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Chair

Mr. Leon Benoit

Standing Committee on Natural Resources

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● (0850)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone. We're here to continue our study on the current and future state of oil and gas pipelines and refining capacity in Canada.

We have with us today three groups of witnesses. The first is from Suncor Energy Inc. We have with us John Quinn, general manager, integration and planning, refining and marketing.

Welcome.

From The Kent Group, we have Michael J. Ervin, vice-president, director of consulting services, MJ Ervin and Associates.

Welcome.

From the Communications, Energy and Paperworkers Union of Canada, we have with us Joseph Gargiso, administrative vice-president, and Keith Newman, director of research.

Welcome to you, gentlemen.

We will have the presentations today in the order that you're listed on the agenda. After the presentations, we'll go directly to questions and comments from members.

We'll be starting with John Quinn, general manager, integration and planning, refining and marketing, for Suncor Energy Incorporated.

Go ahead, please, sir.

[*Translation*]

Mr. John Quinn (General Manager, Integration and Planning, Refining and Marketing, Suncor Energy Inc.): Good morning, Mr. Chair and members of the committee.

[*English*]

On behalf of Suncor Energy, I would like to thank you for the opportunity to attend this morning's meeting, and I look forward to discussing with you how we view our refining business and some of the challenges and opportunities we are facing.

I'm going to focus my opening remarks on three areas: one, to provide you an overview of Suncor's Canadian refining business and its impact on jobs and the economy; two, to outline what we have been doing to ensure the competitiveness and ongoing viability of our refineries; and three, perhaps most importantly, to share with you our view of the future for the refining sector here in Canada.

Suncor Energy is the largest integrated energy company in Canada and the fifth largest energy company in North America. We are, of course, best known for our leading position in oil sands production and development, but we also have extensive operations in refining and marketing, North American natural gas production, and oil and gas production both off Canada's east coast and internationally.

But I'm here today to primarily represent our Canadian refining business. We have four refineries in Suncor. Three of them are located here in Canada: one in Edmonton, Alberta; one in Sarnia, Ontario; and one in Montreal, Quebec. Our fourth refinery is located in Commerce City, just outside Denver, Colorado.

The combined crude capacity of our three Canadian refineries is roughly 350,000 barrels per day. Our refineries are closely integrated with the other businesses inside our refining and marketing division. Those businesses include our retail business, with 1,500 Petro-Canada sites here in Canada, entirely operated by independent business men and women; our wholesale business with over 200 Petro-Pass locations and a base of more than 26,000 wholesale customers; and we also have a world-class lubricants facility located in Mississauga, Ontario. That facility sells more than 350 highly specialized products in more than 70 countries around the world.

We run an extensive distribution and product terminal operation across the country, and we also have Canada's largest ethanol plant located just outside Sarnia, Ontario.

The divisional headquarters for these combined businesses is in Mississauga, Ontario. In total, our refining and marketing business has 3,300 full-time employees and creates thousands of jobs directly in our retail and wholesale associate networks and indirectly with contractors and suppliers across the country.

I also want to mention that our upgraders in Fort McMurray, although not quite refineries and not managed within our refining and marketing division, do produce some high-quality diesel fuel. Their primary purpose is to upgrade bitumen to higher-quality synthetic crude, but as part of that process there is some diesel fuel produced as well. We currently operate two upgraders at Fort McMurray, and between them they produce about 25% of our western Canada diesel supply.

With that quick overview of our refining and marketing business, let me refocus on our Canadian refinery operations.

As I think you are aware, they are a significant contributor to the economy. A recently released report by the Conference Board of Canada, which studied the Canadian petroleum refining sector, estimates the contribution made by this sector to be at about $2.5 billion of real GDP in 2009. Based on our refinery capacity, Suncor represents about 20% of that sector, and I expect we contribute at least our share of that economic impact.

I think it's also important to note that the industry does employ highly skilled workers, and accordingly we pay well above average wages and salaries. That same Conference Board report states that refinery workers now earn 50% more than workers in the overall manufacturing sector in Canada, and this wage premium has continued to grow over the years.

We are highly committed to all of our refineries and will continue to operate them as long as we can do so in a competitive and profitable manner.

We also recognize the importance of building sustained relationships with all our stakeholders. Our refineries are actively engaged in their local communities through our community liaison committees, with organizations like the United Way, and our extensive support of educational, training, and scholarship programs.

We're also a highly regulated industry, so we work closely with policy-makers and regulators at all levels of government to try to ensure regulations impacting our industry are clear, harmonized, and science-based, while still meeting the needs of Canadians. However, we are in a business that must compete globally, and we must continue to work together to ensure that playing field is as level as possible.

So what have we been doing to help secure the long-term competitiveness and profitability of our refineries? We work particularly hard on those areas of the refining business that we control directly, such as safety, efficiency, and reliability. We have made substantial progress in each of these areas in recent years, and we will continue those efforts.

We also make significant investments in all of our refineries: investments that allow us to improve their safety, reliability, and environmental performance, fuel quality, and also adapt the refineries to the changing composition of Canadian crude oil.

I'd especially like to highlight the multi-billion dollar investments we've made in recent years at Edmonton and Sarnia to adapt those facilities so they can run 100% western Canadian crude oil, and in the case of Edmonton, 100% oil-sands-derived crude oil. These investments have positioned those two refineries to move away from the declining availability of conventional light western crudes and to take increasing advantage of the growing oil-sands-based crudes.

At this time, Montreal is our only Canadian refinery that is not linked to western crude oil. It does source approximately 25% of its current crude supply from Canada's east coast offshore oil production, but the remainder of its supply is foreign sourced. It's capable of running some western crudes today, but there's no pipeline connection to allow that to happen at a cost-effective level. So we are supportive of the reversal of Enbridge's line 9 crude pipeline. If reversed, that line currently running from Montreal to Sarnia would allow our Montreal refinery to connect to western crudes. That, in turn, could foster possible investments at Montreal to allow it to more fully adapt to those crudes. We believe that would help secure Montreal refinery's long-term flexibility, its performance, and its viability.

With regard to how we see the future of our refineries in Canada, as I said, we're committed to our plants as long as they are competitive and profitable, but the reality is that currently Canada is a net exporter of refined petroleum products. Recent reports I have read certainly also suggest that in 2011 the United States also became a net exporter of refined petroleum products, for the first time in sixty years.

According to the IEA's *World Energy Outlook*, although there will continue to be growth in world oil demand for many years to come, and some modest growth in diesel in North America, overall gasoline and diesel demand in North America and the other OECD countries is forecast to decline. The current surplus of refining capacity in North America, coupled with declining demand, does not easily support the expansion of domestic refining capacity.

Refinery capacity will certainly be needed in the developing world; it will almost certainly be built there. However, we do believe that our refineries are well positioned to compete in their local markets, and we will continue to work hard to make the necessary investments to support that, but our current view of the future does not support significant capacity expansions at our refineries here in Canada.

Having said that, Suncor does have plans for a 200,000-barrel-per-day expansion of its crude oil upgrading operations in Fort McMurray, targeted for completion in 2017. This will result in an increase of about 30,000 barrels per day of additional diesel supply at that site. We are currently in the process of assessing how we will market that increased supply.

In closing, we look forward to continuing our work with governments to ensure that necessary conditions are in place to support a sustainable refining industry in this country and to ensure we are able to compete on a level playing field with our global counterparts.

● (0855)

I'd also like to extend an invitation to any of you on the committee, any of the other members of Parliament, or whoever is in the audience here today who might be interested, to tour one of our refineries. I'd be happy to make arrangements for that.

Thank you, and I look forward to your questions.

The Chair: Thank you very much, Mr. Quinn, for your presentation and for your kind offer. There may be some discussion on that. We'll see.

Now, from The Kent Group we have Michael J. Ervin, vice-president, director of consulting services, MJ Ervin and Associates.

Go ahead please, sir, with your presentation.

● (0900)

Mr. Michael Ervin (Vice-President, Director of Consulting Services, MJ Ervin and Associates, The Kent Group): Mr. Chair and members of the committee, good morning. Thank you for your invitation to appear before this committee on the subject of the current and future state of oil and gas pipelines and refining capacity in Canada.

My firm, MJ Ervin and Associates, which is a division of The Kent Group, is a petroleum consultancy that specializes in the downstream, or refining and marketing, side of this industry. Our clients span a broad range of interests, and I believe we are well regarded for our unbiased views of this industry. My remarks today will focus on the refining sector and its current and future state.

The North American refining sector has seen a significant decline in the numbers of plants, having dropped from over 360 in the 1970s and 1980s to less than 140 today, of which the Canadian refinery population has dropped from over 40 to its current level of 15 refineries capable of producing a broad range of fuel products. One might guess that this declining demand might have been responsible for the decline in refineries, but in fact during that time petroleum demand in North America was steadily climbing. Instead, the closure of about 200 refineries since 1970 was a consequence of poor returns on capital, which in turn was a consequence of excess capacity and poor crack spreads.

A crack spread is the difference between the revenue per barrel that a refiner sees from the sale of a product, such as gasoline, and the cost of the crude oil that went into making that volume of gasoline. It is really the key performance indicator used by industry, financial, and investment analysts to determine the health of the refining sector.

So why did we see so many refinery closures? In that time, crack spreads were insufficient to sustain smaller and less efficient refinery plants, as their returns on capital did not justify their continued operation. One might argue that once a refinery is built, return on capital is less important a factor in deciding its fate. But due to a progression of fuel quality mandates, such as those for reductions in lead, benzene, olefins, vapour pressure, and sulphur—all of which have had beneficial effects from an environmental and quality of life point of view—many smaller refineries could not justify the multi-million-dollar investments needed to comply with these mandates and they were forced to close.

It was only in the mid-1990s that crack spreads began to achieve rates of return that actually attracted capital investment beyond that required by fuel quality mandates. In fact, due to a steady increase in petroleum demand, North American refineries began to experience utilization rates well above 90%, and many expanded in order to meet this growing demand and take advantage of improved crack spreads.

For a few years leading up to 2008 the refining sector began to experience profits that met objective thresholds for additional growth investment, and a few North American refineries even announced plans for new greenfield refineries. Since then, of course, we have witnessed a global recession that has led to a large drop in the demand for refined products in the United States and other regions, and to a lesser extent in Canada. Where a few short years ago refineries were all running at full capacity, we are now witnessing refinery closures and the shelving, if not total abandonment, of previous plans to build brand-new refineries.

