



Canadian	Institut
Petroleum	canadien
Products	des produits
Institute	pétroliers

Presentation to the House of Commons
Standing Committee on Finance

By

The Canadian Petroleum Products Institute

August 2009

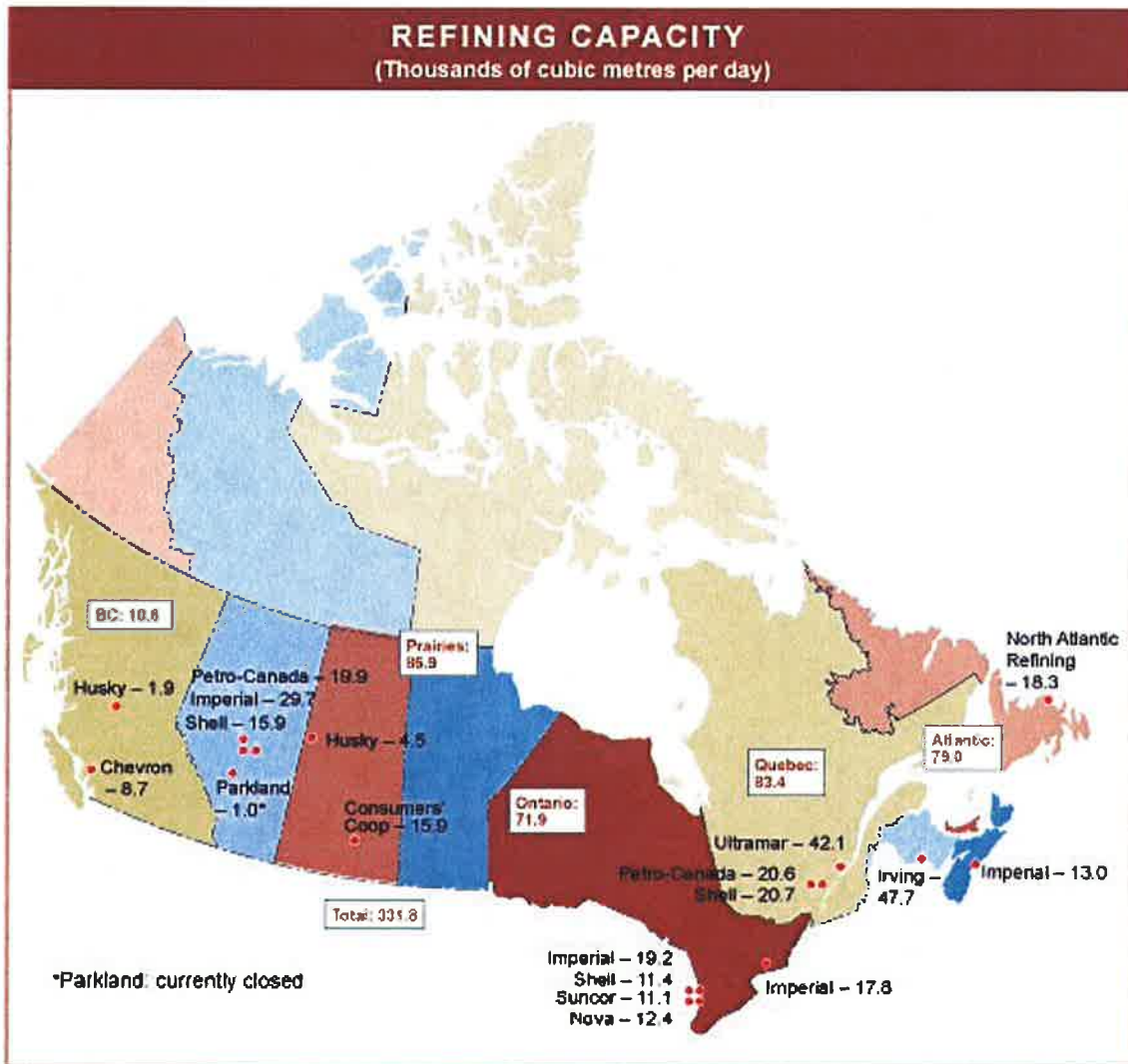
Check against Delivery

**To the House of Commons Standing Committee on Finance
Pre budget consultations 2009 – FY 2010-11
The Canadian Petroleum Products Institute¹ (CPPI)**

Honourable Members:

CPPI and its members are grateful for this opportunity to provide input into your recommendations for the fiscal year 2010/11 budget. CPPI members are proud of their contribution to helping make the Canadian economy competitive.

