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Susie Cadieux
Clerk of the Standing Committee on Finance
House of Commons, Sixth Floor
131 Queen Street
Ottawa, ON K1A 0A6

Dear Ms. Cadieux,

On behalf of Canadian Fuels Association and our member companies[1], we are pleased to make this submission to the ***Standing Committee on Finance*** as part of its pre-Budget consultations.

The Canadian Fuels Association represents the downstream petroleum industry encompassing all aspects of refining, distribution transportation and marketing of petroleum products. Canadian Fuels members supply 95 per cent of transportation fuels in Canada which are a vital component of the energy system. Canadians consume nearly 90 billion litres of fuels per year – primarily gasoline and diesel. Petroleum-fuelled transportation enables the movement of people and goods and is essential to Canadians' quality of life.

Canadian industries including manufacturing, agriculture, fishing, forestry, energy, retail and tourism rely on our fuels. Our members also supply asphalt, heating fuels and feedstocks for chemical and lube manufacturing facilities. Our experience also extends well beyond petroleum fuels – Canadian Fuels members blend and deliver virtually all of the biofuels consumed in Canada and we are also among Canada's leading ethanol producers. While the fuel mix is evolving, independent forecasters including the National Energy Board suggest that petroleum fuels will continue to play an integral role in our economy for decades to come.[2]

The fuels sector is an important direct contributor to the Canadian economy. The refinery sector contributes over $5 billion toward Canada's GDP each year and accounts for $3 billion in annual capital investment. We employ over 100,000 Canadians at 15 refineries, 70 distribution terminals and approximately 12,000 retail and commercial sites across the country. Refinery employees are highly skilled workers who earn wages and salaries that are 50% higher than the overall Canadian manufacturing average.

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[1] Canadian Fuels members: Chevron Canada Limited, Federated Co-operatives Limited, Husky Energy Inc, Imperial Oil Limited, Irving Oil, NARL Refining LP, North West Redwater Partnership, Parkland Fuel Corporation, Shell Canada Limited and Suncor Energy Products Partnership

[2] 2013 National Energy Board Outlook

We face increasing competitiveness challenges: Refineries are complex, capital intensive manufacturing facilities. Refining is also an energy-intensive-trade-exposed (EITE) manufacturing sector and Canadian refineries are increasingly vulnerable due to factors including long-term flat to declining demand in North America, a growth in US imports and the global trend toward larger refineries with greater economies of scale. The cumulative impact of regulations at all levels of government adds to these global competitiveness challenges. Refining our own products reduces dependence on imports – the best guarantee of a secure, uninterrupted supply to Canadian consumers and businesses while keeping highly skilled high paying jobs in Canada.

We are continuously improving our environmental performance: Canadian refiners continuously invest in equipment and processes to improve energy efficiency and emissions performance. Refinery $C0_2$ emissions are down 18% and account for less than 2.5% for Canada's GHG emissions. Sulphur content in gasoline is down 85% and 97% in diesel which has resulted in substantial reductions in vehicle emissions of smog precursors.

Our advice to your Committee as you undertake your pre-Budget deliberations is as follows:

1. Promote greater federal-provincial-territorial cooperation on the regulatory agenda

a) Seek opportunities for greater regulatory alignment

As noted above, Canadian refiners are facing growing competitiveness pressures and the cumulative impact of regulations at all levels of government adds to these challenges.

We welcome the federal government's commitment to a *Pan Canadian approach* to climate change policy which we hope will lead to greater policy alignment and reduce market fragmentation. It is our hope that federal-provincial-territorial collaboration on environmental policies will extend well beyond the climate change file to other regulations including those for conventional air emissions.

