

**Consultation on the document entitled:**

*Quebec and climate change: the greenhouse gas reduction  
target to be met by 2020*

**Oral presentation of the CPPI before the  
Committee on Transport and the Environment**

by

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**Canadian Petroleum Products Institute (CPPI)**

**October 28 2009**

## ***Oral presentation of the CPPI position***

***Quebec and climate change: the greenhouse gas reduction target to be met by 2020***

**Date:** October 28 2009  
**Place:** Quebec National Assembly  
**Time:** 4:00 pm  
**Delegation:** Louis Forget, Carol Montreuil  
**Format:** Presentation of the issues – 10 minutes  
 Questions & answers – 45 minutes

### ***Presentation outline***

<b>I) Introduction and presentation of the industry</b>	- 1 minute
<b>II) Main themes:</b>	- 9 minutes
- Equity in “cap and trade” programs	
- Are there real solutions or a compliance pathway?	
- Flexibility in the ‘trade’ aspect	
	<b>Total: 10 minutes</b>

## I-Introduction

Mr. Chairman,  
Ladies and Gentlemen of the Committee,

First of all, good afternoon and thank you for allowing our organization to present its point of view to this Parliamentary Committee.

My name is Carol Montreuil, and I am Vice President of the Canadian Petroleum Products Institute. In the next ten minutes we will summarize the petroleum industry's key issues on the topic of greenhouse gas (GHG) emissions reduction in the Province of Quebec by 2020, after which we will answer your questions.

Allow me to introduce the colleague who is accompanying me today:

- **Mr. Louis Forget**      – Vice President, Public and Government  
Affairs at Ultramar

## **The CPPI**

Also let me say a few words about our organization:

The Canadian Petroleum Products Institute (CPPI) is an association of 11 Canadian companies operating in the refining and marketing of petroleum products used in transportation and for residential, commercial and industrial purposes. CPPI members operate 16 refineries in Canada, representing over 80% of Canada's crude oil refining capacity and marketing operations.

The companies present in Quebec and/or active in refining and marketing are:

- Imperial Oil Limited
- Shell Canada Products Ltd.
- Suncor Energy
- Ultramar Limited

## **II - The target for reducing GHG emissions by 2020**

Mr. Chairman, with regard to the target for reducing GHG emissions in Quebec by 2020:

- 1 Our organization would like to address three issues: equity among neighbouring programs; the importance of the compliance pathway or real solutions; and, lastly, the flexibility needed in a cap-and-trade system.
- 2 Earlier in the year, when we appeared before you on Bill 42, we referred to the long history of cooperation between the petroleum industry and the Quebec government, indicating that this would not change with regard to the implementation of a GHG cap-and-trade system.
- 3 We also pointed out that this cap-and-trade approach – unlike other models suggested elsewhere in Canada and the world – currently has a lot of momentum in North America, Asia, Australia and in Europe (the European Union Emission Trading Scheme).
- 4 Since we belong to the Western Climate Initiative (WCI), it is understandable that Quebec is committed to a Cap and Trade program. Some CPPI members support a Cap and Trade approach for large final emitters as the most cost effective approach to deliver a targeted GHG emissions reduction. Other CPPI members are not in full agreement with the worth of Cap and Trade compared to other economic tools such as a carbon tax.

### Equity with neighbouring cap-and-trade programs

- 5 The idea that several jurisdictions are following the same path but with different objectives, mechanisms and timetables raises a first issue which is of substantial concern for our sector, particularly for the three refineries in Quebec.
- 6 We have said many times that a cap-and-trade system is first and foremost an economic instrument to achieve an objective of GHG reduction at the lowest possible cost to society.
- 7 It is therefore an economic tool that will have real economic impacts on the jurisdictions using it.
- 8 In our world of free exchange and NAFTA, where petroleum products are imported into Quebec on a regular basis from jurisdictions as far away as Europe and Africa, we need to make sure that Quebec refineries are not up against competitors who are not constrained by the same environmental requirements.
- 9 Equity also depends on the acknowledgement of past actions that explain our sector's performance since 1990.
- 10 So our first recommendation is: That Quebec adopt and apply a target in line with those of jurisdictions we compete against, so that our industry can remain competitive and the performance of our sector since 1990 can be acknowledged. Quebec's GHG target along with the provisions of the Quebec Cap and Trade program must recognize the cost and competitiveness implications imposed on trade exposed sectors.**

- 11 The selection of the target and the design of the program must enable GHG reduction but also mitigate any significant economic harm to the Quebec economy and to Quebec refiners.
- 12 The way emission credits are allocated will be one of the most important ways we can be sure of equity. In other words: do not place a greater burden on our local refineries than is imposed on refineries in jurisdictions we compete against.