Our presence is national in scope:



Source: Companies' Websites, 2008

¹ CPPI members: Bitumar Inc., BP Canada Energy Company, Chevron Canada Limited, Husky Energy Inc., Imperial Oil Limited (Products and Chemicals Division), North Atlantic Refining Limited, NOVA Chemicals (Canada) Ltd., Parkland Income Fund, Shell Canada Products, Suncor Energy Products Inc., and Ultramar Ltée

Our track record is the envy of most countries:

“Petroleum refining is one of Canada’s critical infrastructure industries necessary to ensure a reliable supply of energy”. Environment Canada 2007

Refineries and climate Change: From 1990 to 2007:

Total CO2 emissions from refineries are down 4.8%
Total energy consumption is down 6% in the refineries
Energy efficiency has improved by 17%
Refinery throughput has increased by 14% since 1992

Refineries and air quality:

Sulphur (SOx) emissions are down 40 % since 1998
Volatile Organic Compound (VOC) emissions are down 63% since 1998
Nitrogen oxides (NOx) have remained stable over the past 5 years and carbon monoxide (CO) fluctuates a lot (up and down by ½% in the last 5 years)
Benzene emissions, a carcinogen, are down 86% since 1993
Total reportable releases of government designated substances are down 40% since 1993

Environmental investments:

CPPI members have invested 4.4B\$ since 2002 to improve environmental performance of their facilities and their products.
The refining industry spent \$5 billion to reduce sulphur levels in gasoline and diesel.

Refineries and Marketing - Personal Safety:

Total recordable injuries for total employees (excluding contractors) are down 61% since 1993.
Lost time injuries are down 79% to a record low of 21 incidents in 2007.

Product Quality and Environmental Performance:

Sulphur levels in gasoline have been reduced by over 90% since 2000.
Sulphur levels in diesel fuel have been reduced by 85% since 2005.
**Ultra low sulphur fuels enable drivers to improve their tailpipe emission systems such that between 2005 and 2030, despite a 90% increase in light duty vehicle and 40% increase in heavy duty truck kilometers travelled, Environment Canada forecasts the following:

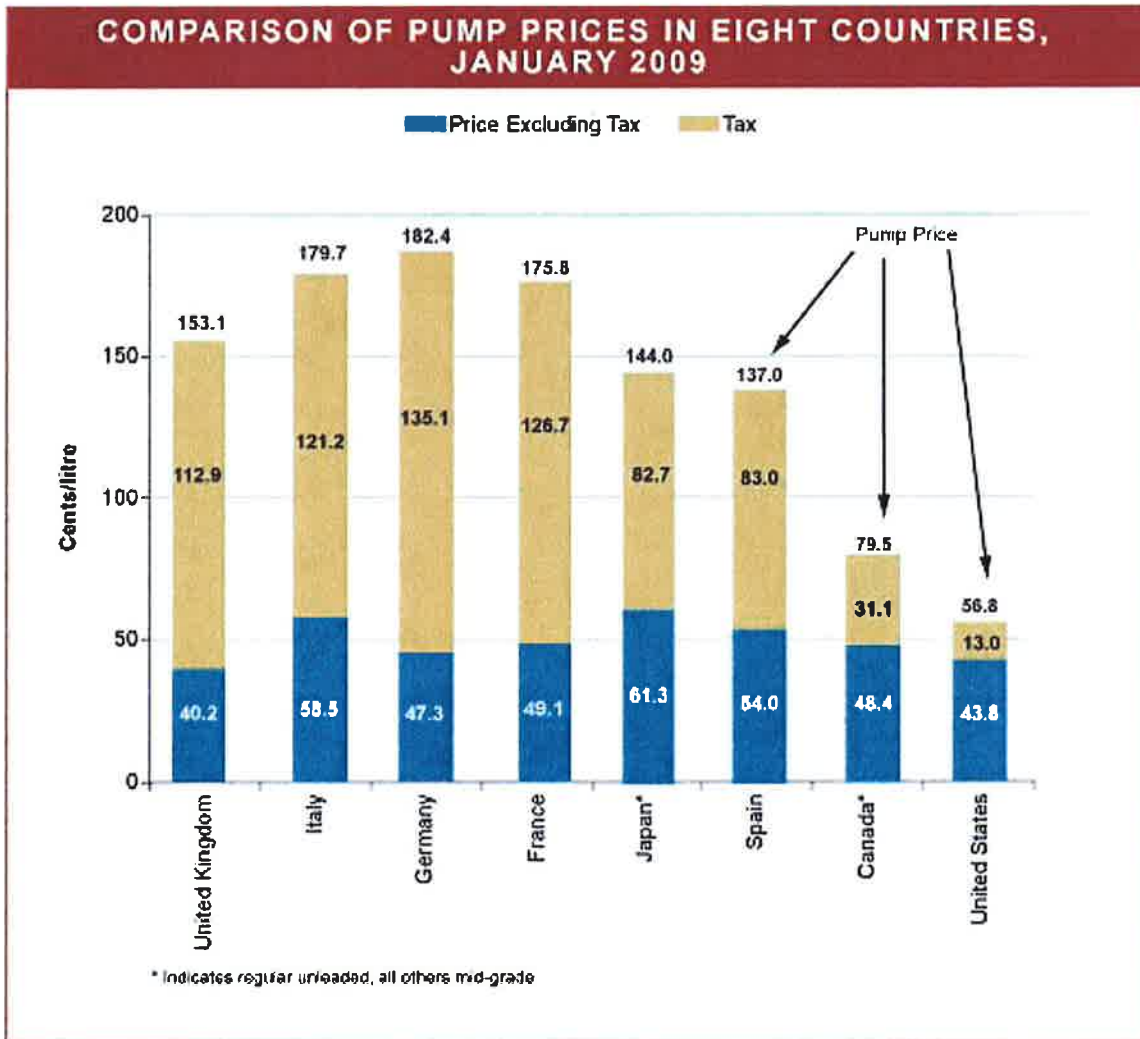
- Sulphur oxides (SOx) will decrease by 50%,
- Volatile organic compounds (VOC) will decrease by 50%,
- Nitrogen oxides (NOx) will decrease by 79%,
- Particulate matter (PM) will decrease by 65% and

These substances are direct contributors to smog formation.

Other Operational Improvements

Volume of product spilled had dropped by 30% in the past 10 years despite a 25% increase in sales.

And we deliver low cost high quality fuel choices to Canadians developed by well paying jobs and highly educated Canadians.



Source: MJ Ervin & Associates Inc. and EIA

In your invitation, you ask that responses focus on two specific questions:

1. What federal tax and program spending measures are needed to ensure prosperity and a sustainable future for Canadians from an economic, social and/or environmental perspective?
2. What federal stimulus measures have been effective and how might relatively ineffective measures be changed to ensure that they have the intended effects?

With respect to Question 1, CPPI would respectfully suggest that tax, spending and **cost reduction measures** that lever Canada's competitiveness in a global climate change new order should continue to be the priority of the day. Access to financing for business investments remains a challenge across all economical sectors. CPPI recognizes the challenges faced by all levels of government in responding to the global economic downturn, and without making recommendations on specific initiatives, we urge that favourable tax treatment for business investment in assets and processes that strengthen competitiveness should be a top priority.

We also encourage Parliamentarians to be mindful that it was our relative fiscal strength that has allowed Canadians to weather the pain as well as we have. A long term objective must be to return to a comparable position of fiscal strength.

