

***THE FUTURE OF TRANSPORTATION FUELS
IN AN UNCERTAIN ENVIRONMENT***

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Thank you for the introduction and for the opportunity to be with you today. I am fully aware that our two organizations have differing views on some issues. So, in that context, I especially appreciate your invitation to speak today at your annual meeting.

As you heard in Jane's introduction, I'm new to this industry. In my previous career, I was much more engaged in the consumption of petroleum products, not their production, distribution and retailing. But I think I've already picked up some significant observations.

While I will not be able to join you at tonight's Senators game, I will say Jane, I observe some differences when our respective members meet. When you get yours together to discuss business, you go to a hockey game to see a good hard competitive contest (not to mention some fighting). When the CPPI meets, we see that hard competitive activity – hockey if you wish (albeit without the hand-to-hand combat) - around the Board table.

At the very root of their existence, my members are intensely competitive players whose job is to optimize their businesses. Now in a day and age when hockey players have faced criminal sanction while playing the game, I think that the NHL is in need of amending its code of conduct to reflect modern values. By contrast, CPPI members - the players on the petroleum products rink - adhere to a strict code of conduct that - like any good code - elevates the quality of the competition. The Code's base of common dialogue is environment, safety, health and best practices.

Competition yes, and with full recognition of our responsibility to work with the public, governments, and others to improve the relationship of our operations and products with the environment, All the while providing high quality products and choices to the marketplace, in competition with the rest of the world.

I was browsing the press clippings last week and noticed on the newswire a new SHELL AUTOTUDE survey revealing 75% of Americans bond emotionally with their vehicles: “ they think of their autos as more than just a piece of machinery.”

Here is one survey result I found particularly interesting: Two out of three American drivers think their cars have a personality. More than fifty 50% of survey respondents - more women than men (66%/56%) - feel their personality is similar to their vehicles'.

Of more direct interest to us I think is the survey finding that while most Americans express varying degrees of comfort in performing maintenance tasks on their vehicles, the task they are most confident with is filling the tank with fuel.

For consumers, our collective industry is essentially the operating cost of that car or truck with which they establish an emotional bond – the vehicle they think is more than just a piece of machinery. Our presence, products and services are daily necessity. Their behavior as consumers and their choices are governed by the rigours of the marketplace, the quality of the product we offer and the choice of offerings.

We operate in a very challenging environment, with a substantial public exposure. With that level of exposure, our retail face often bears the brunt of public discontent across a whole host of issues, from the tax burden on fuel, all the way to physical threats by criminal minds that would think our people are dispensable for the theft of product, or the day's revenue.

And we can put some numbers on that face.

As of the 31st of December 2006, there were 13,772, retail gasoline stations operating in Canada; 4.2 outlets for every 10,000 Canadians. At a minimum, there are 13,772 people who are our window to the consumer every day. (Source - 2007 MJ Ervin survey).

The MJ Ervin survey – Jane, I note that you referred to this survey in a recent letter to the Competition Law Review Panel - indicated that “the number of retail gasoline stations in Canada is higher than other previous surveys have estimated. Our assessment of the outlet population trend does not differ from others however: the number of retail gasoline outlets has declined by a relatively steady two percent per year since about 1989”.

Have we reached the end of this rationalizing process, or are there other factors on the horizon that will sustain this trend?

Well, in my view, there certainly are other factors on the horizon.

The first is the question of subsidies – as a general rule, we oppose them. They can have unintended consequences.

So, would you accept a 70-30 subsidy to convert your station to E85 capability only to find out that you incurred your cost for nothing, because a full analysis shows that mandates will be revisited? Can investments become stranded?

Then there is uncertainty – a carbon tax is an example. We are about to have one in BC. What will the future hold in BC and potentially other jurisdictions? How will it be collected and what will be the burden on the petroleum marketers. We are already one of the largest tax collectors in the country and in these days of tax accountability, accounting for us becomes more complex and I don't think anyone in this room would agree that you are adequately compensated for the investments of time and dollars that you invest as a tax collector.

How will prepay requirements now in force in BC and perhaps soon to be seen in other jurisdictions impact this rationalization dynamic?

Now, on the upside, governments do seem to be aligning across a common set of issues associated with brownfield re-development. So, government action and decisions are not always negative in the context of this rationalization trend

There are two other elements I would like to touch upon and then, in closing, offer a proposition.

Climate Change policies and plans are real and will fundamentally alter the nature of the business. Yes, much of the devil will be in the details, but as much, is in the conceptual framework – the implications are profound.

For the refiner marketers, we face a tough challenge. We fall into the category of large final emitter.

