



Divergent Canada-US Climate policies could undermine reliable access to fuels

Peter Boag, President & CEO

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Canadians take for granted that the transportation fuels we rely on are available whenever and wherever needed. For decades, our confidence in the reliability of fuel supply has been justified.

Canada's fuel suppliers have a strong track record of refinery reliability, supply chain integrity and product availability. Fuel shortages are rare, generally short in duration and local in nature. Almost always, shortages are the result of transportation and logistics problems caused by unforeseen conditions such as major storms or electrical power failures. When unforeseen circumstances or events do happen, refiners have well established and well tested contingency plans designed to minimize impact on consumers, ensuring fuel is always available to meet the needs of emergency services.

Key to this reliable supply has been a healthy, competitive Canadian refining industry – part of Canada's critical energy infrastructure – that produces more than enough fuel to meet Canadians' needs. Indeed, for years Canada has been a net exporter of fuels, with the US being our most important export market.

So, nothing to worry about then; we can continue to have confidence in the reliability of fuel supply, right? Not so fast. Diverging Canada-US Climate policies are a potential bump in the road that could change this situation, jeopardizing fuel supply reliability and making Canadians dependent on fuel imports by putting us at the mercy of a long supply chain – much of it out of our control.

Fuels like gasoline and diesel are commodities that trade freely across international borders. Canadian refineries compete directly for market share, both here at home and in export markets with foreign refineries – in particular, refineries in the US. The competitiveness pressures in the international fuels market are intense. Profitable operations that deliver adequate returns on investment are a function of a complex set of variables including refinery size, configuration and complexity, operational efficiency, and regulatory compliance costs. Historically, Canadian refineries' competitiveness vis-à-vis their US competitors has been supported by strong alignment in Canada/US environmental regulation that results in comparable compliance costs on both sides of the border.

Diverging Canada-US Climate policies will change this, imposing carbon costs on Canadian refineries that won't be borne by their US competitors, making it more expensive to refine in Canada. As the competitive position of Canadian refineries erodes, some will likely no longer be able to achieve an adequate return on investment, and will close. Fuel imports from the US or some other country will replace domestic supply - because we are still going to need those fuels for the foreseeable future.

So, what does that mean?

When everything works right, it will be 'painless' to Canadians (except for those whose refinery and related jobs have disappeared). But when unforeseen circumstances or events occur that disrupt the supply chain



(geopolitical events, natural disasters, etc.) we won't likely be the top priority for our out of country suppliers. Even if we were, the sheer length of the supply chain would pose challenges to timely restoration of supply. This undermining of supply reliability clearly isn't in Canada's interest. And there is no upside - diverting emissions from closed Canadian refineries to US refineries does nothing to reduce global emissions; Canadian refineries are among the cleanest in the world and produce some of the cleanest fuels in the world.

Add another bump in the road such as the potential for US protectionist measures like a border adjustment tax, and our reliable domestic supply of essential transportation fuels could even more quickly become something from the past. In these uncertain times, Canadian political leaders need to balance their GHG reduction aspirations with the broader interests of Canadians, including reliable access to fuels.

For further information, please visit canadianfuels.ca | info@canadianfuels.ca | 613.232.3709

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