That brings us to the present. What about the future?

A number of factors will contribute to a long-term decline in demand for gasoline in North America, all as a result of changing consumer practices, improving automotive technologies, or future government interventions such as the recent mandating of renewable content in gasoline and diesel fuel. Gasoline is the most commonly produced petroleum product in North America, comprising about 40% of the barrel. So its decline in demand will have a significant influence on the U.S. and Canada's net refinery throughput, even considering the likely improvement in diesel consumption once the U.S. economy gets back into full swing.

In light of these demand projections, and considering the spate of recent refinery closures in North America, there's virtually no chance, in my opinion, of North American refiners considering major capacity expansions in the foreseeable future.

● (0905)

I sometimes hear speculation that the building of more Canadian refineries would lower the price of wholesale and retail fuels for Canadian consumers. It is important to understand, however, that Canadian refineries are really just part of a North American capacity pool, and lower wholesale prices in Canada brought about by more capacity would quickly attract U.S. wholesale buyers, thus negating any hopes of sustained lower prices in Canada.

Another topic that may be relevant to this committee's work is the matter of bitumen upgrader capacity. To be clear, as Mr. Quinn has said, we don't define upgraders as refineries, so when I project a lack of demand for more refinery capacity, there will be a need for continued expansion of upgrader capacity as the production capacity of Canada's oil sands continues to increase.

One school of thought suggests that a considerable opportunity might exist to make Canada a significant exporter of refined petroleum products instead of exporting Canada's growing production of bitumen. This would have the benefit of creating and retaining more highly skilled jobs in Canada. While that prospect is appealing, it would create the paradoxical situation in Canada of undertaking a massive expansion of refinery capacity, concurrent with the United States undertaking a massive downsizing of its refining infrastructure. To say that such a scenario would be an inefficient use of capital is a gross understatement.

I will conclude by pointing out some wild-card factors that could have a significant impact on future refinery capacity in Canada, and indeed in North America. First, it is a certainty that in the next decade there will be an expansion of refinery capacity in some regions, notably the so-called BRIC countries. This, combined with a glut of capacity in North America and Europe, will likely keep crack spreads depressed for the foreseeable future.

Similarly, the building of one or more of the Keystone XL pipeline and the Northern Gateway pipeline, or the possible re-reversal of line 9 will improve access by mid-continent crude oils to world markets, thereby bringing those crude prices back up into parity with waterborne crudes, such as Brent. While this will be good news for Canada's upstream industry, it will have the effect of reducing crack spreads on the downstream side for those refineries that currently process crudes from the western Canada sedimentary basin.

Finally, any future product specification mandates will have the inevitable consequence of necessitating more capital investment that does not increase capacity, and will therefore reduce the sustainability of the more marginal players in this industry.

All of these add up to a prognosis that we are unlikely to see any significant expansion of Canadian refining capacity in the next decade and perhaps beyond. Depending upon the outcomes of those wild-card factors I mentioned, it may even lead to a contraction of capacity. All of those factors are beyond the control of refiners, and all but one are beyond the control of Canada's policy-makers, the one exception being product specifications.

Thank you for giving me the opportunity to share my perspectives with this committee. I look forward to the ensuing discussion.

The Chair: Thank you very much, Mr. Ervin, for your presentation.

We will now go to the final presentation of this morning from the Communications, Energy and Paperworkers Union of Canada. We have Joseph Gargiso, the administrative vice-president from Quebec; and Keith Newman.

Go ahead, gentlemen, as you have planned, for up to 10 minutes.

[*Translation*]

Mr. Keith Newman (Director of Research, Communications, Energy and Paperworkers Union of Canada): Mr. Chair and members of the committee, I would like to thank you for inviting us here this morning.

My name is Keith Newman, and I am the director of research for the union. We have some notes, but we will provide the committee with a translation later. Once again, thank you.

[*English*]

The Communications, Energy and Paperworkers Union would like to thank the committee. We represent 120,000 workers in Canada, including 30,000 in the energy sector: in offshore oil and gas extraction at Suncor and in oil refineries, gas plants, petrochemical plants, and gas distribution all across Canada. We are vitally concerned with the provision of fossil fuels to Canadians in ways that are safe, environmentally sound, and that provide—and this will be the focus, I believe, today of what we have to say—a secure supply to Canadians in an uncertain world.

In recent years, with respect to refining, there have been two major refinery closures in Ontario and Quebec that have pushed us into a position of dependency on foreign suppliers for refined petroleum products, gasoline in particular. Many people in eastern Canada now depend on the goodwill of strangers to drive their cars and trucks.

At the start of 2005, Petro-Canada shut its Oakville refinery in the Toronto area. Annual production of refined petroleum products in Ontario dropped by nearly 20%, forcing Ontario into a position of dependency on other regions. Prior to the closure, Ontario's production of refined products was in balance; that is, domestic consumption was equal to production. After the shutdown, the balance was lost and Ontario had to rely on surplus production in Quebec and foreign countries to make up its shortfall of about five million cubic metres yearly of refined product.

The refinery closure also cost 350 highly skilled, well-paid workers their jobs. That was only part of the impact. Thousands of additional jobs were lost by contractors and suppliers, and people in the community lost out because the spending of these other workers was lost.

While the shortfall in Ontario's production could be made up by excess capacity in Quebec about equal to Ontario's deficit, Ontario was still in a precarious position. In 2007, a fire broke out at the Imperial Oil Nanticoke refinery near Hamilton, and southern Ontario faced a gasoline shortage for several weeks as a result. It was widely understood the tight supply in the province was the main cause of the shortage. Not only did Imperial Oil have to close 100 gas stations, one-quarter of its total, but Petro-Canada also closed 30 stations and imposed rationing at another 80. Shell, too, had to close five stations, and gasoline prices rose 10¢ to 15¢ a litre during the time of the shortage.

Since October 2010, about a year ago, the situation has grown worse. On October 1, 2010, Shell Canada closed its refinery in Montreal, now forcing the Quebec-Ontario region as a whole into a situation of dependency on foreign supply. Prior to the closure, Quebec produced about five million cubic metres of refined products above its consumption and was able to supply Ontario's deficit. With the recent closure, Quebec is barely self-sufficient. Again, when the Shell refinery shut, hundreds of workers were thrown out of highly skilled, well-paying jobs, and many additional direct and indirect jobs were lost.

Based on a study by the Institut de la statistique du Québec, a department of the Quebec government, the CEP estimates that at a minimum of 2,000 jobs were lost. A recent study by the Conference Board of Canada dated October of last year, 2011, studied the effects of the closure of 10% of Canadian refining capacity, what it would mean to the Canadian economy. They estimated that over a five-year period, if 10% of refining capacity were closed, 38,300 person years of work, $4 billion of cumulative GDP, and $508 million of provincial and federal income taxes would be lost.

In the study, they note you can use their results in a linear fashion. Doing that, we calculate that the closures of the Oakville and Montreal refineries produced a loss over a five-year period of 25,000 person years of work—I should point out again this is direct, indirect, and what they call induced jobs—$2.6 billion of GDP, and $330 million in lost taxes, both federal and provincial. Now Ontario and Quebec are at the mercy of supply disruptions in Europe because that's where the excess supply or the shortfall must come from. It's made up of a flotilla of tankers heading down the St. Lawrence Seaway into Montreal. The Port of Montreal had a record year last year. Of course, given the extra tankers going down there, there was more environmental damage because of spills.

● (0910)

Ontario, however, still remains vulnerable to supply disruptions because it's short—still. Last August they experienced gasoline shortages—again. In the summer of 2011, a few years after the ones in 2007, they experienced shortages. This was because—now get this—the repairs at the Shell refinery in Sarnia took longer than expected. This was not some kind of odd accident. This was routine maintenance that took a bit longer than expected. People in the greater Toronto area, Sarnia, and London experienced shortages.

We believe this is the new normal in Canada—at least, that is to say, in eastern Canada. The supply of product is now so tight that a disruption at home or in Europe, a refinery accident or other serious event, will cause shortages and rationing of gasoline. We've allowed ourselves to get into a very awkward, even dangerous, situation.

● (0915)

[*Translation*]

Mr. Joseph Gargiso (Administrative Vice-President, Quebec, Communications, Energy and Paperworkers Union of Canada): I will continue.

My name is Joseph Gargiso. I am the administrative vice-president of CEP as well as the union's bargaining program coordinator for the oil sector.

Since the document is in English, it will be easier to read it in English rather than translate as I go. But we will send you the French version.

[*English*]

In regard to oil supply, Canada is blessed with remarkably large deposits of oil and natural gas. Most is extracted from western Canada, but the Atlantic region also extracts significant quantities. On paper, we are self-sufficient in oil, but in practice we are not. Despite our apparent abundance of fossil fuels, we could face serious shortages—even rationing—in the future.

The biggest problem we face is reliance on imports of crude oil in eastern Canada. The Atlantic provinces, and Quebec in particular, import most of their oil from overseas. Quebec refineries receive only 13.5% of their crude oil from Canada. The rest is imported from foreign sources, principally Algeria, the North Sea, Kazakhstan, and Angola. Some of these countries have experienced political turmoil and even civil war in recent years. Fortunately, oil supply was not disrupted, and we hope our luck holds.

As with Quebec, the Atlantic provinces receive only a small percentage of their crude oil from Canada—a modest 17%. The rest is imported from foreign sources. About half is from OPEC countries, such as Saudi Arabia, Nigeria, Iraq, Venezuela, and Angola. The remainder is sourced from the North Sea and a variety of other countries, such as Russia, Brazil, and Equatorial Guinea. Some of these countries have experienced political turmoil and civil war in recent years. Fortunately, the oil supply was not disrupted, and we hope this continues.

Finally, while Ontario also imports a significant quantity of its crude oil from foreign sources, it does enjoy the most secure source of oil of the eastern provinces: Canada. Nearly 80% of the oil refined in Ontario is sourced within Canada, but the energy security of the province remains uncertain because its inadequate refining capacity leaves it dependent on foreign sources for refined products.

In regard to misguided pipeline proposals, two pipeline projects recently have been proposed that CEP believes are contrary to the public interest as they would lock Canada into dependency on foreign suppliers for our basic energy needs. If built, the TransCanada Keystone XL pipeline to the United States and the Enbridge Northern Gateway pipeline to the Pacific coast would commit Canada to exporting large quantities of raw bitumen from western Canada for processing out of the country. We should not export this energy source before ensuring our own energy independence and security.

