Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Canadian Petroleum Products Institute

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Canada's petroleum refiners generate $2.5 billion in annual GDP and employ 17,500 Canadians in highly skilled, high wage jobs. They are a vital component of the overall oil and gas value chain, providing a reliable supply of high quality, competitively priced, fit-for-purpose fuels that underpin our economy. Transportation fuels enable the mobility of people and goods that is essential to Canada's prosperity. Today, Canadian refiners face a challenging competitive landscape. Slowing North American demand growth and potential new import sources of supply are creating additional competitive pressures in what is an increasingly global fuels market where few trade barriers exist. These competeveness pressures are behind recent refinery closures throughout the Atlantic basin and negatively impact investment decisions essential to long-term refinery viability and potential growth opportunities in Canada. Canadian refineries are efficient but operate at a size disadvantage to their international competitors. This situation makes regulatory simplicity and efficiency critical to refiners' competitiveness, especially for the broad range of increasingly stringent environmental regulations under which transportation fuel refiners operate. Over the past decade, Canadian refiners have invested $8 billion in environmental improvements. The cumulative impacts of proposed and/or potential new regulatory requirements could be significantly greater, accentuating the need for government to ensure that any future regulations are: cost-effective and backed by rigorous and credible economic impact analyses based on facts and sound science to deliver real health and environmental benefits harmonized across jurisdictions to avoid duplication and not impose higher costs on Canadian refiners than those imposed on their competitors Furthermore, regulatory constructs that are outcome-driven and provide refiners with flexibility to develop and implement the most cost-effective options to meet regulatory requirements are key enablers of innovation - they can assist Canadian refiners to overcome scale disadvantages in the global competition for investment dollars. High regulatory compliance costs will certainly detract from Canadian investment competitiveness. The government must vigorously pursue the attributes of simplicity and efficiency in federal regulatory initiatives that directly impact Canadian refiners, including: Air Quality Management System (AQMS); oil and gas sector GHG emissions regulation; and Tier 3 fuel quality standards.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

A strong economy creates jobs. Trade is an essential component of a strong Canadian economy. Strengthening Canadian competitiveness in global markets and reinforcing/expanding Canadian market access in existing and emerging markets should be government's primary priorities. We applaud Canada's participation in Trans-Pacific Partnership (TPP) talks. The TPP is a potentially game-changing trade arrangement that would substantially strengthen Canada's Asia-Pacific trade and investment ties with significant economic growth and job creation impacts. The TPP is a valuable complement to the Canada-EU trade agreement (CETA) now under negotiation, and bilateral trade talks, notably with China. Every effort should be made to expeditiously bring these trade discussions to successful conclusions. Expanding energy exports is a key opportunity for Canada. Market diversification beyond the United States – especially oil and gas to the Asia Pacific region – should be a priority. New energy infrastructure is a vital requirement to access these markets. The Responsible Resource Development element of the federal budget is a major step forward to achieve a simpler, more efficient approach to environmental approvals for major resource projects such as pipelines, while continuing to ensure responsible environmental and social outcomes. The Government must move forward quickly with necessary regulations and sensible actions to implement the legislative intentions of the Responsible Resource Development provisions within the 2012 Budget Implementation Act. Transportation fuels are vital enablers of the mobility of goods inherent in global trade. Nearly one-third of total energy use in Canada powers the movement of people and goods – transport of goods accounts for more than 50 per cent of transportation energy consumption. Petroleum fuels power 95 per cent of Canadian transportation today. There is growing policy focus – mandates, subsidies, etc. - on alternatives to conventional petroleum fuels, driven mainly by a desire to reduce transportation GHG emissions. The dependence of the Canadian economy on a reliable supply of high quality, fit for purpose, environmentally sustainable, and competitively priced fuels requires a careful assessment of the advantages and disadvantages of potential alternative fuels. Canadians expect and deserve rigorous due diligence from policy makers when making decisions that will impact fuel choices and supply.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

