected by a variety of factors. If we're talking about an increase in price—often people complain about high prices—unless the high price is the result of anti-competitive behaviour and unless there's some information that there's a price discrepancy or a higher price as a result of anti-competitive behaviour, or even some semblance of that, there's no basis on which to initiate an investigation and inquiry under the Competition Act.

Mr. Ted Hsu: Do you generally feel that you have enough information, or are there certain pieces of information that you would like to have that you don't have?

Mr. Richard Bilodeau: Obviously, when we conduct an investigation, the more information the better. That being said, I think over the years it has been discussed. We've done a lot of investigations over the last 20 years and gained a good understanding of the gasoline market in Canada—local, regional, national, and even international. That base of knowledge and experience allows us to look at these situations, understand the market dynamics, and try to determine at that point if there is cause for concern under the act, or if it is just local market conditions playing out and affecting the retail prices.

Mr. Ted Hsu: That leads me to my question for Mr. McTeague. It surprises me that there is no Canadian inventory report, because in a lot of markets that kind of thing is used to make sure the markets are well regulated. In the equity markets, if you hold more than a certain percentage of the stock you have to report it. In the commodities markets, I think there are daily reports on the holdings by speculators and hedgers.

So my question for Mr. McTeague—because the U.S. has been doing it—is whether this is an easy thing to do, and if so, who should be or who should have been taking the lead on that?

● (1805)

Hon. Dan McTeague: Thank you for the question, Mr. Hsu.

Kingston is one of the strangest markets out there. But when you're a refiner that makes 23¢ a litre turning crude into gasoline when it only costs 4¢ or 5¢ a litre, so that your profit is about 17¢, 18¢ per litre net, you don't really worry about the retail margin. You can squeeze it to 5¢, 6¢, 7¢ a litre and put someone out of business, as they did in the large urban centres, and at the end of the day you'll get your market share.

On the question on the commodities markets, I think it may be difficult for us to try to unscramble these eggs that have been thrown around the world now for the past 12, 14, 16 years. But one thing is very clear. We can work through a process of broad international coordination, and it seems to me that Canada is one of the countries that resists. Some of the comments I've heard from the bank governor, his assistant, the deputy assistant of the Bank of Canada.... They seem to be somewhat neutral as to whether or not Canada ought to do anything. They may actually think that it's a good thing for commodity prices to go through the roof, because one region of the country may benefit while another region of the country may suffer. I think, for instance, of manufacturing in our part of the world, in Ontario.

So there are things I think we can agree on—position limits, large-trader reporting. We need to know who's there, so that we don't have a repeat of June 2009, when Vitol moved, with no money down, $11 billion worth of crude and caused tremendous dislocation. I see Mr. Greenberger in the background shaking his head, so I must be on the right track. There are also pre-trade risk safeguards. There's a number of things we should actually look at, but if there's no will, let alone an interest, to clue into what is driving volatility, then this is an exercise in futility.

Having said all that, I appreciate Mr. Chisu's comments about the 2009 amendments to the Competition Act. I think if he would speak to some of his colleagues, like Mr. Menzies and others, they'll know that a lot of those amendments were based on the work that I did throughout the years 2000 to 2005.

Hon. Geoff Regan: Let me ask a question to the Competition Bureau folks, if I may. Mr. McTeague talked about the issue of wholesale rack prices for gasoline and how rack prices in Canada are considerably higher than those in the U.S. Do you examine that question?

Mr. Richard Bilodeau: In the normal course of our work it's not something we would track. We may do so from time to time, when we do get complaints about high prices, whether it's high wholesale prices or high retail prices. Or sometimes we get complaints of predatory pricing, where some players in the market may be pricing below a certain measure of cost for a certain period of time. We will look into those situations of what's going on with the wholesale price.

We look at the differential between city pairs, just like Natural Resources Canada does with Fuel Focus, when it tracks, for example, the wholesale price in Toronto and the wholesale price in Buffalo. What we usually see in comparing those two markets is that prices usually move in sync, in unison. You'll also find there's usually not very much gap between the prices.

