

December 20, 2006

CPPI Responds to Government Announcement on Biofuels Initiatives

For immediate release:

(Ottawa) – Alain Perez, President of the Canadian Petroleum Products Institute, responded to today’s announcement of the government’s support for biofuels development as a positive reaffirmation of the role of scientific excellence in bringing new industrial development to the Canadian economy.

“R&D and pre-competitive support for innovation is the proper role of government” added Mr. Perez, “as is the levelling of playing fields amongst competitors. The federal government’s goal to eliminate ‘fiefdoms’ through the elimination of interprovincial trade barriers is also a welcome commitment.”

The federal government is on the way toward creating a viable biofuels marketplace but there is still much more to do. The CPPI urged the government to follow the path toward success laid out in the joint position of the Canadian Renewable Fuels Association and the Canadian Petroleum Products Institute. (Attached)

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Canadian Renewable
Fuels Association

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ESSENTIAL FEATURES OF A NATIONAL POLICY ON RENEWABLE FUELS

The federal government of Canada has launched a process to implement its campaign commitment to: “Require 5 percent average renewable content in Canadian gasoline and diesel fuel, such as ethanol and biodiesel, by 2010 (*CPC Platform*, p.37).” This process involves a number of federal departments, the provincial and territorial governments and a large number of industry stakeholders.

The Canadian Petroleum Products Institute (CPPI) and the Canadian Renewable Fuels Association (CRFA) are very encouraged by the steps the government is taking. Our associations have repeatedly taken the position that it is up to governments to make the political decisions to develop a renewable fuels policy that is in the best interest of Canadians. Our objective is to see that our essential features are reflected and enforced in future government initiatives. Implementation of these features would, we believe, benefit consumers and provide both Canadian producers and distributors of renewable fuels a competitive playing field with their U.S. counterparts.

1. Biofuel Requirements

CPPI and the CRFA strongly support federal leadership in developing a renewable fuel policy for Canada in the 2010 timeframe. While today ethanol is the dominant renewable fuel, other renewable fuels, such as biodiesel, will enter the marketplace as the economics, consumer acceptance and production technology continue to evolve. We support the government requiring 5% average renewable content based on gasoline volumes by 2010 (equivalent to some 2 billion litres), and 2% renewable content based on diesel and home heating fuel volumes (equivalent to some 0.6 billion litres) by no earlier than 2010 and no later than 2012, conditional upon successful completion of a testing program designed by the CRFA, CPPI, biodiesel users and the federal government.

2. Competitive Environment

CPPI and the CRFA support a policy that promotes and encourages the creation of an efficient and competitive Canadian biofuels industry, with tax rates and regulations that are competitive with other jurisdictions.

CPPI and the CRFA believe that renewable fuels policy must be founded on:

- Tax treatment for biofuels and the biofuel industry that is competitive with the United States and other jurisdictions

- Fair and equitable rules for all sources of biofuel supply, blendstocks and biofuel blends, both domestic and imports
- Fair and equitable rules for all marketers of fuels

Our associations support and will promote with all levels of government, the analysis of assistance options and their effect on the Canadian marketplace and their compatibility with a level playing field.

3. Technology

A national policy must recognize and encourage new technologies for producing renewable fuels. To this end, the biofuel requirement should be flexible enough to include any future renewable fuel technologies that may not be commercially or technically viable in today's marketplace.

- **Commercializing New Technologies**

The commercialization of new technology, such as cellulose ethanol, is a high-risk, high cost undertaking. In some cases, the benefits of a successful introduction of the technology will accrue not only to the technology developer but society as a whole, in the form of environmental benefits or economic development opportunities. In these situations, there is a clear role for governments to play.

- **Investing in Research and Development (R&D)**

The government of Canada has been an active participant in jointly funded R&D efforts to develop and advance biofuels in Canada. These efforts should continue and in fact be expanded by diverting some of the effort expended on government-driven R&D to joint industry and government selected R&D targets. These kinds of activities are important in accelerating the learning experience that the Canadian industry needs to gain to increase its international competitiveness.

4. Greenhouse Gas Reduction

Biofuels on their own will not solve the issue of air pollution and greenhouse gas emissions, but they can make a tangible contribution towards improving Canada's environment.

Reductions in greenhouse gas emissions are a key outcome of the renewable fuels initiative. A national policy should work to maximize the environmental benefits that can be achieved through the use of renewable fuels in the marketplace.

- There needs to be mechanisms that recognize the full life-cycle environmental impact of fuel production. For example, financial support should only be made available to plants meeting basic greenhouse gas emission requirements.
- We support policies that recognize greenhouse gas life cycle emission reductions associated with renewable fuels and that differentiate between the various types of renewable fuels based on factors similar to those that will be adopted in the U.S. as part of the EPACT05.

5. Open Borders

We support the maintenance of open, competitive markets across provincial and international borders. A national policy must correct the existing discriminatory measures contained in provincial policies. We support policies that ensure the Canadian fuel supply and fuel markets remain integrated with the North American marketplace and at parity with their respective U.S. markets.

6. Competitive Industry

Access to renewable fuel at a competitive price is about more than open borders. It is also important to have competitive, world-class production of these fuels in Canada. This means Canadian cost of production needs to be competitive with producers in the U.S.

- We support policies that reward efficiency and encourage the low-cost production of renewable fuels.

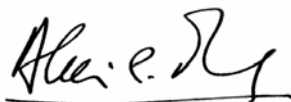
7. Quality and Safety

Quality and safety of our fuel supply are paramount for our industry and the public. Regulating renewable fuel content will require some changes to existing refining and distribution infrastructure, as well as training in the safe handling and storage of these fuels. It also requires quality standards be met for the renewable fuels being blended.

- Both the petroleum industry and renewable fuel producers require regulatory certainty with sufficient lead time to make the changes necessary to the distribution and refining infrastructure (at least 3 years).

We support the existing Canadian General Standards Board (CGSB) and American Society for Testing and Materials (ASTM) processes for establishing fuel quality standards, and strongly support the compliance with these standards be made a requirement for renewable fuels entering the Canadian fuel market. These standards should be in place for both the “bio” and the petroleum blendstock components of the fuel.

In terms of a preferred policy option, CPPI and the CRFA support a national regulation that replaces existing provincial regulations. This option provides maximum flexibility and efficiency and ultimately benefits consumers.



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