It is unimaginable that the United States, any European country, or China would ever allow themselves to be dependent on other countries for their energy supply if they could avoid such a potentially difficult and even dangerous situation. Our energy security is already partly compromised by NAFTA's proportionality clause requiring Canada to export the same proportion of its energy to the U.S. even if we experience shortages at home. We shouldn't make matters worse by building more U.S.- or Asia-bound pipelines.

There is also the matter of jobs. Michael McCracken, the CEO of Informetrica and a leading economist who is very familiar with the Canadian oil industry, has estimated that for every 400,000 barrels of raw bitumen exported out of the country for upgrading and refining, 18,000 jobs in Canada will be lost—18,000 well-paid jobs, as you heard from the representative from Suncor, the kinds of jobs we have in this industry.

That is a very conservative number, because Mr. McCracken did not estimate how many jobs would be foregone in downstream activities such as the manufacture of chemicals, petrochemicals, plastics, or other derivative products. It is clearly not in the interest of Canadians to export this raw bitumen, for reasons of both energy security and job creation.

We understand that oil companies, foreign- and domestic-owned, want to maximize their short-term profits by exporting raw bitumen out of the country, but allowing thousands of jobs to be shipped to the United States or China smacks of the most elementary excesses of our colonial past. We should process our natural resources at home. It is high time our federal government spoke for Canada.

In regard to energy independence and security for Canada, it is a truism that we live in an uncertain world. In recent months, this has been underlined by talk of a military attack on Iran. If such an attack were to occur and were Iran to shut the Strait of Hormuz in retaliation, as it has threatened, 40% of oil from the Middle East would be cut off.

● (0920)

Can we reasonably believe we would be first on the list to receive our full share of a much smaller overseas oil supply from our foreign suppliers? The reality is that if a disruption were to occur, we would be forced to cut back drastically. If the disruption occurred in the winter, we would face rationing of heating oil, and many thousands of people would need to be moved into shelters.

Would Europe, facing severe shortages of oil at home, continue to supply us with the refined products we were importing, or would it supply itself first? To pose the question is to answer it. Eastern Canada would be cut off from European supply and face rationing and economic disruption.

The regions most vulnerable to a disruption in oil from the Middle East are the Atlantic provinces, which currently rely on that region for one-quarter of their oil supply, and Ontario, through its dependence on refined products sourced from foreign countries themselves dependent on the Middle East.

Some of our suppliers have faced civil strife in the past. If such problems flare up and intensify in the future, our oil supply could be adversely affected, with serious consequences. Let us hope this does not occur, but to rely on good fortune is not prudent policy.

There is also uncertainty of a less dramatic nature with respect to imports of refined products from Europe. Currently Europe is experiencing a glut of gasoline production and is happy to sell its excess production to us. However, in the medium term, European refiners may try to reorient away from diesel and push for higher consumption of gasoline, or, failing that, they may shut their gasoline capacity entirely. Either way, their exports to Canada could be jeopardized in the medium term, at least at a reasonable price.

There was one potentially hopeful development in 2011. Enbridge proposed the reversal of its line 9 between Sarnia and Montreal to bring western crude oil to eastern Canada. If this proposal is accepted and the oil is refined in Canada, it could reduce eastern Canada's reliance on foreign oil by 20% to 25%. This would be a positive step toward energy independence, if it goes ahead.

Just to conclude, in short, CEP believes Canada should strive for complete energy independence and security for fossil fuel supplies, and eastern Canada must source its oil from western Canada. An east-west pipeline that joins Alberta to Ontario already exists: the TransCanada natural gas pipeline. We need an all-Canadian oil pipeline as well. It is the only way to be certain our oil supply will not be disrupted by competing interests in a time of crisis. Prior conditions to building the pipeline must be that aboriginal rights are fully respected and more stringent environmental standards are met.

To conclude, CEP calls on the Standing Committee on Natural Resources to recommend that the federal government ensure Canadian energy independence and security by re-establishing our independence in refined petroleum products in the Quebec-Ontario region by offering incentives to expand refinery capacity there; reducing our reliance on foreign oil by supporting the reversal of Enbridge line 9; and imposing the condition that the crude oil from western Canada be used to replace imported oil, thus ensuring complete Canadian energy independence and security by having a cross-Canada oil pipeline built to bring western crude to eastern Canada, conditional on the full respect of aboriginal rights and the highest environmental standards.

Thank you for your patience.

The Chair: Thank you all for your presentations.

We'll go now to the seven-minute round, starting on the government's side with Mr. Trost for up to seven minutes. Go ahead, please.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here.

Mr. Ervin, I'd like to turn to you as a consultant and someone who looks to the broader industry. I'm trying to reconcile a few things I've heard here today and the previous day.

There is talk about Canadian refinery capacity not being at the optimal 95%, somewhere about 80-some percent at times, and our two witnesses here from the union have just pointed out some shortages that have happened in the recent past in Ontario. I'm not endorsing Ralph Klein's old views about Ontarians and letting them freeze; we don't want that to happen.

Could you reconcile this thing about refineries not being fully used and yet we're having problems and shortages in Ontario? This at times has got people very concerned.

● (0925)

Mr. Michael Ervin: When a refinery goes offline unexpectedly, it certainly does create a disruption in supply. Refineries so affected have to very quickly scramble for makeup supply, which they will achieve by importing from the United States, bringing in product from other regions, often by rail, or borrowing from their next door neighbours within the same region. I've never seen a case of cars stranded on the 401 for lack of being able to get gasoline. Although we certainly have, in Canada, witnessed rotating closures of gas stations as a result of these shortages, generally they have been associated with the early stages of these supply disruptions before makeup supply could be put in place.

The fact is that certainly up until 2008, the consequences of unexpected supply disruption, whether it's refinery or pipeline, have created problems. With supply capacity now being a little further removed from actual demand, the consequences are not as severe as they used to be. Although that has an effect on crack spreads, making them not as attractive for investment as when refinery capacities are running at full, I really don't see that as being a problem, with spare capacity being available now.

Mr. Brad Trost: One of the other things is that it was being pointed out that we have.... We're exporters of petroleum products, both refined and unrefined, in this country as a net basis, even though it's been pointed out that eastern Canada imports in areas.... If we are going to expand our refinery capacity in Canada, that would then be for export market. We would have to sell that abroad because we export already, which leads me then to wonder where our cost-competitive structure would be versus the BRICs. I know in Saskatoon, where I live, labour costs have gone up quite a bit over the last few years for things like construction and the trades.

Could either Mr. Quinn or Mr. Ervin give me an idea of what would be the capital cost comparison for a country like Canada versus a country like Brazil, Russia, or India for building a new refinery? Say I want to build one on the Pacific coast in Canada. How much more or less would I pay to build it there, against some of my competitors around the world?

Mr. John Quinn: I probably don't have the answer you are looking for in terms of the numbers. It's certainly something we could.... There is lots of literature out there on this. Certainly, we would be at a cost disadvantage in Canada relative to BRIC countries for sure in terms of labour costs and in terms of the northern operation of our facilities, which is more of a challenge in terms of energy efficiency and the heat required in our refinery operations. I think we would directionally be at a disadvantage.

Where we do have an advantage, however, is on source of crude. We are close to good crude sources, so that is helpful.

Mr. Brad Trost: Mr. Ervin, would you have any idea about the cost structures we would be facing?

Mr. Michael Ervin: No. Relative to BRIC countries I don't, although certainly we already have seen countries such as India building very large, very technically advanced refineries—Reliance Industries Limited being one, for example. They are building. The refinery configurations they are putting in place are very capable of exporting gasoline, for example, that does meet North American standards.

● (0930)

Mr. Brad Trost: To the gentleman from the paperworkers union, I heard you point out that the Enbridge line reversal is one thing you are in favour of. I assume, from what you say, that you'd also be in general agreement that the Canadian production in the oil sands, the back-in, and so forth, would be a good thing to increase Canada's energy security.

With that in mind, the question I have for you is this. How do we increase Canada's energy security without going to a national energy program too? As you may guess, western Canadian MPs have a fairly bad memory of that—Alberta ones in particular, but Saskatchewan lost $10 billion by some estimates. We get fairly nervous when we hear about things that might restrict our ability to export to make a good profit off our product. How would you increase Canada's energy security without damaging the export profits that Alberta and Saskatchewan enjoy and, through equalization, spread to the rest of the country?

Mr. Joseph Gargiso: I think what we don't have right now as a country is a national energy strategy. There is an absence. What I mean by that is that it's as if the left hand doesn't know what the right hand is doing.

If all of a sudden we became number two in the world, after Saudi Arabia, with proven reserves, and became an oil powerhouse, how would we use that status to maximize economic benefits? The larger question, and I'm not talking just about this plant making a profit, is how, as a country, we maximize.

If I have an undisputed study that says that if I take raw bitumen and don't upgrade it.... I'm not talking about already refined products. I'm talking about not even separating the sand from the bitumen, which is the first upgrading. If I export 400,000 barrels of oil a day, that's 18,000 jobs. These are not trickle-down jobs. They are direct, well-paid jobs. We're talking about jobs that pay $40,000, $50,000, and $60,000. People who earn that pay taxes and spend money and so on and so forth. What am I doing? The raw bitumen is destined for the refinery capacity that was built on the gulf coast of the United States, which we want to feed. That's where it's going.

So what are we doing? We have a resource, and we're going to create the jobs elsewhere. I'm not saying that we're not going to make any money by selling this natural resource, the raw bitumen. I agree, but we're not maximizing.

When it comes to refining capacity, be careful. If we're not careful, if we don't do the right thing, we're going to close some of the refineries that we have presently.

The Chair: Thank you very much.

Thank you, Mr. Trost.

We'll go now to Mr. Stewart, for up to seven minutes. Go ahead, please.

Mr. Kennedy Stewart (Burnaby—Douglas, NDP): Thank you, Mr. Chair.

Welcome to the witnesses, and thank you very much. It's been very illuminating testimony over the last two sessions, and I look forward to the next two.