I think, as we heard, it's market dynamics: if it's cheaper for a refinery or a marketer to buy gasoline in Buffalo, then he'll go to Buffalo to buy it, and if it's not, he'll buy it in Toronto.

But it's not something that we track as a matter of course.

Hon. Dan McTeague: Chair, if I could comment on that, a marketer in Ontario cannot go to the United States to buy product because the specifications are different. It's an example where the Competition Bureau probably doesn't understand that things have changed.

The specification difference, particularly as it relates to sulphur, is one of the main reasons you can't drive a truck over...not that there's a refinery in Buffalo you could get it from. This myth that somehow the relevant market is the United States, as you can see right now, is simply just that: a myth. It is not true.

Hon. Geoff Regan: Are my two minutes up, Mr. Chairman?

The Chair: That's pretty well it, sir. Thank you very much.

Now we'll move on to our five-minute rounds.

Mr. Braid, for five minutes.

Mr. Peter Braid: Thank you, Mr. Chair.

And thank you to all of the witnesses for being here this afternoon.

Mr. McTeague, welcome back. It's good to see you again.

Hon. Dan McTeague: Thank you, Mr. Braid.

Mr. Peter Braid: I'll start with a question for you.

In your presentation, and through the question-and-answer period, you've spoken about your concern with respect to the role the market plays, concerns with respect to “excessive speculation”. Mr. Greenberger spoke about that, as well. What can the Government of Canada realistically and practically do about excessive speculation on Wall Street?

Hon. Dan McTeague: Thank you for that, Mr. Braid. I know of the good work you've done on committee. I miss those days, and I look forward to future ones, particularly on this issue.

I think the starting point was what we agreed to at the G-20 in Pittsburgh and what I alluded to in my opening comments. I'm going to quote what we agreed to: that all standardized over-the-counter derivatives “should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties” by the end of 2012 at the latest.

What we're saying is that there should be global oversight. We want to know who is trading. We want to know if they should be trading.

We want to recognize something that's far more important here, and I think Mr. Greenberger has suggested this as well. The way it has always worked, certainly since 1936 and prior to the deregulation, has been that a hedger will minimize the risk between a producer of product who sells a product on commodities—and there are several of them—and a purchaser; let's call them a consumer. The hedging is to minimize the risk so that by the time you take delivery of that product it has the value you agreed to.

Unfortunately, with the rise of the index investor—the financialization of that process—the traditional hedger has been driven out and the cost of hedging has gone through the roof. Rather than simply buying and then selling and taking delivery of your oil or your wheat or your corn, what the index investors are doing is rolling over these contracts and providing a permanent floor that drives prices up.

Should they be able to do that? The recognition is that there has to be some degree of concern when you see prices going the way they are in many parts of the world and creating the kind of poverty and dislocation that is there.

Mr. Braid, I pointed out earlier that it does not serve the oil industry of Canada or the oil industry around the world to see that kind of volatility. They need predictability too, and that's why I think we need to concentrate on that. Canada has been very quiet on that point.

● (1810)

Mr. Peter Braid: Thank you.

Mr. Huffaker, we heard in the first panel—and this is generally known and understood—that western Canada is an exporter of crude oil; central Canada imports crude oil. What are the business factors in place that stand in the way of central Canada importing less crude oil?

Mr. Tom Huffaker: Our view on that is largely that on the crude oil side we have an extraordinarily well-integrated and efficient North American market. It's not perfect, obviously, but it is unusually well integrated by global standards. Most of the time those transactions are happening in a relatively efficient manner.

Issues of distance to market and size of market drive much of that export to the United States. There's a fair amount of Canadian oil coming to central Canada. There's also a tremendous amount of Canadian oil going to the northern midwest, relatively proximate, and into the western U.S. I think it's largely driven by efficiencies related to transport costs.

