THE FOLLOWING IS THE RESPONSE RECEIVED BY JACK STOKES, M.P.P. FOR LAKE NIPIGON RIDING FROM THE HONOURABLE ALLISTER GILLESPIE, FEDERAL MINISTER OF ENERGY, MINES AND RESOURCES ON THE GREAT DISPARITY IN GASOLINE PRICES IN NORTHWESTERN ONTARIO:

Dear Mr. Stokes:

On Behalf of the Honourable Alastair Gillespie I would like to thank you for your letter of August 24th concerning the retail price of gasoline in Northwestern Ontario.

The Federal Government's policy statement, "Attack on Inflation", tabled in the House of Commons on October 14, 1975 recognized that in formulating a comprehensive anti-inflation program, energy pricing was one of several structural problems requiring special attention. It recognized that the underlying trends in global energy demand and supply were bringing in an era of much higher relative prices for energy throughout the world. Thus the federal government's objective of moving domestic oil prices towards international levels is in part based on the view that the price of a scarce and rapidly declining resource should at least equal its replacement cost. Each barrel of oil consumed today will tomorrow be replaced by a barrel of imported oil at the full international price of by a barrel of domestic oil from new sources costing as much or more than imports. The effects on the Canadian economy, especially the impact on the consumer price index and on our competitive position with the United States have always been, and will continue to be, of major importance in any agreement with the producing provinces concerning the price of oil. Price increases are, however, necessary to foster oil and gas exploration and development, to stimulate energy conservation and to encourage Canadian industries to remain or become competitive without the support of artificially low energy costs.

There are three basic factors that influence the price the motorist pays at the pump for gasoline in northern Ontario - or, indeed in any place in Canada. The first is tax: although federal sales and excise taxes are the same in all provinces, the provincial road tax does vary. The second is the price the dealer pays his oil company for the gasoline that he in turn sells to the motorist. Basically this is the refinery gate price plus transportation and handling charges. The third is the dealer margin, the amount he takes to run his business and make a profit.

In most places in Canada the dealer decides on the margin he will add to his wholesale price, this being determined by the competition in his locality. In many places today, however, this competition is so intense that dealers cannot sell at a price that will allow them a viable margin, which is the case in all of the locations you mentioned except for Marathon. In such instances the dealers may, at their own option, request to become agents for their supplying oil company in the sale of gasoline. They take gasoline on consignment from their oil company, the company posts the price at the pump and the dealer acting as agent, receives a commission on each gallon of gasoline sold.

The difference between the pump price in somewhat isolated communities, such as Marathon, and more competitive urban centres, such as Toronto or Thunder Bay, can be attributed to three factors: higher costs of transportation to the more remote areas, differences in the realization of the posted tankwagon price and higher dealer margins. Prior to the August 30, 1977 price increase, the average pump price in Toronto was 85.5 cents as compared to the $1.04 you report for Marathon. The difference of 18.5 cents a gallon can be explained as follows: a) Transportation costs account for 2.7¢. Oil companies set their posted dealer tankwagon price for each area to take account of the cost differences in transporting product to various locations. In Toronto the average posted dealer tankwagon price including federal sales and excise tax and provincial road tax was about 84.2¢ as compared to about 86.9¢ in Marathon. b) Differences in realization of tankwagon price account for 6.2¢. Full posted tankwagon price is not realized on gasoline sales to dealers in many areas of Ontario at this time, but in the more isolated communities, the dealer pays the full listed price. The full-service station dealer selling regular gasoline at 85.5¢ in Toronto receives a commission of approximately 7.5¢ to sell the product, paying the equivalent of a wholesale price of 78.0¢, compared to the listed tankwagon price excluding transportation differences paid in Marathon of 84.2¢. c) Higher dealer margins account for 9.6¢. Dealer margins in Marathon are higher than in Toronto where dealers are on commission consignment and their effective margin is about 7.5¢. In Marathon based on the $1.04 pump price you reported, margins were 17.1¢ or 9.6¢ higher.

Although the above comparison was based on Toronto and Marathon the same type of analysis can be applied to any location in Canada. Due to competition, retail pump prices in some parts of Quebec are also depressed, however, gasoline sold in isolated towns throughout Quebec is equally expensive as it is in northern Ontario.

The "one price oil policy" as adopted by the Federal Government in late 1973 and implemented in the second quarter of 1974 ensures that refiners using imported crude oil pay a price equivalent to the Toronto price of domestic crude. The Federal Government through the Anti-Inflation Act has also set limits on the wholesale price that oil companies can charge for their products. The retail selling price of petroleum products is however determined by the market and, as such, is greatly affected by supply and demand factors.

Export tax (or "charge") is collected on all domestic-crude origin petroleum exported from Canada. As you note, the tax is used to help offset the cost of imported crude oil consumed in eastern Canada. This, however, was not the express purpose of the tax; rather it was levied so that non-Canadian consumers should not benefit from our lower Canadian crude prices. The $476 million you refer to may indeed be the cumulative difference between the expenditures of the Oil Import Compensation Program and the revenues attributable to the export tax and the 10 cent per gallon excise tax on personal consumption of motor gasoline. However, it has never been the intention of the Federal Government to balance only these three items as there are many other elements of federal energy expenditure which need to be taken into account. The revenues from both the export and excise taxes accrue to the Consolidated Revenue Fund (CRF) and from this fund compensation payments are made. But, other energy-related expenditures are also discharged from the CRF. These expenditures include: Petro-Canada, Syncrude, nuclear development, the Canadian Home Insulation Program and increased equalization payments to the provinces which result from Federal revenue increases related to higher oil and gas prices. Overall, the Federal Government's energy revenues and expenditures are in approximate balance. However, as our exports of crude decline, and export charge revenues fall, it will become increasingly difficult to maintain this balance.

I hope my comments have addressed the questions and proposals of your letter.

Yours sincerely,
signed Michael Gillan
Executive Assistant.