The NDP introduced the motion to study refineries and pipelines for three reasons. First, we're really concerned about the decline of Canadian-based refining. Second, there is much talk about pipelines, and we're interested in getting to the bottom of the benefits and risks associated with pipelines, especially new pipelines. And probably most important, the Minister of Natural Resources promised that he would produce an energy strategy for Canada. He talked about this last June, but it hasn't yet materialized.

The NDP is using the information you're providing to us over these days in our own research. We have a large team working on our own energy strategy, which we'll be presenting later this year. We'll be focusing on domestic oil security, export markets, our climate change response, and, perhaps most important, how to move to greener energy sources.

I will just move to a first question about refining. Statistics presented at our last session show that since 1980, the number of refineries operating in Canada has dropped from 39 to 15. That's about a 60% decrease. At the same time, our refining capacity over the same period has declined from about 2.2 million barrels a day to about 1.9 million barrels a day. That's a decline of about 15% over that period. To us the outlook for domestic refining capacity seems pretty bleak.

To all three of our guests today, what would be your outlook for the oil refining industry in Canada over the long term?

● (0935)

Mr. Michael Ervin: I'll take a crack at that first.

The Chair: Go ahead, Mr. Ervin.

Mr. Michael Ervin: As per my comments, I think the outlook is generally towards the continued decline of capacity as a result of what is inevitably going to be a declining gasoline demand. Given that gasoline constitutes about 40% of production of all petroleum products, that is going to be weighting the overall decline.

Diesel demand could very well increase in North America, but again, that does not constitute the majority of the barrel at refineries. Diesel is also going to be made, and is being made, by upgraders. That's going to take, again, some of the demand off the refineries for making diesel.

The outlook really is for lower demand, not just in Canada, but in North America. Given that, BRIC countries will be building capacity —probably ahead of their expected demand—in order that as demand continues to grow with those growing economies, the refinery capacity will already be in place.

Over the next decade in particular, therefore, I would see a glut of capacity brought about by that very factor, in addition to those factors I have mentioned.

Mr. John Quinn: Let me just talk about Suncor's experience here. Previous to that, of course, we merged with Petro-Canada a few years back and with what the Petro-Canada experience was.

The Oakville closure was brought up. That was a refinery in Oakville, Ontario. It came down in 2005. That was a very tough decision. I've been involved over the years in several of those refinery closures, which started as the industry began to rationalize back in the eighties. They are not happy decisions. We looked at Oakville every imaginable way to see how we could save that plant, but the problem is we're not immune to the economies of scale in the world. It was a small plant, and it was facing a massive investment in order to reduce sulphur in gasoline and in diesel specifically.

It just got to the point that the plant simply couldn't sustain the level of investment that was needed. We chose instead to expand Montreal, and we did expand Montreal. We didn't expand it so it had the same production capacity for light oil that Oakville had, but it was pretty close. We replaced all of the production capacity for diesel and about half for gasoline that Oakville had had.

The reason we didn't go all the way on the gasoline replacement was that, given the configuration of the Montreal plant, the cost of taking that extra increment on gasoline production capacity would have meant another major step change in the investment we needed to make there.

We were also concerned, even back in 2003 and 2004 when we were looking at this, about the long-term decline in gasoline demand in North America, which has been predicted for a long time now. We thought we would be better to import a small amount of our supply into eastern Canada, rather than building the capacity and finding out that we couldn't take advantage of it over the long haul.

That strategy has actually worked out very well for us, and we feel that's one of the reasons Montreal continues to be well positioned to face the future. Diesel supply is probably okay. Diesel demand is not bad. We're well positioned to absorb reduction in gasoline demand, and if we could—and I'll come back to support—with a line 9 reversal.... There's no guarantee western crudes will stay less expensive, necessarily, but that option sure gives us flexibility. The more places we can source crude from, the more viable plants are.

It may be a long way around.

The other piece is that I don't want to ignore—because we don't shorten our refining stats—the upgrader capability of producing diesel, which is where the growth will be, if anywhere, in Canada.

● (0940)

Mr. Kennedy Stewart: Following on that, we've heard that as we pipe the high-end products like jet fuel and gasoline, the longer the pipeline is, the more you might get some kind of contamination.

If you're looking at diesel, though, do you have the same kind of contamination problems with diesel as you do with...?

Mr. John Quinn: We sure do.

In fact, diesel is probably the one we're most concerned about, because it has a tolerance of only 15 parts per million of sulphur delivered into the customer's tank.

We actually produce diesel at our sites with probably around five parts per million of sulphur. We inject in the lines. We have our own internal specifications to inject into pipelines at eight, and it does tend to pick up sulphur because it's batched with other products in the line, with different levels of sulphur in each of those various products. We protect the diesel even more closely than all the products. Part of the challenge in moving around refined products versus crude is the requirement to maintain product specifications at the end where we deliver it into our terminals and where we ultimately deliver it to the customer.

There is a lot more handling required and a lot more care around product movement and pipelines than there needs to be. Forget safety and reliability; those are important whether it's crude or products, but product specification on refined goods is much tougher to deal with.

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

We go to Mr. McGuinty, who has up to seven minutes.

Mr. David McGuinty (Ottawa South, Lib.): Thank you, sir, and good morning, gentlemen.

I want to pick up on a couple of things and ask Mr. Ervin to begin to respond.

Our guests from the union here today testified that the two pipelines being contemplated are wrong-headed because it places us in a dependency position on the U.S., that we shouldn't be exporting our energy without securing our own energy security first, and that the NAFTA proportionality test should be revisited.

Can you take a second to comment on that? Do you agree?

Mr. Michael Ervin: I'll talk about the consequences of not building the Keystone XL pipeline or the Northern Gateway pipeline.

That would really close in production of Canada's oil sands to a significant degree. The line 9 reversal would by no means be sufficient to continue the progression of Canada's oil sands production. That's the first fundamental concern, if you will, or consequence of not proceeding with those first two pipelines.

Vis-à-vis energy security, I don't think there's as much of a concern there from a Canadian perspective as some might imagine. There certainly are a lot of safeguards already in place in a North American context. Should a worst-case scenario occur, the United States, for example, has a huge strategic reserve of crude oil that would keep that country going for quite some time—not weeks but months. Again, in a North American context and given the NAFTA provisions, we have a degree of security by that means alone.

I simply cannot imagine a scenario where the east coast could not receive supplies of crude oil from some source, given their proliferation of upstream capacity in non-OPEC countries, for example, non-Mideastern countries, right around the globe.

Mr. David McGuinty: Mr. Gargiso raised the important question that we've all been kicking around here, which is this question of where we are going as a country with respect to energy.

Mr. Quinn, your company is a very large company. You're involved with refining and marketing, but your company is also involved in renewables. Has your CEO, your board, or your company spoken publicly about the need for a more coherent examination of where Canada is going on the energy front?

Mr. John Quinn: Yes. In fact, our current CEO, Rick George—who, as most people are aware, is stepping down in May, but he is still our CEO—has been quite vocal on the subject and very supportive of a national energy strategy.

I think what he would say is that it needs to go beyond energy production. We need to look at how we move ourselves around in this country. We need to look at how we build our cities and how we build our homes. We need to work on conservation ethics. We have what we call our sustainability triple bottom line: we have to worry about the economic well-being of our business and our broader economy; we have to worry about the environment; and we have to make sure that the social well-being of the country is considered in everything we do in our business. Rick's been quite vocal on that. He thinks we need to take a 10-, 20-, or 50-year view of where we're going on energy in this country, and we need to do it broadly—we can't just deal with one sector at a time.

So he's been very supportive—

● (0945)

Mr. David McGuinty: This is a quick study on the current and future states of oil and gas pipelines and refining capacity, but when you say "broadly", is your company, your board, or your CEO saying that we have to connect things that remain unconnected?

For example, what is the future of nuclear power in Canada? What is the future of geothermal in Canada? What is the future of biofuels in Canada? What is the future of energy conservation and renewables in Canada? What choices are we making as a nation-state, as a federal government? How are we partnering with provinces to give rise to different forms of energy?

Is that what he's talking about?

Mr. John Quinn: Absolutely.

Mr. David McGuinty: Is that a belief or a view that's held in a widespread fashion throughout the fossil fuel sector?

Mr. John Quinn: I'm not here to speak for the other companies. I'm really not here to speak for Rick either. He is on record for—

Mr. David McGuinty: Mr. Ervin, do you think that's being talked about more openly? We've heard Premier Redford from Alberta raise it. The Premier of Ontario and the Premier of Quebec have raised it. Is this something now in the private sector? We just heard it from an important union here representing a lot of workers.

Mr. Michael Ervin: I don't want to speak for the industry, but the need for an integrated strategy is acknowledged. There is such an interplay among those factors you mentioned—nuclear, biofuels, and other alternative sources—and that will certainly have a big impact on decisions made in the refining sector, for example, which is today's topic. So the need for that is clear.

Mr. David McGuinty: Mr. Ervin, why are Texas refineries running out of Mexican supply? Just this week we heard testimony that one of the reasons why we need to ship our crude to Texas refineries on the gulf coast is because they're running out of Mexican supply.

Mr. Michael Ervin: I wasn't here to actually hear that testimony and the background to it, but certainly all regions are depleting a non-renewable resource. That's the only thing I can add to that, without being provided with any more context.

Mr. David McGuinty: Okay.

Mr. Newman, I think you wanted to respond.

Mr. Keith Newman: Yes, thank you.

You mentioned an integrated strategy. Our union developed one about 10 years ago, and we updated it a few years ago again because of all the changes going on in the area. We definitely believe there has to be an integrated view of all our energy sources, but underlying that we have two main things.

One is that we need our own energy security and independence, because we don't believe we can rely on good luck. We believe a prudent policy means that we take into account the possibility of bad things happening.

I live in Quebec, and I was actually moved into a shelter when we had the big power failures about 10 years ago. So it's not theoretical to me. That happened to hundreds of thousands of people. This could clearly happen to some if heating oil gets disrupted, to take a worst-case scenario. But in the real world these things happen occasionally —not often, let's hope.

The other thing that underlies our view is that we must try to get, as Mr. Gargiso was saying, the most economic activity, jobs, and well-being for Canadians as possible, given our incredible wealth in all of these things. We don't think exporting the stuff out of the country, without regard to all of our interests first, is a proper and prudent policy.

● (0950)

The Chair: Thank you.

Thank you, Mr. McGuinty.

