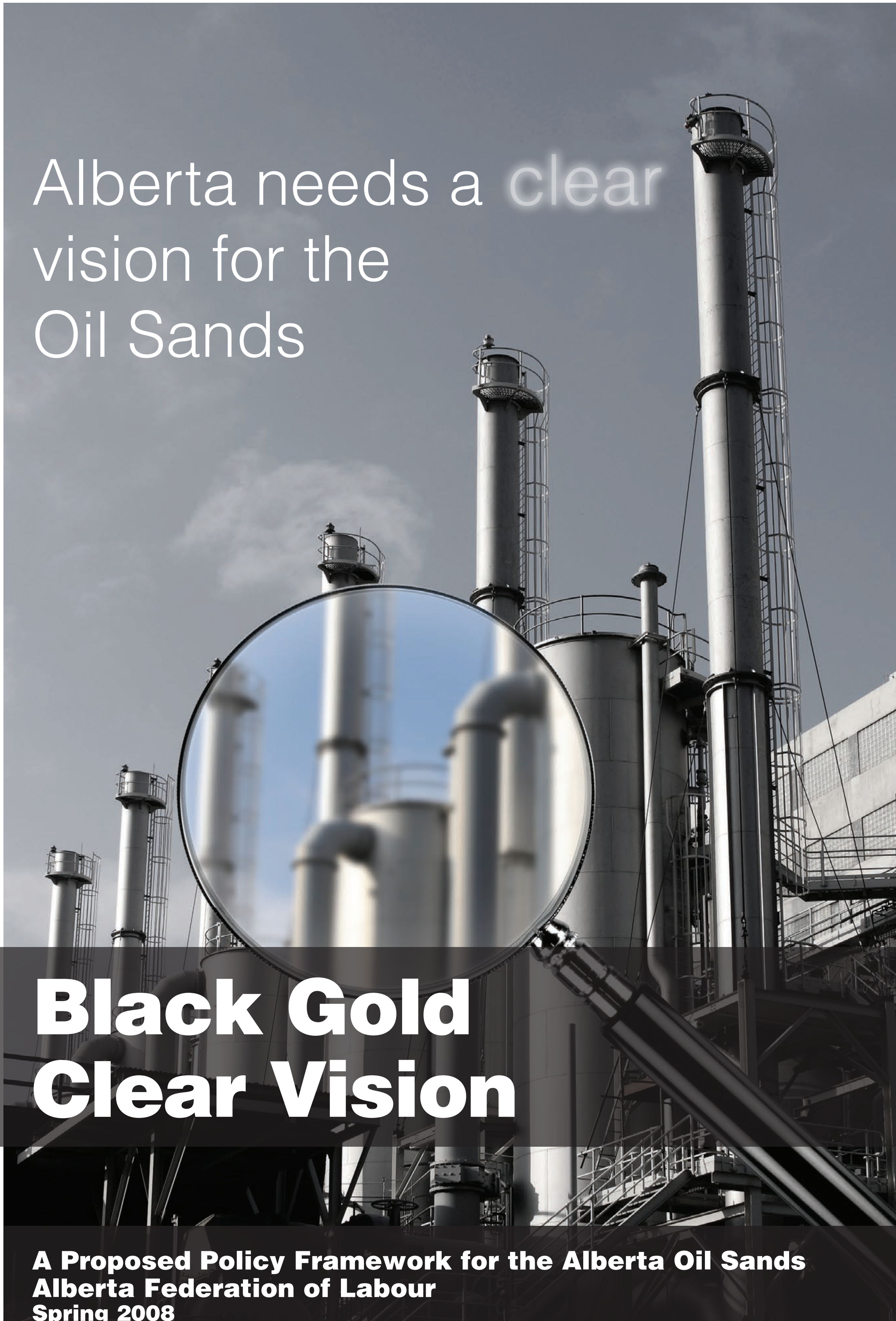

Alberta needs a clear vision for the Oil Sands

Black Gold Clear Vision

A Proposed Policy Framework for the Alberta Oil Sands

Alberta Federation of Labour

Spring 2008

ALBERTA AT A CROSSROADS

Alberta is in the midst of a profound economic transformation.

We're quickly changing from an economy built around the exploitation of conventional oil and gas to one built around the development and exploitation of a decidedly unconventional energy source – the oil sands.

What will a more fully developed oil sands economy look like? What will it mean for job creation and long-term employment in the province? What will it mean for the environment? For our communities? For public revenue and public services? For our quality of life?

These questions have huge implications for how Albertans live and work today – and for our collective futures.

The Alberta Federation of Labour (AFL) has taken a thoughtful approach to answering these questions and has laid out our suggestions for a compelling, comprehensive policy that, if implemented, would see Albertans prosper well into the future.

We have addressed four key issues: royalties; the environment; value-added jobs for Albertans; and the pace of oil sands development.

