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   • Our position
We represent Canada’s transportation fuels industry. Our members are the companies who process crude oil into essential products like transportation fuels and get those products to market.

We engage all levels of government: federal, provincial and municipal, with a focus on environment, health and safety policy and regulation, we work to promote meaningful discussion around policy choices, their benefits and their unintended consequences.

Canadian Fuels members:
Canada’s Refining Sector

Industry Snapshot (2016)

• 15 refineries located in 7 provinces
• Divided into two orbits: East (capacity 1,260 kb/d) and West (capacity 628 kb/d)
• Total refining capacity: 1,888 kb/d
• Total Product demand: 1,812 kb/d
• GDP contribution: $5.4 billion
• Refinery employment: 19,057
• Refined product exports: 432 kb/d
• Refined product imports: 243 kb/d
• Total annual investments: $2.1 billion
Refiners Are Critical Infrastructure

Canada Transportation Energy
Demand by Fuel, Reference Case

• Refined products fuel the everyday reliability of shipped goods, delivered services and passenger transportation that is essential to the economic and social fabric of Canada.

• Petroleum fuels will be an important part of the energy mix for the foreseeable future – for transportation and all other economic sectors – significant co-dependence with petro-chemical sector.

• Oil and liquid hydrocarbon products demand will remain important in powering transportation in Canada to 2040 and beyond (90% of transportation sector).

Source: NEB. Canada’s Energy Future 2016: Energy Supply and Demand Projections to 2040
*Does not include initiatives introduced in the Pan-Canadian Framework in November 2016.
Gasoline and diesel are globally traded commodities.
- Canadian refineries compete at home and in export markets with foreign refineries.
- Up to 5 of the 15 Canadian refineries are vulnerable to closure due to cumulative impacts of regulations on both our fuels and facilities: federal, provincial and municipal (2017 Baker & O’Brien Report).
  - Highlighted need for policies to be staged and paced to manage competitiveness risks.

This is amplified by divergent Canada-U.S. Climate Policy.
- Divergent Canada-U.S. climate policies will impose carbon costs on Canadian refineries that won’t be borne by their U.S. competitors making refining in Canada more expensive.
- California should not be the policy standard: Canadian refineries don’t compete with California but with U.S. states that don’t have carbon policies such as Texas and Louisiana.
Following the closure of the Shell Montreal-East refinery in 2010 and to better understand and identify the cumulative competitiveness impacts of policy agendas on the Canadian refining sector, the Canadian Fuels Association approached Baker & O’Brien, an independent consulting firm in 2012 (Cumulative Impacts of Policy Scenarios Facing the Canadian Downstream Petroleum Sector).

Subsequent to the 2012 Report that identified competitiveness vulnerabilities for eastern Canada refiners, the Imperial refinery in Dartmouth, Nova Scotia shut down in September 2013.

In 2017, the Association was interested in updated research, with additional emphasis on GHG emission mitigation policy.
**Case 1** – Reducing 2030 Canadian petroleum-based fuel consumption by 20% relative to 2005.

Assumes **18 existing and new initiatives and regulations** are implemented by 2030. These initiatives and regulations fall into three categories:

1. **Refinery Stationary Source Emissions**: Mainly reduction of SOx/NOx/PM/VOC emissions from refineries.
2. **Fuel Reformulation**: Mainly sulphur reduction in transportation fuels and light heating oil.
3. **Climate Change Initiatives**: Mainly additional bio-fuel component requirements in transportation fuels. Carbon tax on refinery GHG emissions and additional electrification of the transportation sector.

**Case 2** – Reducing 2030 Canadian petroleum-based fuel consumption by 40% relative to 2005.

Assumes the same 18 initiatives and regulations as Case 1.
Cumulative Impacts – Study Conclusions

Results

- In Case 1, three of eight existing eastern refineries might completely shut down and one western refinery might shut down significant portions of the facility. Total Canadian refinery capacity is reduced by 28%.

- In Case 2, two additional refineries (one eastern and one western) might completely shut down, and an additional eastern refinery might partially shut down. Total Canadian refinery capacity is reduced by 44%.

- In both Cases, the remaining refineries are likely to operate at lower, less efficient utilization rates.
The refining sector is ‘energy intensive and trade exposed’ (EITE).
Federal and provincial policy agendas must protect EITE sectors like petroleum refining.
Failure to do so will cause carbon leakage: i.e. refinery closures and substituting domestic supply with fuel imports, with the following consequences:

1. Erode the direct economic benefits (GDP, jobs) from Canada’s refining sector.
2. Undermine fuel and security of supply, create the risk of fuel supply disruptions.
3. Put upward pressure on fuel costs.
4. Divert emissions from closed Canadian refineries (some of the cleanest in the world) to refineries elsewhere, doing nothing to reduce global emissions.
We support carbon pricing and have worked collaboratively with governments in Canada and around the world to design and implement programs.

**The current backstop proposal for an output-based pricing system (OBSA):**

- EITE industries in jurisdictions where the backstop applies have to meet a carbon intensity standard equal to 70% of the industry average or else pay a penalty.
- There is no refinery in the world that can meet this standard.
- Canadian refiners will have no choice but to pay the penalty which will:
  - Divert $’s away from actual investments to reduce greenhouse gases while doing nothing to reduce Canada’s emissions profile.
  - Make refiners less cost competitive increasing the risk of refinery closures and carbon leakage and importing fuels with a potentially higher GHG footprint.
- This outcome would be a policy failure for Canada.
We recommend:

1. Set realistic targets and pace reductions.
   - Recognize the unique nature of our sector: we are regulated at both the fuels and facilities level and our products are used by all other sectors that are also targeted.

2. Ensure level playing field with competing jurisdictions, and avoid trade exposure that could lead to carbon leakage – use global benchmark for establishing stringency.

3. Align stringency with existing carbon pricing regimes in Canada to protect inter-jurisdictional competitiveness.

4. Account for cumulative impacts of other climate policies including the Clean Fuel Standard.

5. Conduct robust competitiveness analysis.
We support a single, national fuel standard.

- There are currently 12 separate federal and provincial biofuels regulations for gasoline and diesel and more are anticipated.
- A single, national regulation would reduce market fragmentation, supply risks and industry compliance costs.
1. Minimize partitioning of credits: allow full trading between Transport and Industrial fuels.  
   - Maximum flexibility will incent lowest cost compliance options for all sectors.
2. Exclude refining self-produced and used fuels.  
   - By-products of the refining process cannot be reduced or substituted.
3. Conduct robust compliance modelling to inform design of regulation.  
   - Set realistic goals, understand cost implications
4. Consider the interaction and cumulative compliance cost impacts of the CFS and carbon pricing on EITE sectors.
5. Replace Federal Renewable Fuels Regulations with the CFS and phase out provincial RFS/LCFS.

(Annual Million Barrels)

Source: EIA
Refined Petroleum Products Trade Flow between Canada and US (2016)

(Annual Million Barrels)

Source: EIA