I won't bore you with the details but it suffices to say that as large final emitters, refiners are facing significant compliance costs both in terms of capital investments and compliance payments in order to stay in business. And at the federal level it's being done under the Criminal Code: comply, go out of business, or go to jail. In virtually every climate change plan, our members' refining operations will face significant CO2 reduction requirements or monetary payments for alternate compliance mechanisms. There is a serious concern about duplicate efforts with little prospect for federal-provincial cooperation or alignment. Dual and triple compliance efforts increase the cost of doing business. (I suppose we should be thankful for small mercies - the upside is that payments to the Alberta Government's GHG emissions compliance fund are GST exempt).

Tough new measures on air and water contaminants are emerging as two principal political solutions to the intractable problem of health care.

In business terms, this raises the possibility of moving from sound science-based, risk management and performance based responses to a focus on a precautionary

principle and prescriptive measures that set strict rules, regardless of the impact on the health of people or the communities in which they live. And when I say strict rules, I mean additional “dictates” as to how you will operate and what equipment you will install.

Currently the federal government proposes to place hard caps on NO_x, So_x, VOC’s and PM emissions. In our very preliminary assessment, few US refiners (the stated objective is convergence with comparable US refinery emission performance) could possibly meet these requirements and we don’t even know if Canadian refiners can actually meet these requirements without shutting down by 2015 – the government’s target year under its proposed plan.

More disconcerting, the feds don’t appear to be interested in the ground breaking work we have done with initiatives like the National Framework for Petroleum Refinery Emission Reductions – endorsed by all provinces and ENGOs when it was developed in 2005. Declared by the Canada’s environment Ministers to be an example of smart regulation, it appears that our precedent setting work is not desirable not because it is flawed, but because it is old. If the April 2007 air pollutants plan is implemented as written, there will be no accounting for growth in demand, it will require major capital expenditures with ambiguous outcomes, and by definition, cause a rethinking of business plans.

These two latter issues – Climate Change and air pollutant emissions are key pre-occupations of CPPI members today. They are complex, broad-scope files with profound impacts for their businesses.

Now my proposition to you is a modest, practical one, because as I indicated at the outset, there are significant points of departure between CPPI and CIPMA on a key issue.

Let’s make no bones about it. We oppose price regulation. CPPI members cannot in good conscience accept that a government utility board can do a better job than the market place in establishing a fair return for the entrepreneur and a fair price for the consumer.

But, in practical terms, the retail site survey referred to by Jane is a useful product; it provides value to us both. And no one works for free if they can help it. I expect that MJ Ervin feels the same way. So I propose that CPPI and CIPMA agree to jointly fund the survey, and jointly request NRCan to contribute, so that it can continue to serve its purposes.

Secondly, I think that there is much we can do together to remind Canadians that we take our business and our social responsibility seriously. We soon plan to launch a research internet portal that will cover the ABC’s of what we do for the consumer and how and why we do it – highlight the industry’s environmental record, expose issues of relevance, debunk unsupported myths. For example, this

new site will document the significant progress CPPI members have made in improving the energy efficiency of their operations, enabling their refineries to reduce their CO₂ emissions by 8.1% between 1990 and 2006

When ready, I hope that we can count on your internet site linking to it.

Unlike my past work in advocating for the aerospace industry, “realtime” in the petroleum marketing sector is actual REALTIME in the context of regulations, taxes, inspections, and how quickly their impacts make it to the consumer through our businesses and the action of filling up the tank at our locations.

In aerospace the impact of government policies and decisions was often not immediate – while significant, their effect was felt over years and decades (issues like the R&D investment climate and defence trade policy). By contrast, government policies and decisions can have an almost immediate impact on our members’ businesses.

Global issues like Climate Change, to local city bylaws on environmental reporting and disclosure define the zone where our two organizations share a common interest. These issues **are real and now** and the subject of current and ongoing discussion and decision, and have day to day impacts on our members businesses. This drives an advocacy approach at CPPI that focuses on those urgent issues that have the most impact on the industry.

And while we focus on these issues, we believe that an issue like review of the Competition Act can follow its regular review process and timetable. Jane I congratulate you on making your viewpoints known to the Competition Review Panel. I believe that we both share a common value in the vigorous defense of the consumer and that competition is the best way to achieve that.

We may differ on a small number of approaches but I urge you to avoid price regulation, as price regulation debates obscure the bigger challenges ahead.

So, in closing, and in the spirit of my specific proposition regarding the MJ Ervin survey, I suggest that on a broader basis the CPPI – CIPMA bilateral relationship should focus on partnership, where partnership is possible. Let’s focus on those issues where our interests and views converge.

Partnership where possible, vigorous debate where we differ. I think it’s reasonable and do-able.

Once again, thank you for this opportunity to speak to you today.