The AFL believes that Albertans need to be clear about where we want to go and what tools we need to get there. With a clear vision and a clear plan, we are convinced that Alberta can move "from good to great" and transform itself into one of the most prosperous and progressive jurisdictions in the world.

What follows is the Alberta Federation of Labour's proposal for an oil sands policy blueprint that thinks big and puts Albertans first. We call it the **Black Gold, Clear Vision Framework.**

Who we are and why we care

The Alberta Federation of Labour is the largest union organization in the province, representing nearly 140,000 working Albertans from 27 unions in both the public and private sectors. Like other Albertans, we are deeply concerned about the pressure the oil sands boom is placing on our communities, our quality of life, the cost of living, our public services and the environment. We also want to make sure we don't squander an historic opportunity to build a more diversified economy by allowing thousands of good jobs to be "shipped down the pipeline" along with our oil. This policy framework is part of our on-going efforts to convince Alberta's political leaders to seize the opportunity to shape our province's economic destiny – instead of allowing others to shape that destiny for us.

> “The (Stelmach government’s) new terms will not give Albertans a fair share of their oil sands revenues… Albertans have lost the opportunity to gain a secure and reasonable share from the rapidly increasing oil sands production.”

Pedro van Meurs, Internationally renowned energy consultant, responding to announcement of Premier Stelmach’s new royalty framework, October 2007

GOAL: *To set resource royalties at a level that guarantees Albertans a fair return on the sale of the natural assets they own while maintaining a climate that ensures reasonable levels of investment.*

CURRENT ISSUES:

» Alberta has been collecting less from the sale of its natural resources than any other oil-producing jurisdiction in North America – and less than almost all other oil-producing jurisdictions in the world.

» The public’s share of the energy resource pie has actually dropped from about 30 per cent during the Lougheed era to about 19 per cent today.

» Lower royalties have meant less revenue for things like health care, education and public infrastructure.

» Under the current (and the new Royalty Framework) regime, despite dramatic increases in production from the oil sands, resource revenue is actually projected to fall by $2 billion over the next ten years.

» The “investment incentive” system currently allowing oil sands developers to pay extremely low royalties until they have paid off their capital costs is not needed to encourage investment and continues to cost Albertans billions in foregone revenue.

THE SOLUTIONS:

Alberta royalties should be comparable to royalties in other oil-producing jurisdictions especially within North America.

The net royalty rate in the government’s Royalty Framework to be implemented in 2009 tops out at 40% (only after oil reaches $120/barrel) and overall it works out to less than the Royalty Review Panel’s recommended 33% plus a severance tax. This rate is far too low by international standards.

The reality is that even if Alberta’s royalty rates were comparable internationally, investors would still find Alberta a prime investment. For international investors, Alberta offers geo-political stability and security that is not often found in other oil-rich countries. Further, most of the oil reserves of other countries (about 80%) are under the control of their national oil companies and out-of-bounds to private investment. Canadian oil reserves represent 50% to 60% of the world’s reserves that are actually available to private corporations.

To still remain competitive while allotting Albertans their rightful share, royalty rates should allow for rent capture of at least 90%. Alberta now collects approximately 58% of available rent from the oil sands while Alaska collects 88% and Norway collects 99%.

Alberta royalty rates should be price sensitive.

Royalty rates should go up and down with the rise and fall in commodity prices. If prices go up dramatically, the windfall profits should go to the owners of the resource – to all Albertans.

While Alberta has decided to make royalties price sensitive on a sliding scale, the highest rate is capped when oil reaches $120 per barrel. There is no good reason for this arbitrary cap – rates should continue to be adjusted as prices go up. Removing the $120 per barrel cap is particularly urgent given recent movements in the market that have seen oil trading at as high as $118 per barrel.

Alberta should dramatically reduce or eliminate “development incentives” for the oil sands.

Albertans are losing out on billions of dollars under our current royalty scheme because of significant development incentives. In fact, international energy expert Pedro van Meurs says that under the new Royalty Framework, Alberta will actually absorb 60 – 80% of cost overruns on oil sands projects through lower royalties and taxes.

Royalties in Perspective

Alaska's new oil royalty system will generate $20.67 of public revenue for each barrel of oil produced in the state.

Alberta's new Royalty Framework (to be implemented in 2009) will only provide $7.56 of public revenue per barrel.

In 2006, Alaska produced about 100,000 barrels less heavy oil than Alberta but brought in nearly $2 billion more in public royalty revenue.

When it comes to investment decisions, market price should be the real deciding factor. If the market price is high enough to justify investment, projects will proceed. If it's not, they won't. Period. If the economics don't work on a particular project, the best course of action is to leave the resource in the ground until extraction can take place profitably without huge public subsidies or royalty holidays. This step will also assist in setting a more reasonable pace for development.

