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Sustainable Development

By

The Canadian Petroleum Products Institute

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Introduction

Good morning Mr. Chair and members of the Committee. My name is Peter Boag. I am President of the Canadian Petroleum Products Institute – CPPI. I am joined today by Tony Macerollo, CPPI’s Vice President Policy and Communications. It’s our pleasure to be here this morning to provide a petroleum refining perspective on the federal GHG emissions reduction policy.

Let me say a few words about our organization: CPPI is an association of 11 Canadian companies that refine and market petroleum products used in transportation and for residential, commercial and industrial purposes. CPPI members operate 16 refineries in Canada. Collectively they account for over 80% of Canada’s crude oil refining capacity and petroleum marketing operations. As manufacturers, they are major contributors to the local and the national economies. And they are also a component of Canada’s critical domestic energy production infrastructure, ensuring a reliable supply of high quality fuels essential to the national well being.

As a group, CPPI members have a strong track record of energy efficiency gains and GHG emissions reductions. In the 10 year period 1995 to 2005, CPPI member refineries achieved an overall 12% reduction in energy consumption. Energy efficiency at these refineries improved by over 1% each year, resulting in a comparable reduction in GHG emissions. Absolute reductions, while increasing production.

I’ll focus my remarks today on three points: the need for consistency/alignment with neighbouring programs – in particular the critical importance of alignment with the United States, our major trading partner, but with others with whom we trade as well; the importance of aligning targets and mechanisms with technically and economically feasible compliance pathways; and the requirement for flexibility and transparency in carbon pricing systems - be it cap & trade or any other approach to pricing carbon. The end goal must be emissions reductions at the lowest possible cost to the economy and our society.

Consistency/Alignment

Canada is a trading nation; much of our economy is energy intensive and trade exposed – including the petroleum refining sector. So the concept of jurisdictional consistency and alignment of reduction targets and burden is critical. But that is not to say identical, for it is essential to recognize that Canada’s economy is unique in the world – in particular its significant resource and energy component, much of it export focused. So alignment yes, but with the recognition that a ‘one size fits all approach’ will have negative unintended consequences for our unique economy. We believe the government understands this and has adopted the right approach in pacing and informing its approach on US developments, especially as it relates to trade exposed sectors.

Turning to the specific situation of petroleum refining in our globalized world, where petroleum products are imported into and out of Canada on a regular basis from jurisdictions as far away as

Europe and Africa, we need to make sure that Canadian refineries are not up against competitors who are not constrained by the same environmental requirements and costs.

There has been much discussion about alignment between Canadian and American plans for a climate change framework and in principle, this is a matter of importance for the Canadian economy given that the US is our largest trading partner and we are pleased that the government has made this a priority.

However, the challenge will be to find an alignment approach that recognizes the fact that the US is a net energy importer and Canada is a net energy exporter, who I might add operates under some of the most transparent and stringent environmental frameworks in the world.

A case in point: current US climate change legislative proposals do not recognise the US refining industry as a trade exposed sector. They impose a clearly discriminatory GHG emissions reduction burden on refiners that CPPI and its members would oppose. Studies clearly indicate that this approach, if implemented, would result in a substantial increase in petroleum product imports, at the expense of the domestic industry and with lost jobs, yet the impact on global refinery emissions would be negligible. It is a recipe for emissions shuffling, not for global emissions reductions.

That said, Canadian petroleum product producers, suppliers and users all share a responsibility to minimize the environmental impacts of energy production and consumption, including its global carbon footprint.

Technically and Economically Feasible Compliance Pathways

Which brings me to my second point: ensuring that compliance with any emissions reduction target and regime is technically and economically feasible, within the chosen timeline. Compliance pathways that will enable obligated parties to reasonably meet the GHG emissions reduction requirement must exist. A key component of this is recognition that many industrial sectors, refining for one, have already made significant progress in recent years – I have already mentioned our track record of energy efficiency gains and emissions reductions since 1995. Overall, Canada's industrial emissions are down since 1990. The technical and economic challenges for further significant reductions are enormous. And in a business planning and investment context, 2020 is a blink away. I want to emphasize the importance that new, transformative technology will play as a driver in improving Canada's GHG performance. Any climate change solution will require some consideration for stimulating and supporting investment in new technology development and deployment.