Mr. Peter Braid: Thank you.

I have a question for the Competition Bureau representatives. You explained in your presentation that you did intervene in a price-fixing situation in Quebec. What were the specific factors involved in that situation that caused you to intervene?

Mr. Richard Bilodeau: We were made aware of a situation in those local municipalities where there were allegations that local retailers were fixing prices and talking to each other, so we conducted an investigation. We used the investigative tools we have at our disposal, including wiretaps and the ability to search businesses. We were able to build our case and at the end of the day lay charges on the individuals who participated in price-fixing in those four municipalities.

As Ms. Johnson said in her statement, we were able to obtain a number of guilty pleas that resulted in significant fines and jail terms.

Mr. Peter Braid: Thank you.

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

Mr. Julian, you have five minutes.

Mr. Peter Julian: Thanks to the witnesses.

I'll be sharing my time with Madam LeBlanc.

I have one question that I'd like to ask Mr. McTeague and Mr. Greenberger.

You may have heard that in the previous panel I cited a study that showed that on May 12 the oil industry was making an excess profit based on the per-litre price. That day in Toronto it was 25¢ per litre, based on that day's crude oil prices, exchange rates, and taking into account all taxes.

The estimate is that every one cent of price-gouging generates an excess profit of about $1 million per day. So that means we are looking at $25 million across the country in excess profit for that one day. That's money taken out of the pockets of ordinary families who are already stretched to pay their bills.

I'd like to ask both of you, do you feel that is a fair indication of the amount of price-gouging and excess profit that is currently affecting consumers in Canada?

Now I'll turn things over to Madam LeBlanc.

● (1815)

Ms. Hélène LeBlanc: My question is for Mr. Greenberger.

Thank you for a very informative presentation.

Experts have summarized that although the 2008 recession was not exclusively linked to a spike in gas prices, it was ultimately set in motion by the sharp increase in fuel prices for consumers. In your opinion, could the recent spike in fuel prices result in a second recession, or delay any economic recovery?

The Chair: We'll go to Mr. Greenberger first, and then to Mr. McTeague.

Mr. Michael Greenberger: It is certainly the view in the United States, and I think it's the view of many of the leaders in the European countries, that if gas prices stay at their levels or—what we fear—go up, it will be a very, very bad disincentive to the economy, and may be the straw that breaks a camel's back that already appears to be very weak.

With regard to the price-gouging, in the 2008 bubble in the United States, essentially most regulators gave up on trying to prove that price-gouging had any influence. I think, as your Competition Bureau is suggesting, when you look at these price differentials—you could go 20 blocks in the United States and get a 70¢ differential—they all tend to be justified by supply and demand price consequences.

If we really want to break the back of this spike, we must do two things. First, we must get position limits in place. Canada has a role to play—as Mr. Sarkozy has just made clear, France has a role to play—by its influence in the G-20 and elsewhere.

Secondly, one thing we haven't talked about—I don't know enough about Canadian government to know where this responsibility lies—is that President Obama asked our justice department and all the regulators to look for manipulation in these markets. That isn't excessive speculation, which is just a fact you find: there are too many speculators, and they may have the best intents in mind. Manipulation is where people conspire to drive the price up.

A major manipulation case was brought in the last two weeks by the Commodity Futures Trading Commission, which is noteworthy, because Dodd-Frank made it easier to prove manipulation. That part of the statute will probably go into effect sometime in July or August. But the manipulation here was deemed to be so bad that the regulators brought it under the older statute, which makes it harder to prove.

What that means is that there are self-evident conspiracies among traders in this market. I can't give you chapter and verse on this, but I would say that whoever has responsibility for manipulation should be looking at the Canadian market. It would not surprise me at all that there are actors in the Canadian market who are manipulating.

Finally, you can say that western Canada is in great shape now because the price is so high. As Mr. McTeague said, the price went from $147 to $31 in six months. This is a bubble. This bubble will burst. The price will go back down. Western Canada will be hurt and eastern Canada will be helped if you look at it from a very narrow perspective.