**Are there real solutions or a compliance pathway?**

- 13 The second issue we want to raise today goes more specifically to the target for Quebec in view of the solutions available.
- 14 To us, the question of whether reduction should amount to 10, 12, 15 or 20%, as set out in the excellent consultation document produced by the MDDEP (Quebec's Department of Sustainable Development, Environment and Parks), is secondary or subordinate to the question of whether there really are solutions to the chosen objective.
- 15 The MDDEP document highlights a specific situation that Quebec is very familiar with: the relatively high contribution of the transportation sector with 40% of total GHG emissions, an increase of 22% compared to 1990.
- 16 That means that any successes in Quebec will depend on major improvements in the transportation sector.
- 17 But, up to now, no jurisdiction on the planet has succeeded in curbing the growth of the transportation sector in any sustainable way.
- 18 The reduction scenarios set out in the consultation document confirm the experience in over 100 countries: there are very few initiatives on

- the table right now that are promising in terms of significant, sustainable and politically realizable reductions in the short term.
- 19 Like other observers, we have noticed that recent reductions are the result of the worldwide economic slowdown that is challenging most nations. The economic slowdown alone is estimated to be responsible for a reduction of approximately 6% in GHG emissions in 2009.
- 20 Solutions can be seen on the horizon, but the technological and economic challenges are enormous, so it is doubtful that they can be met and solutions implemented in ten years, by 2020.
- 21 The industrial sector represents 34% of all emissions – down 7% from 1990. It would be hard to imagine putting further burdens on this sector.
- 22 So we have a second recommendation: *whatever the GHG reduction target selected, it must be in line, both in terms of timelines and initiatives, with whatever is technologically and economically feasible within the chosen time frame. In other words, there must be compliance pathways that will allow the obligated parties to reasonably meet the GHG reduction requirements.*
- 23 Of course, there will be a strong politically-motivated temptation to choose the most ambitious of the four options set out in the consultation document, which is the -20% reduction compared to 1990, that is followed by the European Union.
- 24 But we should not lose sight of the fact that the European model has been in place and in development since 2005, so it has a 15-year lead time to 2020, while we are already at the dawning of 2010 and the Quebec plan will cover the 2013-2020 time period.

25 We need to bear in mind that the Quebec target will be chosen in a very different context.

### **Flexibility in the exchange system**

26 The last point we would like to raise today deals with the “trade” aspect of the cap-and trade system, in particular with flexibility that needs to be built into the program.

27 We believe that the target and the timeline only represent half the challenge.

28 Issues of competitiveness that affect the “trade” aspect of the program are as important – if not more important – than the targets themselves.

29 Regardless of the reduction objective chosen at the national level, it is already understood that all sectors will have to make a huge effort and that credit trading will be an essential part of the system.

30 So the way this trade system works will be crucial and we have several concerns:

31 Will the Quebec framework allow access to emission rights in other jurisdictions?

32 Will it allow an emitter to accumulate or bank credits so that they can be used at a later time?

33 Will it allow credits to be “lent” from one time period to another, providing the end result meets the reduction objectives?

34 Will it allow free emission credits for the industrial sectors that are exposed to trade balance distortions or unbalanced imports until the cap-and-trade systems between jurisdictions have leveled out?

35 All these issues are of concern to us, and they are more important for the petroleum sector than for any other sector.

36 Under the definition of “emitters” in Bill 42, the legislator intends to have our sector “manage” emissions from the transportation sector as well as those of the industrial sector we represent, even though we have no control over the buying or driving habits of that sector.

37 As we emphasized during the Bill 42 hearings, “in the transportation sector, [...] success in reducing GHG emissions will depend as much on fuel performance as on vehicle efficiency and the buying habits and habitual use of the vehicle by the person behind the wheel. [...] The petroleum industry cannot therefore be held solely responsible for the eventual reduction objectives.”

38 We are only one part of the equation, and we have to deal with a demand for our products that has not stopped growing in recent years, depending on both provincial and international economic activity.

39 With regard to the economic impact on consumers of the transportation component, we believe that the government should be transparent about the amount and collection of this new tax, as expressed in the consultation document.

40 In its consultation document the government even refers to European and Scandinavian examples to emphasize how much fuel taxes represent a “strong incentive to save energy.”

41 The issues raised above take on even more significance when we realize how hard it is for the transportation sector to reduce its GHG emissions, particularly in prosperous times.

42 Our third recommendation is therefore aimed at ensuring **that the Government of Quebec sets up mechanisms for flexibility in the**

**cap-and-trade system, so that the reduction objective chosen can really be achieved at the lowest possible cost and with transparency for consumers, especially in the transportation sector.**

43 To sum up: we are in favour of a GHG reduction framework that is in line with that of the jurisdictions we compete against, armed with a reduction objective based on realizable solutions or real compliance pathways, and accompanied by a trading system for emission credits offering maximum flexibility and transparency, so that the overall GHG reduction objective can be achieved at the lowest possible cost for society.

44 Thank you for your attention. We are now ready to answer your questions.