Here are some of the going forward challenges specific to our sector. **First** - fixed process emissions. For a typical refinery, it's roughly a 2/3 split between combustion emissions and 1/3 what we call fixed emissions. Fixed process emissions result from the chemical processes that are core to the production of high quality, clean fuels – there are no known technological means to reduce them, other than reducing production. **Second**, the Canadian refining sector is subject to a variety of regulations regarding the composition of transportation fuels that bring with them trade-offs in terms of environmental priorities. Like it or not, in the complex regulatory

environment within which refiners operate, there are conflicting policy objectives. Perhaps the best example is the desulphurization of fuels, which has been an ongoing process in Canada over the past decade – and one that continues today as the focus moves to marine and off-road diesel fuels. Without question, these cleaner fuels make a significant contribution to cleaner air. The removal of sulphur is a key driver behind the more than 90% reduction in noxious vehicle tailpipe emissions over the past 20 years. Desulphurization of gas and diesel fuel – benefits absolutely, but at the expense of higher GHG emissions. **Third**, let's face it, the refining sector's greatest impact on GHG emissions comes from the consumption of refined petroleum products. Transportation accounts for significant proportion of Canada's GHG emissions. This means that success in Canada will depend on major emissions improvements in the transportation sector. But clearly, refiners have no control over the demand for our products – this is driven by vehicle efficiency and the vehicle buying preferences and driving habits of Canadians. And up to now, I know of no jurisdiction in the world that has succeeded in curbing the growth of the transportation sector in any sustainable way. The movement of goods and people is a proxy for economic growth and rising standards of living.

Flexibility & Transparency

The last point I would like to raise today is the issue of flexibility and transparency in whatever carbon pricing systems are implemented. Flexibility drives directly to the competitiveness issue for energy intensive, trade exposed sectors like refining. Cap & Trade has momentum as the tool of choice around the world – and while CPPI members have mixed views on the relative merits of Cap & Trade versus a carbon tax, I'll focus my comments here on Cap & Trade given the current momentum, with emphasis on the 'Trade' component – which is as important, perhaps even more important than the Cap itself.

Credit trading will be an essential part of the framework; and the flexibility of a trading framework will be crucial to success in achieving the goal of emissions reductions at the lowest possible costs. And let's not be naive about those costs. The 2009 National Roundtable on the Economy and the Environment (NTRTEE) report, *Achieving 2050*, estimates the cost of carbon at \$100 a tonne in 2020, rising to \$300 a tonne in 2050. The recent Pembina Institute/Suzuki Foundation report estimates a 2020 carbon price of between \$100 and \$200 a tonne, depending on reduction target. On flexibility, we have a number of questions and concerns:

- Will the framework allow access to emission rights in other jurisdictions?
- Will it allow an emitter to accumulate or bank credits so that they can be used at a later time?
- Will it allow credits to be "lent" from one time period to another, providing the end result meets the reduction objectives?
- Will it allow free emission credits for the industrial sectors that are trade exposed, and subject trade distortions or unbalanced imports until the cap-and-trade systems between jurisdictions with whom we compete achieve equity?

And on the issue of transparency, I'll focus specifically on the transportation sector. Will the refining sector be burdened with the ownership and management of emissions from the transportation sector, as well as those from our industrial processes, even though we have no control over vehicle efficiency and the vehicle buying preferences and driving habits of Canadians? We expect full transparency from the government on the impact on consumers of GHG emission reduction requirements in transportation.

Conclusion

In closing, I urge you to consider all of the complexities and linkages between energy, the economy and the environment as you consider Climate Change legislation, some of which I have described today from the perspective of the petroleum refining sector.

Finally, I want to dispel the myth that some utopian carbon-free economy fuelled by magical green energy sources is just around the corner, and that the journey there will be painless. The technical and economic challenges are enormous. In truth, all energy sources will need to play role in fulfilling Canadians' future energy needs – wind, solar, hydro, biofuels – absolutely, but conventional petroleum fuels will continue to be part of Canada's energy mix well into the future – Canadians' requirement for clean, reliable, economical petroleum fuels is not going to disappear in the next few years. As legislators, you need to reflect this as you consider legislation to address the challenges of GHG emission reductions.

Thank you. I look forward to your questions.