Canadian Independent
Petroleum Marketers Association

REMARKS TO THE STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY
JUNE 22, 2011

Thank you for the opportunity to participate in this study on the Fluctuation of Gas Prices.

My name is Tricia Anderson and I am President and CEO of CIPMA, the Canadian Independent Petroleum Marketers Association. I am joined today by two CIPMA Board members. Allan Macewen, our CIPMA Board Chair, is President of MacEwen Petroleum, a Canadian owned and operated business for over 30 years and one of the first marketers to provide ethanol enhanced gasoline in Ontario. Dave Collins is Vice President of Wilson Fuel Company Limited, based in Halifax. Wilson Fuels has a long history in the fuel business and has a retail gasoline network in all four provinces of Atlantic Canada.

High prices and dramatic fluctuations in prices of gasoline are issues of great concern to Canadians and to our members who are essentially the largest 'customers' of gasoline in Canada.

CIPMA represents independent fuel marketers. These are independent business owners who buy their fuel mainly from Canadian refiners at wholesale prices, then market their product and service offering to Canadians. Independents are generally family owned, multi generational small and medium sized enterprises. They have built their reputations by being solid, local businesses, who reinvest profits into their local economy and local communities. CIPMA members account for approximately 22% of Canadian retail gasoline sales on an annual basis.

Some brands you might recognize include Mr. Gas, UFA Cooperative Ltd., Canadian Tire, Parkland Fuel, Pioneer, Can-Op or McDougall Fuels.

Our members play a key role in the Canadian fuel market place. Independent fuel marketers bring healthy competition into what would otherwise be a one-dimensional retail gasoline market. Historically, independent marketers, through efficient operations, responsive tactics and innovative product offerings have moderated the price that Canadians pay at the pump.

Our members do not manufacture or refine the products they sell. CIPMA members purchase gasoline from the limited number of gasoline refiners in Canada. Some of our larger members are purchasing petroleum products numerous times a day from locations across the province, or in some cases, the country.

While we recognize that the committee's focus is on the fluctuation of gas prices, it is important to consider the impact of higher prices which we have been experiencing over the last several months, which have a deleterious impact on our members and their businesses. It may be helpful to outline the various elements that go into the price of a litre of gasoline. The attached chart, based on data provided by Kent Marketing Services provides an example of the components of Retail gasoline prices for the month of June, in the Toronto market.

Of the month to date gasoline price of $1.28, Crude costs account for 63.8 cents per litre; Refining margins account for 17.9 cents per litre – a total of 81.7 cents per litre or 64% of the total price going to the Producer/Refiner. These elements of the retail price are out of the control of the independent marketer.

Federal Excise Taxes, GST/HST and Provincial taxes including a tax on tax account for an additional 39.4 cents per litre, or 31% of the overall price. These elements increase as prices go up. These elements are also beyond the control of the independent marketer.

So far we have accounted for 95% of the $1.28 cents per litre.

The final 7.1 cents per litre, around 5 % of the total price <u>is</u> the operating envelope for the independent marketer. Note that this number, known as the retail margin, has been at around 7 cents per litre for all of 2011 and has ranged between 4.5 and 7.4 cents per litre on average across Canada over the last six years.

It is important to understand that this is a GROSS margin number. From this 7 cents per litre, independent retailers need to finance purchasing the land, building the site, property taxes, transportation/delivery of fuel, hiring/training and paying site level and support staff, utilities, costs related to collecting and remitting federal excise and provincial road taxes and all other operating costs including credit card fees.

Credit card fees are an area of particular concern for our members. Approximately 40% of our members' customers opt to pay by credit card. Credit Card processing fees, which are in the area of 2 %, rise as prices rise with every increase in retail gas prices. Increased credit card costs which cost between 2 and 2.5 cents per litre currently, significantly erode operating margin and profit for independents during times of higher prices. Currently, credit card costs account for about 1/3 of the retail margin available to cover ALL site operating costs.

Other operating costs increase with higher fuel prices as well such as fuel surcharges which increase delivery costs.

Convenience store sales, which are often an important contributor to the bottom line of independent petroleum marketers, also drop off as consumers feel their disposable income pinched

Returning to the issue of gas price fluctuations, it is important to note that dramatic price swings impact our members significantly. As mentioned earlier, our independent petroleum marketers are essentially the 'largest customers' of gasoline in Canada. Our members are notified by their suppliers each day between 3pm and 3:30pm of the price for various fuels for the next day at the 'Rack'. This is known as Rack pricing, that is, the price at the loading rack. Our members generally have supply contracts with a major refiner, as a way to ensure reliable supply of product to meet their business needs. Upon receiving notice of rack prices for the next day, independent marketers determine their purchasing tactics.

Given storage and transportation limitations, our members do not have the flexibility to buy and store fuels when prices are low. That said, larger members will use some specific tactics to mitigate the impact of huge price increases incurring extra labour and transportation costs to secure product before a price increase, or running inventory levels extremely low and keeping drivers on stand-by to take advantage of announced 'rack price' decreases. The impact of significant price swings can dramatically impact the viability of our members, so they commit a tremendous amount of time and resources to try to deal with big price swings which come with very short notice.

Dramatic price swings also impact our customer relationships. Although we are 'price takers' who are responding to price levels which can change dramatically from day to day, customers take out their frustration on our members and their staff on the front line. Our members experience increases in hostile encounters, reductions in important store sales and increases in fuel thefts or 'gas and dash' incidents.

We encourage the committee to carefully consider the challenging position of the independent retail marketer during its review.

As stated earlier, CIPMA members play a key role in ensuring a competitive market for retail gas in Canada. Our members believe in an open and competitive market place.   We believe that a closer review of the wholesale market place, a review of tax policy related to gasoline, reform to credit card practices by Financial institutions and more public education on fuel prices can contribute to a healthier marketplace for consumers and our members - independent small and medium sized Canadian fuel marketers and key contributors to Canada and their local communities.

Thank you.

Components of Toronto Gas Price June YTD 2011 vs June YTD 2010.

Retailer margins are largely unchanged in spite of price changes or volatility.