Continuing our questions and comments to the five-minute round, Mr. Calkins, you have up to five minutes.

Mr. Blaine Calkins (Wetaskiwin, CPC): Thank you, Mr. Chair.

As an Alberta member of Parliament, I'll probably be focusing my questions in that vein.

Mr. Gargiso, in his testimony, has suggested that Canada or Alberta exports raw bitumen products.

Mr. Quinn and Mr. Ervin, is that a factually true statement? Is the bitumen that's exported through a pipeline, or via a tanker or train, actually raw bitumen?

Mr. Michael Ervin: There are two kinds of products emanating from oil sands production. Alberta produces a great deal of conventional crude oil as well, some of which goes to the United States. But a great deal of it is used in Canadian refineries as well. Yes, bitumen is exported to the United States. It can be in the form of what's referred to as synbit, which is bitumen that has been—

Mr. Blaine Calkins: Is that actually the raw bitumen that comes right out of the oil sands?

Mr. Michael Ervin: No, it's not.

Mr. Blaine Calkins: So the answer to the question is no.

Mr. Quinn, would you agree with that?

Mr. John Quinn: It's a heavy oil that's exported. It's blended with diluent or synthetic crude to allow it to flow. It doesn't have sand in it, for example.

Mr. Blaine Calkins: At the first point of extraction, when the sand is removed from the heavy oil, is it transportable by pipeline?

Mr. John Quinn: No.

Mr. Blaine Calkins: So what does it have to be in order to get the flow?

Mr. John Quinn: It has to be blended with something else, so it's blended with a condensate.

Mr. Blaine Calkins: Okay. It has to be decoked and—

Mr. John Quinn: That's correct.

Mr. Blaine Calkins: —it has to go through some type of cracking process. It has to have a diluent added to it. Where does that diluent come from?

Mr. John Quinn: Well, some of it will come out of, say, refineries; it's a light end product out of a refinery.

Mr. Blaine Calkins: So other refineries such as midstream gas processors and so on will be providing the diluent that's needed. Through that refining capacity that we already have and all the jobs associated with that refining capacity, and the gas industry providing diluent to the oil industry, so that it can ship its upgraded synthetic product overseas.... It's not just actually pulling raw product out of the ground and shipping it off; it's not like we just chopped down the tree and sent it down the road, right?

Mr. John Quinn: You make a very good point. There's an enormous amount of labour and technology involved in extracting bitumen and putting it in a form that can be placed in a pipeline and transported.

Mr. Blaine Calkins: That's right. That's the point I'm trying to make here. Detractors of some of these pipeline projects we talk about, whether that's Keystone or the Northern Gateway pipeline, say that we're simply sending raw products and outshipping all of these jobs, but the reality is that there are thousands and thousands of jobs dependent upon this.

Another example of what the detractors might say is that, for example, if the Gateway pipeline is actually created, it will only have about nine to 50 people actually looking after the long-term maintenance of the pipeline once the initial batch or glut of construction jobs is completed. But the reality is that 400,000 or 500,000 barrels a day is going to result not just in pipeline maintenance jobs, it's going to result in a huge amount of jobs, not only in the construction of or further expansion of the oil sands development in order to meet the demand to fill that pipeline, but also in the ongoing jobs associated with extraction, processing, and upgrading of that bitumen.

How many jobs would that be? Mr. Quinn, I don't know if you're uniquely positioned to answer this question or not, but in order to produce half a million barrels a day in the oil sands, how many jobs would that result in for oil sands workers across our country?

Mr. John Quinn: I wouldn't even want to try to take a guess at that—

Mr. Blaine Calkins: Well, how many—

Mr. John Quinn: —because I don't know. I'm here to represent refining.

Mr. Blaine Calkins: Okay.

Mr. John Quinn: What I will say is that our biggest challenge in Suncor in the next five years.... We have a growth plan. Today, in fact, our upgrading of bitumen into synthetic crudes is pretty much balanced with our extraction of raw bitumen. We are a big upgrading company. We will produce more bitumen going forward than we will upgrading capacity, but still, we are very much about upgrading to synthetics.

Our biggest challenge going forward to deliver that vision is the need for thousands of skilled jobs, in Alberta in particular, but they resonate across the country for suppliers of goods and services to that construction effort and to that ongoing production effort as we go forward. There is no shortage in the requirement for skilled jobs in this country going forward.

Mr. Blaine Calkins: Many of the things that are built for all of these upgraders and so on aren't necessarily built in Alberta either, are they? They're built all across the country.

● (0955)

Mr. John Quinn: Yes, there are some good statistics out there—I don't have them with me today—about the expected impact on each of the provinces in this country from investments that will take place in Alberta around the oil sands.

Mr. Blaine Calkins: I now want to address the issue of energy dependency. It's true that Canada is a net exporter of oil products, right? In this particular case, we're talking about oil pipelines. This is the refining capacity we're talking.... Is Canada a net exporter of oil?

Mr. John Quinn: Yes, and of refined products as well.

Mr. Blaine Calkins: In your estimation, does this mean that Canada is dependent upon other nations for oil?

Mr. John Quinn: You know, again...no, not totally.

Mr. Blaine Calkins: It's simply a matter of economics—

Mr. John Quinn: It's economics and balancing at each end of the country how we manage our network.

Mr. Blaine Calkins: Absolutely, and if worst came to worst and we weren't able to import oil on the east coast, for whatever reason, it would simply be a matter of a simple change in how we distribute the products we produce here in Canada, in order to make sure everybody has access to the fuel sources they need. Is that not true?

Mr. John Quinn: Yes, we've actually gone so far in recent years.... It's not very economical most of the time, but we have put western oil on a tanker on the west coast. We've moved it through the Panama Canal and have brought it into Montreal to run, in part to test what Montreal's capability is with respect to western crude quality. So yes, those things are always possible when you're faced with a real shortage.

The Chair: Thank you, Mr. Calkins.

Mr. Blaine Calkins: Oh, I have a really good question.

The Chair: Your time is up.

Mr. Anderson, you can ask Mr. Calkins' question if you can read his mind and know what it is.

Go ahead, please, for up to five minutes.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you.

Well, I am going to follow up with just one question on that. You would say, then, that Canada does have a secure supply of energy. Or would you say that?

Mr. John Quinn: Yes, absolutely.

Mr. David Anderson: Okay. Our other witnesses did not seem to be saying that.

I want to follow up on something Mr. Ervin said.

You talked about the super refineries being built in India. I think you said something to the effect that they can refine to gasoline standards and could possibly ship that around the world. Is that a fair statement?

Mr. Michael Ervin: Yes, indeed.

Mr. David Anderson: What I'm wondering then is why we can't export finished product. We've heard that we're operating at 83%. If we were to go to 100%, why couldn't we be shipping that finished product around the world as well? Is that an issue of price, or what comes into play there?

Mr. Michael Ervin: It really does come down to price. In the past I would have referred to gasoline and diesel as being regional in terms of market nature, but over the last decade it really has become a global market, much in the same way that crude has always been a global market.

You have to be able to compete on price. For instance, as has been the case for many years, Europe is long on gasoline; they have a surplus of gasoline production. They ship to the United States, and they typically have done that for decades during the high-demand summer periods because the European market would be soft for gasoline and there would already be a demand in North America for that product. So for Canada to export—

Mr. David Anderson: Are we incapable of doing that or is the demand not there at the present time?

Mr. Michael Ervin: Certainly the capacity of refineries in North America was not sufficient to export until 2008. As some testimony here has illuminated, the U.S. has become an exporter of petroleum products as a result of that excess capacity.

The fact is that with low crack spreads that excess capacity is going to dry up. The low crack spreads will simply not sustain some of the smaller, less efficient refineries. That will shrink capacity over time down to a sustainable level, so the export opportunity with it will decline as well.

Mr. David Anderson: My question is why is it there for India and not for us? It seems that we—

Mr. John Quinn: Let me try to take a slightly different approach to that. In India you can build a million-barrel-a-day refinery, which they're doing today. They have a local market that supports that refinery. There are profits from that local market—it's close by. So they build the profitability base in that plant off their local market. They'll scale that plant to their local market.

They can take an increment of a million-barrel-a-day plant, with the economies of scale that go along with that. In a region that has warm weather operations there is a lower cost of operation at that facility, and I'm sure there are lower wage rates in those plants and that it is generally an easier regulatory environment. Although they could tailor a product for Canada and North America, all the product they're making isn't necessarily to that standard.

Those things in combination allow them to carve out a portion of that refinery or take an incremental expansion that they can move a lot more cheaply to market. Frankly, they can take a little bit less profit on that piece but still some profit.

● (1000)

Mr. David Anderson: Even though we already have—

Mr. John Quinn: We don't have the local market.

Mr. David Anderson: Even though we already have the infrastructure in place?

Mr. John Quinn: Well, we wouldn't have infrastructure in place for a million-barrel-a-day refinery, that's for sure.

Mr. David Anderson: But we do now for a 15% capacity of.... Anyway, I'll move on to something else.

I was interested when you said there is a long-term prediction of reduction in gasoline demand. Have those predictions been accurate, the predictions that were made for five and ten years hence? Have you been able to predict the future accurately in the past? Leading from that I'm going to talk a little bit about the future, but were the predictions that were made a few years ago accurate?

Mr. John Quinn: Well, I wish I could predict the future accurately because I probably wouldn't be sitting here today.

Mr. David Anderson: Exactly. But did you predict it accurately in the past?

Mr. John Quinn: I think the right answer is that it's tough. I mean, it moves around. We've been through a recession in the last few years, so the numbers move around.

We do see very much a flattening of gasoline demand. The thing that is really going to drive it to the next step is the coming fuel efficiency standards for automobiles in the United States. We know that's coming. That will be the trigger—

Mr. David Anderson: That was my next question. What is contributing to that? Is it other sources of energy coming online, or is it an actual decline in use or a decline in economic activity in North America?

Mr. John Quinn: Of course, recently there has been a decline in economic activity and it has had a hit. We were starting to see some erosion in gasoline this year versus even a year ago, but fuel efficiency standards will really drive this as we go forward.

Mr. David Anderson: Does anyone else have—

Mr. Michael Ervin: Well, certainly the advent of the renewable fuel standards displacing about 10% of gasoline production in the United States and somewhere between 5% and 8% of gasoline production in Canada is one factor. That is kind of a one-time thing.