But coming back to the climate change new global order, CPPI does believe that the federal government does need to be careful that all the stimulus investment could be undone by the unintended consequences of a poorly designed and fragmented execution of a Climate Change – GHG emission reduction policy.

Canadian industry competitiveness, the overall health of our economy, will be severely impacted by cost burdens not borne by market participants in other jurisdictions. Moreover, a unified carbon price approach can reduce carbon costs by a substantial amount versus a fragmented approach. The 2009 National Roundtable on the Economy and the Environment (NRTEE) study suggests that costs can be reduced by as much as 50% under a unified approach.

We need to be clear that significant additional costs would be imposed on Canadian companies and our economy in general, whether the price of carbon is \$50 or \$300 per tonne. We need a sustainable approach to energy and Climate Change that reduces our carbon footprint, while maintaining our social well-being and economic growth.

Petroleum refining is a vulnerable sector and trade exposed.

In addition to a strong north/south trade flow, product imports from Europe have a strong influence on Canadian supply. A boutique solution breaks normal fuels flow and distorts markets.

Interprovincial trade could also be impacted involving unnecessary cost to production. Again CPPI prefers a National Climate Change Policy approach.

Refiners undertake “make or buy” decisions on a daily basis. Policies which severely impact refining competitiveness would move the industry into “vulnerability status” and can compromise the viability of Canadian refining operations, with significant impacts on the local economies, and job losses.

Capital initiatives in the petroleum refining sector in Canada are evaluated relative to the attractiveness of other national and international projects. The uncertainty of the unknown cost curves and Policy outcomes could affect long term decisions over funding future investments in Canada.

To illustrate a real time point – GHG reporting – there is currently no reason to believe that federal and provincial governments are committed to one reporting window – duplication of efforts cost money.

In respect of government efficiencies, CPPI is of the view that the federal government must place full effort on the harmonization of Greenhouse Gas Reporting requirements across Canada. This is an excellent example where significant savings can be gained for both federal and provincial treasuries as well as obligated parties. The parallel to this is the advantage that is clearly demonstrated by the harmonization of consumption taxes.

In specific response to your second question, (**what federal stimulus measures have been effective and how might relatively ineffective measures be changed to ensure that they have the intended effects**), CPPI outlines a particular issue associated with renewable fuels.

Under the banner of Climate Change solutions, much light has been shed on the role of alternative fuels. CPPI recognizes that this is a priority for government; yet, we are becoming increasingly concerned about the degree to which a permanent subsidy support system is emerging. Our policy on subsidies is clear:

1. CPPI does not support the use of ongoing subsidies, while acknowledging that a level playing field with the United States may require their use in Canada.
2. CPPI accepts that, as in other sectors of the industry, new plant construction is sometimes backed by one-time government subsidies and/or loan guarantees.
3. CPPI believes that renewable fuel users should have fair access to domestic and foreign sources of renewable fuels, and that both imports and domestic sources (from every province) of renewable fuels should be treated fairly in terms of subsidies. Renewable fuel imports can be a substantial source of supply, and fair treatment will help ensure a reliable supply and strong competition for the benefit of consumers.
4. Economic impacts of using renewable fuel blends depend on a number of variables. Under certain circumstances, using renewable fuel blends could mean higher costs and lost revenue, thus potentially impacting market dynamics.

For the above stated reasons, CPPI urges the Finance Committee to re-affirm support for the sunseting of all subsidy programs and to allocate adequate resources to scientific research that will provide a greater level of assurance that climate change goals are being met.

The Science of Climate Change has informed us of the environmental consequences of the status quo but it is fundamentally economic issue and one that will likely drive fiscal responses of large magnitude for some time. We need to fully reflect the integrated nature of Canada's energy system – from all sources of supply through to energy end use – and the vital importance of energy to our economy and our standard of living.

Ultimately, energy matters because we are dependent upon it in almost every aspect of how we live, work and interact within our nation. We need to know the implications of this dependency to address it in policy and in practice. Our environmental goals, energy goals and economic goals are inextricably linked.