



**Canadian  
Petroleum  
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des produits  
pétroliers**

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## **Canadian Petroleum Products Institute**

**Comments to the House of Commons  
Standing Committee on Industry,  
Natural Resources, Science and Technology**

**September 22, 2005**

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Thank you for the opportunity to appear in front of your Committee. You may recall that the last time our industry appeared before you in 2003, the subject was similar and you issued a concise but powerful report that contained two recommendations.

We supported the first one – to create a body capable of gathering, interpreting and disseminating information on prices and supply / demand conditions in North America. Since then, we have been very active trying to persuade federal and provincial officials to take a small, but significant step towards establishing a similar process.

We also followed your second recommendation and have been very active in informing and educating various stakeholders, including elected officials and the media. I believe that we have had a certain measure of success with the media. The supply / pricing recent upheavals caused by the shutdown of 10% of North American refining capacity were covered in an informed and balanced way.

I would like also to convey the regrets of two of our members, Shell and Imperial Oil. With such short notice and on such an important subject, it proved impossible for them to free up senior representatives for the set date.

I am assuming that the tactical causes of the recent price spikes in the North American market have been well covered by the presentations from our colleagues from Ultramar and Petro-Canada.

Strategically, there are two considerations that are paramount if we are to understand the current North American situation. It goes to the fundamentals of any market: prices reflect the relationship at a given time, between supply and demand. When it comes to petroleum products, we have been experiencing in the last couple of years, here and in the U.S., a surge in demand that was impossible to predict. On the supply side, it is misleading to say that supply is tight because no new refinery has been built. In fact, in the past 10 years, the supply of gasoline and middle distillates has consistently increased because:

- Refining capacity that used to produce residual fuels such as bunker has been freed up and converted to other products.
- The capacity of existing refineries – and their ability to produce gasoline and distillates – has been rising steadily (Irving Oil and Ultramar being two examples).

The surge in demand however has created for crude oil and products, a situation where every apprehended incident is translated by the market, in higher prices and when a catastrophe like Katrina actually happens, the results are painfully visible and felt by consumers throughout the Continent.

We have often been asked why problems in the U.S. should affect Canadian consumers. The short answer is that we are in the same free trade market (which for our products preceded FTA and NAFTA). Subsequent treaties have placed an obligation on Canadian businesses to offer their products at the same price to the U.S. and Canadian customers.

Consequently, an artificially low Canadian price (through legislation for example) would result in massive purchases by U.S. customers, particularly from Quebec and the Atlantic Provinces and a shortage for the Canadian market. This situation is well explained in an attached Globe and Mail editorial dated September 2, 2005.

This being the case, some of the questions that the Canadian refining industry must answer are:

- Do prices here reflect fair market conditions?
- Are we in any danger of incurring shortages?
- How can consumers deal with high prices for products?

My colleague will show you some historical charts that clearly demonstrate that Canadian prices are fair and follow closely the larger continental market. These charts are part of a CPPI presentation made to the Council of Energy Ministers in New Brunswick earlier this week. On the question of security of supply, we have, barring an even larger catastrophe, enough capacity to supply all Canadians and to continue to export to the U.S.

The third question, the most important in my mind, raises the issue of conservation. Why have we, as a country, been so effective in improving our energy efficiency at home and in our factories, but continue to consume motor fuels at a rate that is alarmingly high, still increasing and much higher than in other OECD countries (U.S. excepted).

We would very much like to be included in a serious debate on these real issues that affect and frustrate Canadians – whether they are producers or consumers. We have some answers but political leadership is essential.

Before we answer your questions, allow us to share with you the following charts.