In terms of ongoing future trends, automotive technologies, as Mr. Quinn mentioned, certainly.... In addition to that, there are consumer preferences. The demographics are going to lead to changes in consumer patterns. People will be driving smaller, more fuel-efficient cars and will probably not need SUVs and minivans to such a great degree. Again, it's due to demographics. We're shifting towards an older population who are not taking five-year-olds to soccer games anymore, for example.

Mr. David Anderson: Thank you. I have one more—

The Chair: Thank you, Mr. Anderson. Your time is up.

We go now to Monsieur Lapointe for up to five minutes. Anyone who doesn't understand French should set their earpiece to English.

Go ahead, Monsieur Lapointe.

[*Translation*]

Mr. François Lapointe (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, NDP): Thank you, Mr. Chair.

The current government talks a lot about security. Anyone who questions a pipeline's pathway is even accused of going against the country's economic security.

I have a bit of a problem this morning. I am learning that eastern Canada has no real energy security. I do not think it is any more important to worry about western Canada's economic security than it is to worry about the possibility of hundreds of thousands of Quebeckers or Maritimers one day having no heat in the winter.

I am also learning that there may be an energy security plan that would make it possible, for instance, for a tanker to go through the Panama Canal to help us out if Africa ever had a problem that was too big. Can we really call that an energy security plan for eastern Canada?

Mr. Newman, what do you think?

Mr. Keith Newman: I think Mr. Gargiso could answer that.

Mr. Joseph Gargiso: When it comes to petroleum product supply, the specific situation of eastern Canada has been on the radar for some time. It came to the fore when Shell announced the closure of its refinery in 2010. Refining capacity was being cut by 25%. That was when a red flag went up and people tried to say that something had to be done.

That is what spawned the whole discussion about reversing the flow of line 9 of the pipeline. Security is not just a matter of the end product but also a matter of crude supply.

In my view, a country with as many oil resources as Canada should start by ensuring that the entire country has a guaranteed supply. It is not enough to say that we will put it on a tanker and move it through the Panama Canal and hopefully it will arrive a week later.

● (1005)

Mr. François Lapointe: It would actually be a sustained energy security plan and not just part of one in the event of a disaster.

Mr. Keith Newman: Mr. Lapointe, let's look at Quebec. Twenty-eight percent of that province's oil comes from Algeria and about twenty percent comes from Kazakhstan. That means that nearly 50% of its oil comes from countries that have had quite serious problems. The other main source is the North Sea, with the oil coming from England or Norway. And normally that would be considered secure.

However, forecasts show that their production will drop by half in the next 10 years. I would not call that—

Mr. François Lapointe: That is not an energy security plan.

Thank you.

As far as the closure of the refinery in Montreal goes, I believe the remaining production is currently maxed out. Do you think that has an effect on the price of gas in eastern Canada? Could that have driven up the price of gas in eastern Canada?

Mr. Joseph Gargiso: You would need another committee to study the price of gas. It is a pretty broad topic with many factors at play.

Mr. François Lapointe: Too many to make any headway on the matter?

Mr. Joseph Gargiso: Exactly.

Mr. François Lapointe: Would you also agree that, oddly enough, some of the world's biggest oil-producing nations have clearer plans to achieve some degree of independence when it comes to oil? As far as I know, the industry does not see that as a threat. On the contrary, it knows what to expect over the next 30 years and is able to make forecasts spanning 30 years.

What is your take on the fact that Canada has no clear plan on how to diversify or achieve some degree of energy independence? Do you see it as a drawback, even for the industry, since it cannot make any forecasts for the next two, three or four decades?

Mr. Joseph Gargiso: It brings to mind a country that has development plans for the next 20, 30 or 50 years. The industry does not like uncertainty. If there is a 50-year plan in place, the industry will know where things are headed and will be able to adapt and adjust accordingly.

Mr. François Lapointe: Mr. Quinn still has 30 seconds to respond to the comment on the lack of a long-term plan. Is that seen as positive, even from the investor's perspective?

[*English*]

Mr. John Quinn: Again, I'll come out and say that we have been in support of a national energy strategy, which we think helps to map out a long-term plan. Plans are plans. Then we have to deal with the realities and adapt to the realities as we move forward. But we are supportive of that, certainly, and we are supportive of—

Mr. François Lapointe: Can the lack of a plan help the strategy of the investor? Can it help, this absence of a plan?

Mr. John Quinn: Again, there's greater uncertainty in the industry in the absence of plan, yes.

Mr. François Lapointe: Thank you, Mr. Quinn.

The Chair: Thank you, Mr. Lapointe.

We'll go now to Mr. Allen, for up to five minutes.

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

Thank you, gentlemen, for being here today.

I just want to follow up, Mr. Quinn, on your testimony in terms of Enbridge line 9. You said this could foster possible investments in Montreal to allow it to more fully adapt to those crudes. Given Mr. Ervin's comments about our crack spreads and everything else associated with that, is that likely? Or is someone forcing the oil to move that way the only way to force something like that to happen, which wouldn't necessarily be very conducive to provincial domain over energy?

Mr. John Quinn: Today Montreal is capable of running some western crudes, a limited degree of western crudes, from an oil sands base. They're quite capable of running western Canadian conventional light crudes. That's not a problem at all. It depends on what you put into line 9 coming east.

The money you'd spend in Montreal would be for taking greater advantage of synthetic crudes and even bitumen-based crudes, such as the heavier crudes, without full upgrading to synthetic. That's where the investment would come. You'd look at that carefully based on price structure and the relative cost of that crude and its quality versus other available crudes. And that's what would give Montreal, then, flexibility.

I don't think we're promising that we would necessarily come off foreign oil, but we would almost certainly take a far greater proportion of our oil from the west. But those will be negotiations that will go forward, presumably with Enbridge, as they make their decisions around that line.

● (1010)

Mr. Mike Allen: Mr. Ervin, do you have any comment on that?

Mr. Michael Ervin: The choice of feedstock for any refinery is based on a vast number of considerations. There are very sophisticated computer programs that do that sort of planning. But the trade-off between taking western crude and available crudes from other sources like crudes really comes down to the investment at the refinery.

As Mr. Quinn said, there would be a need for investment in refinery capacity, within certain capabilities, to produce gasoline from heavier crudes. That's the real question to be answered, which we can't really break down and analyze in this meeting. It's not just a choice of closing one tap and opening another. Investments would have to be made at the refinery to accommodate heavier crudes.

Mr. Mike Allen: Mr. Quinn, you talked a little bit about more upgraders in the west. You're roughly balanced now, but you said you might get a little bit behind in that. I think there are some estimates that to beat Alberta's goal of two-thirds of it being upgraded, four more upgraders would need to be built by 2020. Do you have any estimates on the number of upgraders you'd be looking at, and what is the investment?

Mr. John Quinn: We're adding one big one, called Voyageur. It's in the middle of engineering right now. As I said earlier, I think, we expect to have that up and running by 2017. That adds 200,000 barrels a day of upgrading capacity. With the increase in bitumen production we're investing in as well in the west, that will keep us in balance for some time. I think by 2020 we'll probably get to somewhere like 75% of the bitumen being upgraded. That's directionally where it goes.

It is billions of dollars. I'm not going to get specifically into the investment in a project, but it's billions of dollars.

Mr. Mike Allen: Do you have an estimate of the number of jobs that creates?

Mr. John Quinn: Again, I'm sorry. I'm not absolutely sure. It's thousands.

Mr. Mike Allen: Can I extend the conversation of value-added one step further? Is there any opportunity, as we go forward, to look at other advanced products, such as bioproducts and plastics? Is there any thought, going forward, about the high-level jobs they would create?

Mr. John Quinn: We already do some chemicals. We have chemical feedstock manufacturing at both Montreal and Sarnia—benzene, toluenes, and xylenes that are feedstocks into other chemical facilities. It's a tough business, chemicals.

We also invested, a few years back, at Montreal. We've got a half interest in ParaChem, which manufactures paraxylene, which again takes partly finished products from our refinery in Montreal and from other sources and moves it into its facility and takes it to yet another level of chemical, which then goes into the manufacture of plastics and things like that.

So, yes, there's always that opportunity, but it's a tough business. It's one we look at pretty cautiously—I think that would be the right word.

The Chair: Thank you, Mr. Allen.

Monsieur Gravelle, you have up to five minutes.

Mr. Claude Gravelle (Nickel Belt, NDP): Thank you, Mr. Chair.

Thank you to the witnesses for being here.

My question is for the members of CEP.

When the NEB is evaluating an export pipeline, I would like to know how much consideration is given to domestic jobs and local economic impacts. Should this be an important factor in deciding what we do with our resources?

Mr. Joseph Gargiso: Currently, there is none.

We've appeared consistently on virtually every project over the last number of years, and jobs are not considered. They are not a criterion. They are not even considered a public interest. It's as simple as that.

I mentioned earlier that the left hand doesn't know what the right hand is doing right now.

Last night I was talking to our representatives in the Chevron refinery in Burnaby, B.C. This refinery refines 60,000 barrels of oil a day. It's a small refinery, very small, but it's only one of two refineries left in B.C. There is a very small Husky refinery up around Prince George that refines about 11,000 barrels—it's small and services the local market. But in the lower mainland of B.C. it's the only refinery left. This March, the refinery will be curtailing production by 20,000 barrels. Why? Lack of feedstock. I thought we had the second largest proven reserves and were the Saudi Arabia of the new world.

Why couldn't they get the 20,000 barrels? Because the National Energy Board gave permission to—I believe the name is Kinder Morgan—the pipeline operator to actually auction off the oil. So they got out-bid by a better offer. I don't know if it was from China or maybe from India. I don't know. The consequence is that that refinery not only is curtailing, but, according to our information, all options are on the table. All options are on the table. In our jargon, that's what Shell said before they shut the refinery down in Montreal.

There you go. Lack of feedstock.

● (1015)

Mr. Keith Newman: Could I add to that?

You make your options as well. If we don't do lots of upgrading.... We need a lot of upgraders to feed a petrochemical industry. If we don't have the feedstock—and the petrochemical industry, by the way, has been complaining about lack of feedstock for natural gas for a long time because they can't get it; we're shipping it to the United States, again. So here we have potential. If we can do a lot of upgrading of our bitumen, rather than shipping it out diluted—true; if we upgrade it at home, we'll be able to have options of petrochemicals, chemicals.

