



Canadian Automobile Association

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June 4, 2003

Mr. Walt Lastewka, MP
Chair, Standing House of Commons Committee on Industry, Science and Technology
House of Commons
Ottawa ON K1A 0A6

Dear Mr. Lastewka:

The Canadian Automobile Association (CAA) appreciates the opportunity to assist the House of Commons Standing Committee on Industry, Science and Technology in its study of domestic retail gasoline pricing. It is one of the most studied consumer-related issues in Canada, and the volatility of gasoline prices continues to generate much discussion about market fairness and the competitive nature of the retail gasoline market in Canada.

As the premier membership organization in the country representing 4.4 million Canadian motorists and travellers through our eleven Clubs across Canada, CAA has been active on this issue for some time and our concerns and views have been well documented. Given that the scope of the Committee's current study is limited to the causes of the recent increase in the price of gasoline and its impact on the Canadian economy, our focus is on providing practical recommendations that can be undertaken in the short-term to help consumers make more informed choices and reduce the cost of gasoline at the pump.

Some Canadians may view the volatility in gasoline pricing and the sudden, uniform lowering or raising of prices as signs of market collusion. Some are convinced that oil companies are taking advantage of high global oil prices to make excessive profits at their retail outlets. When prices increase before a long weekend or a popular travel week, Canadians may well think that they are once again being gouged.

The reality may be quite different from the perceptions of the typical Canadian motorist or traveller. Over the past ten years, several important and thoroughly researched independent studies have concluded that Canadians are well served by the domestic retail gasoline market, enjoying some of the lowest retail gasoline prices in the world. In addition, several federal and provincial governmental reviews have concluded that there is no evidence of any inappropriate gasoline pricing activity. The CAA, for its part, has not seen any compelling evidence of any wrongdoing.

Nevertheless, our members continue to have many serious questions and concerns about retail gasoline pricing. Why do prices fluctuate? Why do prices vary by location? Are they fair? Moreover, why are taxes so high?

They are simply not convinced that they are being treated fairly at the pump. Why is this so?

Although the retail gasoline industry has a responsibility to ensure that the price at the pump is fair and reflective of a truly competitive market, there is a larger obligation to ensure that consumers have enough information to make choices and reach opinions that are more informed. This information should be right where they need it the most – at the pump.

An important first step would be to ensure that the components that make up the pump price are clearly displayed on every gasoline pump in Canada. Almost 80 percent of our members surveyed agree. Over the past several years, we have made repeated attempts to help our members understand the various components of gasoline pricing. Nevertheless, more can, and should, be done on that front by both industry and governments.

In addition, most Canadians have little or no understanding of the intricate and complex nature of domestic retail gasoline pricing. This type of information – in plain language - should also be more readily available at the retail level. It would also be helpful if retail staff representatives and operators had adequate information to respond to general consumer inquiries.

Although we recognize that the retail gasoline industry has undertaken awareness campaigns in the past, consumers would benefit from a sustained effort. We would be pleased to work with industry representatives and governments to determine what can be done to provide consumers with timely, relevant information. Such a consumer educational campaign would raise the understanding about how the retail gasoline industry operates and how prices are determined.

The role of government is clear: it must ensure that the retail gasoline industry operates on a level playing field and within market rules and regulations. Government must have the power to protect the public and must be given the resources to do so. Existing laws must also provide adequate consumer protection. If not, they must then be amended. Given repeated governmental reviews of gasoline pricing that find no evidence of collusion or gouging and yet increasing consumer complaints, the retail gasoline industry should seriously consider the establishment of an industry-based consumer assistance program, including an arms-length ombudservice where consumer concerns or complaints can be handled appropriately.

This type of industry-wide complaint resolution mechanism could also develop and promote standards and best practices relating to consumer complaints, promote its existence and report on its effectiveness. We would be pleased to discuss this option with industry and the federal government.

Over the years, we have spent considerable effort to help our members understand how their driving behaviour is directly linked to their gasoline consumption. We have provided advice on steps they can take to conserve fuel and save money at the pump. We will continue to look at ways to improve the information flow to our members. In keeping with federal government efforts to reduce emissions, for example, we are now developing strategic partnerships with Environment Canada and Natural Resources Canada to provide our members with more eco-friendly driving tips.

Recent increases in gasoline prices have been disruptive to both consumers and businesses. This is no different from what we have consistently observed in the past: higher gasoline prices strain individual and family budgets, raise the cost of goods and services and ultimately create a drag on the economy that can impact the livelihood and quality of life of Canadians. Those most affected by high gasoline prices are single or low-income earners and seniors. Rural Canadians and those who commute to work have few alternatives for other modes of transportation.

There is an opportunity for the Government of Canada to act swiftly and provide Canadians with some significant relief from high gasoline prices.

As members of the Committee may know, Canadian motorists and travellers already carry a heavy tax burden, and taxes are usually the largest single component of gasoline prices, averaging forty to fifty per cent of the retail pump price. There are two federal taxes on gasoline, the seven per cent Goods and Services tax and the ten cents per litre Federal Excise Tax. The Excise Tax is a national flat tax on a litre of gasoline while the seven per cent GST is applied to the amount of gasoline purchased and is applied to the Excise Tax and the various provincial consumption taxes as well. The federal government charges the Goods and Services Tax on the full pump price, gasoline taxes included. The vast majority of Parliamentarians recognize that there is valid concern about the unreasonable practice of the GST being applied to both the Federal Excise Tax and provincial consumption taxes. In 1998, for example, the Liberal Committee on Gasoline Pricing in Canada recommended that the “federal government consider removing the GST from other taxes and apply it only to the wholesale price for gasoline plus the retailer margin.”

A recent Canadian Vehicle Survey (CVS) conducted by Statistics Canada for Transport Canada shows that Canadians travel between 12,000 km and 18,000 km annually. Many Canadians depend on their vehicles and have a need and a desire to be highly mobile. For many, gasoline is an absolute necessity. We therefore urge the Government of Canada to apply the GST to the pre-tax price of gasoline rather than as a tax on tax. In addition, we urge the Government of Canada to remove the 1.5-cent

Excise Tax increase, which was introduced in 1995 to help reduce Canada's deficit. These two measures alone could potentially save Canadian motorists and travelers a few hundred dollars annually and provide much needed relief from high gasoline prices.

We hope that our comments and observations are constructive and helpful. We would be pleased to work with you and your Committee colleagues to advance the recommendations contained in this letter. Mr. Daniel Tessier, CAA's Vice President, Public Affairs, will contact your assistant to determine if a meeting can be arranged. In the meantime, please contact me at 613.247.0117, should you have questions, or wish to discuss our proposals further.

Yours sincerely,



David Flewelling, CA
President

Cc:

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