From the perspective of certainty and production, this kind of volatility.... In the United States it was $65 in 2007, $147 in 2008, $31 in 2009, and now it's $100 in 2011. That is not a healthy market. It certainly doesn't reflect supply and demand.

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

Now we will move on to Mr. Lake for five minutes.

Mr. Mike Lake: Thank you, Mr. Chair—

The Chair: Oh, I'm sorry, Mr. McTeague has a comment, although the time is actually over.

Mr. Mike Lake: I don't mind letting him finish before my time starts.

The Chair: Okay.

Mr. McTeague, can you give us a comment on that last question in about 30 seconds?

Hon. Dan McTeague: All right.

Mr. Julian, simply put, yes, it does demonstrate excessiveness. Of course refiners and others are in for the ride. If they can obtain tonight 23.2¢ a litre as a crude-to-rack spread, that's great when it only costs them 4¢ or 5¢ a litre.

It does have a dislocative effect, but not just in terms of those who are selling the product. Imagine those who have to buy the product, whether that be those in the coffee industry or whether that be airlines who are now going to have to either pass that on to consumers or cut more staff.

The reality is that this will undermine the economic vitality of our country, and if we don't clue in, we're only going to wind up hurting ourselves.

That's all I can do in 30 seconds, Chair.

● (1820)

The Chair: That was great, Mr. McTeague. And it wasn't 30 seconds; I gave you a little bit more leeway.

Hon. Dan McTeague: Oh, you did? By all means, Chair.

The Chair: Mr. Lake.

Mr. Mike Lake: We know Mr. McTeague well enough to know it's never just 30.

Mr. Huffaker, you spoke about the very broad impact of your member companies on the Canadian economy. One of the undercurrents—and you've probably caught it as you've been in the room today—of this conversation is the constant railing of the NDP against banks and oil companies. We never really actually hear very much focus from them on who the shareholders are.

Maybe you could just clarify something for me. One thing your member organizations—Talisman, CNRL, Suncor, Cenovus, Nexen, and all your organizations—have in common, interestingly, is that they're all in the top 25 holdings of the Canada Post pension plan, for example, the union pension plan for postal workers. In fact, Talisman holds $94 million worth of shares in that pension plan. CNRL holds $117 million. Suncor holds $154 million of Canadian postal workers' pension money. Cenovus hold $64 million, and Nexen holds $56 million.

For the Ontario pension plan, interestingly, Talisman holds $88 million; CNRL holds $84 million; Suncor holds $65 million; Cenovus holds $57 million. You see where I'm going with that. It's very significant.

By the way, the top three holdings in the Canada Post pension plan, the postal workers' pension plan, are actually banks, which are ahead of Suncor and CNRL.

Maybe you could speak to the impact across the country of your members, specifically maybe talking about some of these larger pension plans across the country.

Mr. Tom Huffaker: I would entirely agree. What you stated is accurate. Our members have huge holdings in pension funds across Canada, in mutual funds across Canada. Most Canadians, one way or another, probably have an interest in, and benefit from, the activity of the industry.

If I remember the number correctly, our members account for about a quarter of the value of the TSX. Obviously, it's a huge industry, as it represents, as we mentioned earlier, around 500,000 jobs, and those are certainly by no means exclusively in western Canada. Is there a concentration in western Canada? There is, absolutely. But on the manufacturing side, in central and eastern Canada, there are tens of thousands of jobs tied to the oil and gas industry.

I would just briefly comment on something a couple of other folks have mentioned, and that is the idea of the run-up to $147 and then the decline to $31. Yes, we would agree that was very hard on the industry. And it's not just the $31 that's hard. Actually, the $147 was extremely disruptive to things like oil sands development just because of the impact on input costs.

Now, I'm not here to talk about why the price moved in that way—we have experts to talk about that—but I will acknowledge that that kind of price was actually almost as challenging as the very low price.