Chronic, skilled labour shortages pose a potential threat to Canadian competitiveness and Canada's future economic health. This is especially true for Canada's growing energy sector – a key driver of Canadian economic activity. Labour shortage impacts could threaten investment, revenues and sustainability throughout the entire energy value chain. A recent study by the Conference Board of Canada found that workers over 45 years of age account for half of the refinery sector workforce. The largest cluster of refinery workers is in the 45-54 age group, suggesting that up to a quarter of current refinery workers will retire within the next 10 years. Education and a skilled workforce are important assets for Canada and for the refining industry. More than two-thirds of refinery workers have a post-secondary qualification, with 20 per cent holding a bachelor's degree. Half of the refinery workforce comprises skilled tradespeople. Not surprisingly, refinery workers command above average compensation – two-thirds higher than the Canadian average, and 50 per cent greater than the overall manufacturing sector. A recent Conference Board survey found that 56 % of employers in the sector were having difficulty recruiting and or retaining workers – especially for engineers and skilled trades. Recruitment competition is fierce in all of Canada's industry sectors. In the face of these realities, government should place a priority on policies that: ensure younger Canadians are equipped with the skills essential to working in high technology sectors such as the energy value chain; promote importance of training and careers in the skilled trades; link immigration priorities to Canada's labour market needs; promote labour mobility; and encourage/facilitate labour market inclusion of the unemployed and underrepresented groups.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Labour productivity performance has generally been strong in the refining sector. According to the Conference Board of Canada, from 1962 to 2006, labour productivity (based on real value-added) increased at an annual rate of 3.4 percent. This was stronger than labour productivity growth in manufacturing as a whole (2.9 per cent) and in the overall business sector (2.1 per cent). Labour productivity fell by an average 4.2 per cent between 2000 and 2006, mainly influenced by declining intermediate input intensity, as heavier crude oils increased as a proportion of refineries' crude inputs. However, output per hour worked in the sector was $68 in 2006. In comparison, output per hour in the broader manufacturing sector was $50, while it was $42 for the business sector as a whole. Capital intensity is a component of labour productivity. Significant investment over the past 30 years has made refining one of the most capital intensive industries in the Canadian business sector. Continued strong investment in innovation and technology is essential to maintain the refining sector's robust labour productivity performance and global competitiveness. A competitive business environment for Canadian refiners is essential to sustain this investment: smart, efficient regulatory approaches that 'do no harm' are a key contributor to competitiveness in an increasingly globalized transportation fuels market. As previously noted, cost-effective, fact-based and harmonized regulatory constructs that are outcome-driven and provide refiners with flexibility to develop and implement the most cost-effective options to meet regulatory outcomes are key enablers of refiner competeviness. Access to least-cost crude oil feedstock options also contributes to competitiveness that encourages sustained capital investment in Canadian refineries. Expeditious regulatory approvals for infrastructure projects (e.g. reversal of the Enbridge Line 9 pipeline) that respond to changing market/economic conditions provide essential feedstock supply flexibility/diversity.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Canadian consumers allocate a growing portion of their incomes to the purchase of gasoline for their mobility requirements (3.8% in 2008 according to Statistics Canada). For Canadian businesses, transportation fuels can represent a significant portion of business operating costs. The cost of transportation, including fuel, is also embedded in the price of most, if not all, goods purchased by both individuals and businesses. Accordingly, few subjects can create as much consumer/business angst as fuel prices, particularly when they are rising and/or volatile. Mitigating the rising fuel prices is one of a number of factors driving growing public policy interest in alternatives to conventional petroleum transportation fuels. Mandates and financial incentives (subsidies) have been introduced to grow the use of alternative fuels. Without question, Canada's future transportation fuel mix will be much more diverse than it is today. However, as the federal government develops policy to determine Canada's transportation fuel future, regulatory compliance costs must be a key consideration in making those policy choices. All relevant government departments must thoroughly review policy options to ensure the affordability of Canada's fuel supply as they look to achieve other, possibly conflicting, policy objectives. Sound policy making demands a thorough understanding of all the options, implications and unintended consequences. From a cost/affordability perspective, the necessary due diligence requires an examination of the fuel cost, as well as the cost of new fuel distribution infrastructure and the incremental cost of new vehicle technology to make these fuels compatible with the vehicles they will power. Alternative fuel policies should be underpinned by credible cost-benefit analyses that clearly demonstrate a net benefit for Canadians.