Of course they're very competitive businesses, naturally. Many business are very competitive.

What does it mean when we say someone else should do it? We'll give them the raw material and they'll do it for us? Well, we don't accept that. We think we should be a mature, high-tech country, with highly skilled workers, and we should be capable of producing these various products that others are producing with our raw materials.

Mr. Claude Gravelle: As a follow-up to what you've said, if this refinery production is curtailed, how many jobs will Burnaby—Douglas lose?

Mr. Joseph Gargiso: I don't have those actual figures, but we can forward numbers on direct jobs, indirect jobs, and economic spinoff. But you know, if you just take the proportion....

We did a specific study for Shell, and Shell meant 800 jobs. These were direct in the sense of Shell employees, plus contractors who actually reported to work every day. These were 800 full-time jobs, jobs that paid $80,000 minimum, with the overtime, and lots of people were earning over $100,000. That's in the refinery, not in the office or in management or the engineers.

There were 2,400 indirect jobs. As well, the economic spinoff for the Montreal region was $240 million a year.

So 60,000: take a third of that and I think you have a pretty good picture of what we're talking about, although probably—

The Chair: Yes, Monsieur Gravelle.

Mr. Claude Gravelle: Could we ask them to forward us the numbers?

The Chair: Sure.

So we'll be looking for the numbers from you—one of the two.

Mr. Claude Gravelle: Thank you.

The Chair: Mr. Daniel, you have up to five minutes, please.

Mr. Joe Daniel (Don Valley East, CPC): Thank you very much, Chair.

Thank you to the witnesses.

My background is engineering and technology, so this is more to see what your industry has been doing in terms of changing and improving processes for your plants in terms of efficiency, in terms of process, so that you have improved. I mean, you can see what's happening in the computer industry, in the electronics industry. It's been doubling in performance almost every few years.

What has been happening in your industry with regard to refining?

● (1020)

Mr. John Quinn: As I think I said in my remarks, we invest hundreds of millions. You can read it in the public record. It's in our annual reports. In our four refineries, every year we invest roughly $600 million.

That's really just to keep the plants well maintained, reliable, and safe. It's also to ensure that we meet regulatory requirements, that we continue to move forward on some of our environmental commitments with regard to energy efficiency on the sites, and to maintain standards at those sites.

But the biggest investment we've made—we've made two of them in recent years, one at Edmonton and one at Sarnia, in the range of billions of dollars—is to adapt those plants to the changes in crude quality that exist here in Canada coming out of the oil sands. Those are massive investments in metallurgy, in hydrocracking and upgrading of those heavier, denser crudes into the same amounts of gasoline and diesel that we would have made out of lighter, sweeter crudes.

I'm not going to go into the oil sands side of the business. I think most of you may be aware of some of the advances we've made there in tailings technology, etc.

If I have another moment, I'll just mention the very other end of our business, our lubricants business, where we sell 350 specialized products. We do a lot of product development work in that area, with patents out on a variety of different products. We're selling our lubricants, the highest-quality lubricants in the world, in 70 countries now. There has been a lot of research and development work inside that arm of our business, to continue to allow it to be competitive and in fact grow, which it has done quite nicely in recent years.

Mr. Joe Daniel: Thank you.

Anybody else?

Mr. Michael Ervin: I'm not sure I have a great deal to add other than the fact that over the course of the past several decades, a lot of the investment going into refineries has been in order to comply with increasingly stringent quality demands imposed on the industry. I would argue that the mandated investment has taken away from the ability of refiners to put more capital into growth investment as opposed to compliance investment.

I think that's the real take-away here. There's a need for continued examination of the impacts of the manufacture and consumption of petroleum products, but those initiatives do come at a cost.

Mr. Joe Daniel: As a follow-up to that, you obviously see the use of these fossil fuels declining over the next little while as electric technology and some of these other technologies come along for vehicles, do you?

Mr. Michael Ervin: Yes. Particularly in the case of gasoline in North America, there's widespread belief that this will be the case. Globally, of course, demand for crude oil is forecast to grow, but it's very important to state and understand that refinery capacity has always been built, and for good reason, close to the point of demand as opposed to the point of raw material supply.

Mr. John Quinn: Actually, I want to pick up on that point. I think we touched on it earlier.

It is more difficult to transport refined products across long distances. The amount of handling, product specification, and care and feeding as you go down the supply chain is very critical. It is much easier to move crude oils to where they are needed as opposed to moving refined product. That is the reason why you typically do see refineries built where local demand is. You then have to adapt as you go forward, because demands change and refinery configurations change.

So I really do believe that where refining capacity is needed, it will get built. To try to build it here and move that capacity to where the product demand is would be a very tough challenge and we don't think a very profitable endeavour.

The Chair: Thank you.

Okay, Mr. Gargiso, you can give a short answer.

[*Translation*]

Mr. Joseph Gargiso: I would just like to add one point to that discussion.

With Shell, there were refining facilities. I would point out, by the way, that they are not yet dismantled, but are supposed to be this spring. There was also a level of consumption. There was a balance there. Why was Shell allowed to close? Why was that refinery allowed to shut down, whereas Valero had a refinery in the Delaware Bay that was in the same situation? Valero wanted to shut it down, but the government very actively stepped in. It told the company that if it no longer wanted to be in business, someone else would take over the refinery's operations. So it was sold and is currently in operation.

I am saying that we should adopt a strategy on the basis of similar real-life examples. We have a refinery, but a decision was made to close it. Afterwards, we hear all this talk that it would cost $7 billion to build a new refinery, but we had one. And yet in this same environment that is the North American market, others have not shut down. In this case, the fall guy was us.

● (1025)

Mr. Keith Newman: I would add that—

[*English*]

The Chair: Thank you, Mr. Daniel.

Madam Day, you have up to five minutes.

[*Translation*]

Mrs. Anne-Marie Day (Charlesbourg—Haute-Saint-Charles, NDP): Thank you, Mr. Chair.

I will continue along the same lines since it has to do with economic indicators.

When a company shuts down, GDP drops. In this case, we are talking about a $4-billion drop, not to mention the job losses. In fact, some 38,300 jobs are expected to be lost by 2035. That means an increase in unemployment. What's more, global demand is currently on the rise. Net profits and tax revenues are on the decline because workers no longer pay taxes. And companies no longer pay the royalties. When a business like the Shell refinery closes, the impact is devastating.

In terms of environmental performance, how do Canada's refineries stack up against those of countries such as the U.S., India and China?

[*English*]

Mr. Michael Ervin: The products that are produced by Canadian and indeed North American refineries have pretty much the highest-quality standards of any products in the world. They are certainly on a par with Europe. If you look at the products sold in other countries, they don't necessarily meet the same specifications in terms of some of those factors that I've already mentioned.

Yes, they are high-quality products, but I will add that many other refineries, being aware of the potential opportunities, are configured to make gasoline of quality that can be and sometimes is sold in North America as well.

[*Translation*]

Mrs. Anne-Marie Day: What improvements could we make to our refineries now to make them more competitive on the environmental front?

Mr. Newman, could you answer that question?

Mr. Keith Newman: Actually, it has more to do with engineering. I do not really know what it would take specifically to make our refineries more environmentally efficient. I believe that we should certainly apply the best regulations in the world. Furthermore, if we import products from countries with less stringent regulations or if we export our oil to those countries, we contribute to environmental pollution at the global level. However, I cannot specifically answer your question on which measures should be taken.

Mrs. Anne-Marie Day: Do you have any data on the subject?

Mr. Quinn?

[*English*]

Mr. John Quinn: When you talk about environmental performance, there are a couple of places where we do meet what I would think are probably some of the best standards in the world. One is on emissions from the sites. You know, NOx, SOx, and volatile organic compounds. They're highly regulated. We're very much in compliance. Today there is ongoing work with Environment Canada to move forward on quality standards for air coming out of our refineries. We work very closely with Environment Canada to put in place a framework that meets the needs of industry as well as Canadians.

One of the points I would like to raise this morning is that we are looking for the kind of flexibility that says: here are your air quality standards for that site; go meet them. It's an outcome-based approach, as opposed to an approach where we go in and have dictated to us exactly how each piece of equipment needs to operate in the plant. So we're really advocating for an approach in which you tell us what you need around the facility in terms of air quality, and we'll go out and meet that standard. We'll figure out how, inside the plant, we can best do that. That's one.

From an air quality perspective, I think we're in a frame that's among the best in the world, if not the best in the world. I don't know that for certain, but I'm sure the Canadian government is very interested in making sure all industries are in that kind of framework.

The second one is on greenhouse gas. Again, there is lots of work ongoing on greenhouse gas, as you know, with governments today. We would really like a policy framework in this country that wasn't patchwork and that wasn't province by province. In fact, if the biggest bang for the buck on greenhouse gas is at site A, then we can do it at site A, and not have to do the same thing at every single site necessarily. We'd like a nice harmonized policy approach to some of these things.

Our biggest move on greenhouse gas in our refineries is for energy efficiency, and we work hard at that. There are rewards for us, obviously, in energy efficiency, and that's something we're very committed to.

● (1030)

[*Translation*]

The Chair: Thank you, Ms. Day.

[*English*]

We go now to Mr. Anderson for up to five minutes.

Mr. David Anderson: Thank you, Mr. Chair.

Right now my part of the world is very active in oil exploration and drilling and those kinds of things. There's so much activity there it's unbelievable. We've been told this morning there's a shortage of feedstock. Do you have a shortage of feedstock for your refineries?

Mr. John Quinn: I'm not sure. I don't think we do in the west.

Mr. David Anderson: We were discussing shortage of feedstock for the refinery, and we were left with the impression that there's a shortage because exports are taking too much. Do you find that to be true?

Mr. John Quinn: No.

Mr. David Anderson: Okay.

I just want to talk a bit about the impact of new technology. Certainly, in our area we had an oil field that was pretty much at the end of its life. They came in with the horizontal drilling, and it's completely revolutionized. I'm just wondering if you can talk a bit about the impact of some of the new technologies on refining, and what's changed over the last few years. Are there any significant changes?

Mr. John Quinn: Again, I'm not going to touch on the oil production side of the technology. It's not at all my area of expertise. For us on the refining side, the technology has been in adapting plants to new types of crude, different types of crude. There's enormous investment in that. Of course, we are a capital-intensive business and a technology-driven business, so that is very much at the heart of what we do. It is changing all the time. We work closely with the top engineering companies in the world to make sure we have the latest and the greatest as we reinvest in our sites.