I would just make one other comment. I don't think it's a matter of western Canada being in great shape and the rest of the country not benefiting from that. I think the rest of the country does benefit tremendously from good things happening in western Canada, but I also would note that the oil and gas industry right now is really two economies in Canada. The oil industry is in very good condition. The gas industry in Canada is really struggling.

Mr. Mike Lake: Mr. McTeague, you were obviously a member of the House of Commons for a long time. You've been on the industry committee as it has studied this issue several times. I think the only time it actually came up with a recommendation was in 2003, when you were a vice-chair of the committee. Interestingly, it only came up with one recommendation at that time, and it had nothing to do with any of the stuff you've talked about today. It was a Liberal majority government, I think, at the time.

Why were you not able to convince your colleagues to put forward some of these recommendations?

Hon. Dan McTeague: That's a good question, Mr. Lake.

You'll realize that I was also parliamentary secretary to the Minister of Foreign Affairs, with the responsibility for Canadians abroad.

There have been a number of recommendations made over the years, most of them dealing with changes to the Competition Act. As I've indicated before, there has been a series of bills extending from the changes: on the dual track on price-fixing, on collusion and conspiracy, on changing the criminal provisions on predatory pricing, and on strategies of below-cost selling. Some of those have been implemented, ultimately, and in time, by your government, so I take some credit for the fact that did take place.

At the same time, you also have to recognize, Mr. Lake, that over the years there has been a phalanx of those who, because it's a law of general application, certainly didn't want to see a law designed for one industry applied to others. So for obvious reasons, in my time as a member of Parliament I have probably enriched more lobbyists in this country than has perhaps any member in history. But that being the case, the recognition is that the changes you ultimately made in 2009 were predicated very much on my initiatives—

● (1825)

Mr. Mike Lake: Somebody listened to you finally.

Hon. Dan McTeague: —save and accept, Mr. Lake—and you'll appreciate this—something that I was not successful in was the issue of changing the efficiencies defence loophole in the Competition Act. To put that in perspective, it deals with Superior Propane having been able to obtain a virtual monopoly of the propane industry.

The Chair: Thank you, Mr. McTeague.

You're so good at this it's hard to find where you take a breath so I can actually—

Hon. Dan McTeague: Was it five minutes? Sorry.

The Chair: We did give you—

Hon. Dan McTeague: Mr. Lake, thank you for that.

The Chair: —more time than was scheduled.

Hon. Dan McTeague: Old habits are hard to break.

The Chair: We're on to Mr. Julian for five minutes or until the bells ring.

Mr. Peter Julian: Thank you very much, Mr. Chair.

I'll be splitting with Mr. Thibeault.

I'd like to come back to Mr. McTeague. This industry committee has already looked at the issue of gas prices, produced a report that very clearly recommended a petroleum monitoring agency, and you're aware of the details around that proposal. It's something the NDP has been championing for some time for all the people who are concerned about these excessive cost rises in the retail gas market and what it means for ordinary families.

Before I turn things over to Mr. Thibeault, I want to ask Mr. McTeague why the previous government refused and why the current government refuses to implement something that the industry committee has already suggested would be one tool that would help struggling families.

I'll turn things over to Mr. Thibeault, because I believe he has a couple of questions as well.

Mr. Glenn Thibeault: I would like to give Mr. McTeague the opportunity to answer the question I asked earlier.

I also have a question for Mr. Huffaker. You mentioned in your opening statement $100 billion in revenue, $50 billion in revenue in this area. The Conservative government continues to put forward a $2 billion subsidy to the oil companies. If that subsidy were to end, would that have any indication on changing the fluctuation in gas prices?

Those would be my two questions. Thank you.

Hon. Dan McTeague: Mr. Julian, the issue of the petroleum price monitoring agency, which included as part of its emphasis the idea of a weekly petroleum monitoring report, in fact originated from me and my party, and we implemented that in late 2005. Unfortunately, as you know, the government fell a few months later, prior to implementation, and the new government did not agree with that and the agency was killed.