Aligning policies with the U.S. is equally important given the integrated nature of our markets and will better ensure that Canadian refiners are competing on a level playing field. In the case of fuels, these must also be integrated with vehicle manufacturers. A good example is the new ultra-low standard for sulphur in gasoline in light duty vehicles which comes into effect in 2020.

b) New regulations must be paced and staged

Canadian refineries are regulated at both the facilities and fuels levels by all three levels of government and face an ever growing list of regulatory requirements. Pacing, staging and phasing regulations is key to managing the compliance burden and ensuring the sustainability of our sector. Here again, greater federal-provincial-territorial coordination is key.

2. On climate change

a) We support a national, economy-wide approach to carbon pricing mechanisms.

A uniform and predictable carbon pricing mechanism is the most effective and efficient GHG reduction option for all sectors, as it allows fuel and technology options to compete on a level playing field driving the lowest cost GHG mitigation solutions. A broader carbon market will lead to deeper, more cost effective GHG reductions and better protect sector competitiveness.

b) We support transportation mitigation measures but these must be considered carefully:

Canadian refiners support reducing emissions in the transportation sector which account for 24% of Canada's emission[3]. Indeed road transportation demand continues to grow and emissions continue to increase in spite of the fact that better fuels and engines have made driving much less carbon-intensive. Population and GDP are the key drivers of road transportation demand.

Reducing transportation emissions will require a comprehensive approach for vehicles, users and fuels. We also recommend that all government policy decisions and investments in mitigation measures weigh cost effectiveness (cost per tonne of CO_2 abated) versus reduction benefits. Increasing the fuel efficiency of conventional vehicles is the most cost effective way to reduce GHG transportation emissions.

Alternative fuel vehicles come with a range of benefits, limitations and costs. The pace of market penetration is influenced by a variety of factors including consumer acceptance, fleet turnover rates, and availability of refuelling infrastructure. Many first generation biofuels do not provide significant GHG benefits and advanced or 'next generation' biofuels which offer more promising benefits are in the early demonstration stage. Two recent reports also cautioned that many of these options are expensive to the point of being non-economic. Canada's Challenge & Opportunity: Transformations for major reductions in GHG emissions from the Trottier Energy Futures, and A Long Hard Road: reducing GHG Emissions in Canada's Road Transportation Sector by 2050 from The Conference Board of Canada found that mitigation measures range from $100 per /tonne of C02-equivalent and increase over time to several hundred dollar per tonne.

***Reducing Demand for transportation is key*:** This will require Canadians and governments at all levels to make smart decisions about where to live and work, and how to get around. Behavioural change, investments in high density transportation infrastructure and integrated land use planning will help drive carbon reductions.

Freight is the fastest growing component of transportation emissions. Efficient movement of goods is a vital underpinning of Canada's economy and Canadians' standard of living. New fuel and vehicle technologies, modal shifts and improved operational practices are among the options most likely to deliver emission reductions in this highly competitive industry.

***Finding the right balance*:** If Canada is to meet its emissions reduction goals, all of these options must be considered in a comprehensive approach. Governments at all levels, industry and citizens must work together to achieve a sustainable transportation system that balances Canadians' environmental, economic and social aspirations.

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[3] Environment Canada

Finally, changing consumer behaviour is central to addressing the climate change and we are doing our part. These are examples of three consumer engagement/education programs that we are supporting:

The ***Smart Drive Challenge*** is an innovative consumer outreach program to empower Canadians to "drive less, drive better, drive change." It will be launched in the Greater Toronto and Hamilton Area and the Greater Victoria Area in June, 2016. We are a presenting sponsor of this program and hope to see it expand to other communities in future years.

We are also reducing freight transportation emissions through member Leadership in the ***SmartWay Program*** which promotes more fuel efficient freight transportation.

Smart Fuelling is a joint energy efficiency initiative with the Canadian Convenience Store Association (CCSA) and the Canadian Independent Petroleum Marketers Association (CIPMA). The program promotes better driving habits with fuel customers to reduce fuel consumption.

Thank you again for the opportunity to make this submission and we wish the Committee success in its deliberations.

Sincerely,

PS Boag

Peter Boag President & CEO
Canadian Fuels Association