Mr. David Anderson: Mr. Ervin talked a little while ago about the cost of mandated changes, and of course every time there's a regulatory change it costs money. We've talked a lot about regulatory burden and approval structures here and in another study we're doing. I'm just wondering if you have any suggestions for the committee. The government has talked about improving the regulatory structure and approval process and those kinds of things.

Do you have any suggestions? I'll actually go to all three witnesses in that area who are before the committee.

The Chair: We'll start with Mr. Ervin.

Mr. Michael Ervin: I think a key recommendation is—and the word was mentioned just a few minutes ago—harmonization. Whatever product quality standards are contemplated in Canada, it's very important that there be a harmonization of those with the United States. The implementation of sulphur reduction was an example where that didn't take place, and as a result it raised the real threat of isolating our market from the United States for that period of time. So it's very important that whatever standards do come under consideration, they be made in consultation and in harmonization with the United States, in particular.

Mr. David Anderson: The testimony the other day was that the witnesses saw North America as one system, I think it would be fair to say. I assume we'd have a little bit of a difference of opinion about that at the table today.

Did you have something to contribute about the regulatory approvals?

Mr. John Quinn: Yes, it's the same thing. I mentioned air emissions as being an example of the discussions that are under way today. Please, give us the outcome that is desired and allow us to help figure out how to best arrive at that solution.

Harmonization across regions is the other piece, and not just on the potential.... There are two provinces today with greenhouse-gas-type policies out there, and they're different. We also have a patchwork of renewables legislation across the country. It's boutiquing the fuels.

Our Edmonton refinery has to now supply to four provinces in the west, each with a different standard around ethanol and biodiesel blending. That increases the cost of how you do it, the number of tanks you have to put up there, and how you manage your base blends at the refinery.

● (1035)

Mr. David Anderson: We are aware of the jurisdictional issues.

Mr. John Quinn: I'm sure.

Mr. David Anderson: Gentlemen.

Mr. Keith Newman: The Irving refinery in New Brunswick was meeting higher standards at one time, before the rest of them came up. We believe that Canada should meet the highest standards—phased in over a reasonable time because you don't want to disrupt the industry. But that should be our goal, to have the best standards.

We also believe greenhouse gases are an issue. We should have a Canada-wide program for that and not a patchwork. It should be a responsible and very effective control on greenhouse gases as well, and on all environmental pollutants of various kinds, both toxic and non-toxic, the non-toxic being the greenhouse gases for the most part.

I think we can definitely meet all these, and I don't see why we wouldn't meet high regulatory standards.

The Chair: Thank you, Mr. Anderson.

We go now to Mr. Calkins, for up to five minutes.

Mr. Blaine Calkins: Thank you, Chair.

It's good to get the mike back.

I just want to ask a quick question with regard to Mr. Newman or Mr. Gargiso. We're talking about disruptions. We've seen a disruption in western Canada. I believe there was an incident at a refinery in Saskatchewan that caused a price spike for diesel in western Canada in the last year or so.

The point has been made about energy security and so on. What would it cost to have a bunch of standby refineries, which meet today's current standards, ready to go in the event that we do have an incident at one particular refinery? Or do you think we should be implementing a mandate to have a certain number of barrels of refined product on hand in the event that we do have an incident at one of our refineries, so that we don't see these things? I know the United States has such a policy in place. What would be the cost or impact of having standby refineries ready, or of mandating a massive storage of refined product, to provide that security?

Mr. Ervin or Mr. Quinn—anybody?

The Chair: Mr. Ervin, go ahead.

Mr. Michael Ervin: The cost of a standby refinery per se would be prohibitive, to say the least.

Mr. Blaine Calkins: But you're only running at about 85% capacity right now. The refining capacity across the country is at about 85% to 90% right now. Is that correct?

Mr. John Quinn: I hear this capacity thing all the time. It isn't necessarily that the plants are sitting idle. The capacity reflects the amount of time the plant has been down. A capacity of 95% would be a lovely place for a refinery to operate all of the time. Most refineries don't get there over the long term.

When you see low-capacity utilization statistics, it's because plants have typically had problems. It's not because there isn't enough demand out there to fill. We don't typically have spare capacity sitting around.

Refineries make all their money on the last...pick a number. It depends on the refinery. It depends on the region. It depends on pricing at the time. The last 10% or 15% of throughput, maybe, that goes through that site is where you make your money. There are high fixed costs to cover and high investment costs to cover. You have to keep your plants full to make money. If they have idle capacity sitting around, I guarantee that those plants will not make money. They are not sustainable.

We are carrying a little more inventory in western Canada right now. The issue with strategic reserve, whether it's refined products or crude, is that it's frequently in the wrong place for where you need it when the event occurs. We have strategies in place. Import plays a bit of a role in helping to keep things balanced. It gives you the opportunity to source from far broader locations. For example, if there is a problem on the prairies, we will increase imports into Vancouver and into the Lower Mainland. We will take product out of the pipelines that was going down to Vancouver. We will hold that back on the prairies.

There are mitigating strategies for this, but it's a tight business. It is tough to make money and leave idle capacity sitting around.

Mr. Blaine Calkins: Okay, good.

Mr. Ervin, just switching up a little bit here, in your testimony you cited the rationalization of the industry. One of the factors for the rationalization of the industry was environmental regulation. Precisely, you said it was progression of fuel quality standards, which are basically environmentally driven, such as those for reductions in lead, benzene, olefins, vapour pressure, sulphur, and so on. I think most Canadians would agree that this was what needed to happen. We all want a clean environment. We don't want various things in our atmosphere. We don't want the NOx and SOx gases and volatile inorganic compounds and so on.

Yet our friends Mr. Newman and Mr. Gargiso just testified that Canada should always be striving to achieve the highest-level standards, and even perhaps, referring to the Irving plant, which was actually in New Brunswick, to overachieve the national standards that are being set. Yet it seems that every time we impose a further mandate on this, it causes further rationalization of the industry and the shrinkage of various refining locations, which creates situations where we have the tightness you just referred to. If you have an incident when you have 40 plants versus an incident when you have 15 refineries, there is a big difference in the effect.

Do you think, Mr. Ervin, Mr. Gargiso, Mr. Newman, Mr. Quinn, or anybody who wants to address this, that we actually have the right balance? Does industry have the ability to strike the right balance without too much government interference? How much more government interference should we have in dictating or mandating, basically, a market-driven sector?

● (1040)

The Chair: We have very little time for an answer.

Mr. Quinn.

Mr. John Quinn: I'll go really quickly.

Clearly, we don't want more intervention. We think we're well set up. I'll come back to Mr. Ervin's comment that people are not freezing in the dark. Cars are not pulled over at the side of the highway for lack of supply. It's localized. There might be some sites and some retail sites. Yes, prices can spike when there are short-term supply issues, but the supply is there, and it is available.

The Chair: Thank you, Mr. Calkins.

We'll go now to Mr. Stewart, for five minutes.

Mr. Kennedy Stewart: I'm a little bit disturbed to hear the news about the Chevron refinery, which is in my riding of Burnaby—Douglas, and that we've curtailed capacity there. The possibility of it closing is also something we have to consider. I'll leave that topic for the moment.

I'd like to move to looking at what the U.S. government has done. Perhaps we can get some information about the policy actions they have taken to modernize the refining industry in the U.S. Maybe we can start with the representatives from CEP. And any other knowledge would be welcome.

Mr. Keith Newman: You are saying specifically the U.S. I'm not that familiar with what their action has been.

Mr. Kennedy Stewart: Would the other witnesses have any idea of what they have done in the U.S.?

Mr. Michael Ervin: I'm not sure that there have been any specific initiatives on the part of the government to modernize the refineries. Much like in Canada, there are considerations towards, for example, making even more stringent the sulphur limits in fuel products. That, if done, would bring about modernization, if you want to call it that, but also certainly a great deal of additional investment in the refining sector to comply.

Mr. Kennedy Stewart: I have read that the gulf coast refineries have been upgraded so they can take oil sands crude or unconventional crude, but our refineries haven't necessarily been doing that. That's the direction I'm going in. Was there anything the government did to facilitate that upgrading in the gulf coast, or was it just private incentive?

Mr. John Quinn: It's private. Again, we have spent billions of dollars at Edmonton and Sarnia to allow us to manage oil-sands-based crudes, to provide upgrading of those crudes at those sites, and we've spent enormous sums of money to create upgrading capacity at Fort McMurray to produce those kinds of crudes.

The bottom line in North America is that there is a length of upgrading capacity today.

Mr. Kennedy Stewart: Did you do that as a company because of the way your company is structured? I don't want you to speak for the other companies, but is that perhaps why others haven't done that? You have many links in the chain, but they are more stand-alone—for example, Chevron.

Mr. John Quinn: Each of our businesses stands on its own, but there is some strategic integration that makes sense. But we were making those investments in Petro-Canada at Edmonton before we had the full-blown integration we have today with the Suncor oil sands business.

Again, it's a tough business. You have to choose where you're going to invest and the efficiency of your capital investment. And where is that—

Mr. Kennedy Stewart: Would you care to speculate, though, on why the other companies haven't chosen to upgrade their refineries?

Mr. John Quinn: Shell, in the west, at Scotford, has significant upgrading facilities at that site.

I'm not going to comment on all the others, but part of the east's issue would be access to the crudes.

● (1045)

Mr. Kennedy Stewart: Okay.

Mr. Gargiso—

The Chair: Yes, a short answer. I keep forgetting we changed the meeting time until quarter to ten, so the meeting is almost over.

A short answer, please, Mr. Gargiso.

Mr. Joseph Gargiso: Briefly, Shell was supposed to build an upgrader in Sarnia way back in 2004-05. They ditched that plan and they actually closed the Montreal refinery and used the capacity in their other refineries to supply our own market. That's where we got the raw deal.

The Chair: Okay, thank you very much.

Thank you, Mr. Stewart.

Thank you all for your questions and comments today. And thank you especially to the witnesses, from Suncor Energy, Mr. Quinn; from The Kent Group, Mr. Ervin; and from the Communications, Energy and Paperworkers Union of Canada, Mr. Gargiso and Mr. Newman.

Thank you. The meeting is adjourned.

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