The purpose for which that was created and why I struggled with this in 2002, long before the derivatives issue began to appear and create the kind of volatility that has been well expressed by others, was simply because there was never any agreement on what the problem was. So I thought we would let the facts speak for themselves, as the Americans do every week. It's not perfect, but at least every drop of petroleum energy is accounted for in that country. It's broken up; Americans treat energy very differently than we do. They divide it into PADDs, Petroleum Administration for Defense Districts, because they see it as a strategic commodity.

I'm suggesting that we should catch up with the times. If Natural Resources Canada is spending taxpayers' money to provide Americans information about Canada, ought we not to divert a little of that tax money so that Canadians know how the supply and demand picture looks in this country?

I haven't changed my position in nine years. I don't plan to, either.

Mr. Tom Huffaker: Mr. Thibeault, thank you for your question.

As I said, the turnover, the revenue of the industry, is about $100 billion per year. The investment rate is about $50 billion per year. Obviously that fluctuates some with things like prices.

You asked a question about subsidies. I think we probably have a fairly fundamental disagreement in view there. We do not view the industry as subsidized. Jack Mintz, probably Canada's leading independent academic authority on fiscal regimes, has looked at this very carefully and says that probably the all-in tax burden on the oil and gas industry is a little bit heavier than it is on the average industry in Canada.

We take the view that every industry has a fiscal regime; those fiscal regimes vary somewhat because of the nature of the industry. On occasion ours seems to be characterized as a subsidy regime, rather than a fiscal regime. Again, it's our view that it is a fiscal regime. We have deduction rates; we have rates at which we recover costs, as other industries do. In our view, that does not make it a subsidy.

● (1830)

Mr. Brian Masse: I'll follow that up.

With all due respect, taxpayers are actually giving you tax credits. So how can you not define that as a subsidy? Right now your industry is receiving much more lucrative subsidies than other industries that don't have those tax regimes. In fact, data from 2008 suggest that you paid an overall rate of 10.5%, where small business paid, for example, 16.5%.

It's hard for taxpayers to get their minds around this, because the reality is that the subsidies are there. Even the government said that at some point they would end the subsidies. So when taxpayers' money goes back into your pockets, why is that not a subsidy?

Mr. Tom Huffaker: As I said, every industry has a regime under which it deducts and recovers costs. In the oil sands area, as you know, in the most recent budget one of those provisions—characterized by some as a subsidy—was removed. As I said, it doesn't look as if the overall burden on our industry is particularly lighter than it is on others. And of course you also need to remember there's a huge reinvestment rate and a great many companies are not turning a profit yet, in particular among the smaller sectors of the industry.

The Chair: Thank you very much, Mr. Huffaker. That was five minutes.

Now we'll move on to the Conservative side. We'll go until the bells ring.

Madam Gallant.

Mrs. Cheryl Gallant: Thank you, Mr. Chairman.

We have in this country an organization called the Tides Foundation, Tides Canada. The funding is transferred from the United States, and it funds special interest groups that campaign against the oil sands. If they were to have success in closing down activity and production in the oil sands, how would that impact the price of gasoline at the pumps?

Mr. Tom Huffaker: There's certainly a correlation between supply and price, ultimately. But as we've all discussed before, this is set in global markets. It's an 80-million-plus barrels a day market. So it takes a certain amount of movement to have an impact on that.

Your question goes to the activities of Tides, or the activities of the ENGO community. In our free societies in North America, people have the right to engage in advocating their positions. Political and regulatory systems in North America will resolve how these come out. Obviously we would like to see further development.

To the extent your question goes to pipeline issues, we are supportive of creating greater access to markets for Canadian products.

Mrs. Cheryl Gallant: Thank you.

The Chair: Thank you, Mr. Huffaker.

We agreed that when the bells summoned us to the House we would discontinue, so the meeting is adjourned.

Again, thank you very much.

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