The good news is that, despite the deepening economic crisis in the U.S., international demand for oil is forecast to remain high which in turn suggests that prices will remain high as well. In fact, on February 22, 2008, Dutch Shell CEO Jeroen van der Veer said his company's research suggests that international demand for oil will double by 2050, at the same time that new discoveries of oil are expected to dwindle. In this kind of environment, world oil prices have nowhere to go but up. And that means Alberta will have no difficulties attracting investment in the oil sands. As such, public investment incentives are unnecessary.

Alberta should expand the scope for public involvement in the energy sector, especially in the oil sands.

For the public, there are essentially two ways to get a fair share in return for the sale of collectively owned resources: through royalties and related fees or through public ownership stakes. More than 80 per cent of oil-producing jurisdictions in the world have decided to develop their resources themselves either independently or in partnership with private firms who are brought on as "hired hands." Newfoundland Premier Danny Williams recently negotiated small ownership shares in major off-shore oil projects as a way to generate bigger profits for the citizens of his province.

Alberta should consider going down the same road and establishing a public presence in the energy industry, especially the oil sands. Public equity participation, or even the creation of an Alberta-owned oil sands crown corporation, could generate more revenue for Albertans and it would put us in a better position to stabilize the economy by mitigating any threat by international corporations to pull out of the oil sands if they became unhappy with Alberta's regulatory context for development.

Alberta should institute a regular and predictable practice of royalty reviews – with reviews being conducted every three years.

One of the biggest problems with the province's previous royalty regime was that it was never reviewed or adjusted even as oil prices jumped from $15 a barrel to more than $75. To avoid the massive revenue losses caused by inflexible royalties, rates need to be revisited on a regular basis. Periodic and predictable reviews will also give business the planning certainty they need to confidently make major investments

Alberta should implement an independent audit of corporate royalty payments to the Alberta government and create an improved system for calculating and collecting royalties.

In the past, our government has had difficulty collecting and reporting royalty payments. This cannot continue. Full disclosure and independent reporting are required to ensure that Albertans' share is fully accounted. New accounting systems need to be developed and put in place to ensure that royalties are being calculated accurately and being paid in a timely fashion.

THE ENVIRONMENT

GOAL: *To develop the oil sands in such a way and at such a pace that negative impacts on Alberta's water, air, land and wildlife are minimized. Also, to strive for an oil sands policy that significantly reduces water use and brings the Alberta oil sands as close to zero greenhouse gas emissions as possible.*

CURRENT ISSUES:

» Global warming is being caused by the dramatic increase in emissions of greenhouse gases - chief among them is carbon dioxide.

» Although Alberta has only about 10 per cent of Canada's population, our province is the source of about one-third of our country's greenhouse gas (GHG) emissions. More than 70 per cent of GHG emissions in Alberta are generated by industry, especially our coal-fired power stations and our oil sands facilities.

» The Alberta oil sands are the fastest growing source of GHG emissions in Canada. No Canadian strategy for confronting global warming can be complete without a plan to reduce emissions from the oil sands.

» Oil sands production requires the use of vast quantities of water. Water experts warn that proposed oil sands developments will place unmanageable demands on several of Alberta's most important waterways, especially the Athabasca and North Saskatchewan Rivers.

» Serious concerns have also been raised about the health impacts of chemicals leeching out of toxic oil sands tailing ponds. Studies and anecdotal evidence suggest that contamination of water supplies in the Fort McMurray area has led to serious health problems in both animal and human populations including a dramatic rise in the incidence of certain cancers.

» At the same time, governments in many of Alberta's major markets are introducing new environmental laws aimed at addressing global warming. Stringent new "well-head to tailpipe" rules in places like California and other major American states may have the result of shutting Alberta oil produced from the oil sands out of major markets.

» Unfortunately, Alberta's "Green Plan" doesn't go nearly far enough in addressing the problem. While promoting carbon-capture technologies, which clearly have to be part of the solution, the plan sets Alberta's sights far too low. It sets no hard caps on emissions and its soft targets are problematic – GHG emissions would be reduced to 14% below 2005 levels by 2050, over 40 years from now.

THE SOLUTIONS:

The Alberta government should explicitly commit itself to the goal of making the oil sands "carbon neutral".

Carbon dioxide (CO_2) is one of the harmful by-products of the bitumen extraction process. Making the oil sands 'carbon neutral' is achievable if the government passes stronger laws that insist on the reduction of operational GHG emissions by energy companies by: making the use of carbon (CO_2) capture and storage techniques mandatory; insisting that on-site energy efficiency measures (for example, switching the fuel for the huge trucks used in the mines from diesel to lower carbon alternatives like bio-fuels) are utilized; and enforcing the purchase of quality GHG offsets by investing companies. These measures are realistic and economically feasible. Similar legislation is already in place that demands that sulphur and lead be removed from gasoline, and the costs to implement carbon neutrality for bitumen production are similar to these already existing measures (on a per barrel basis).

Oil Sands Best Practices

The Pembina Institute recently ranked 10 of Alberta's operating or approved oil-sands operations based on environmental performance. All but one got failing grades, with an average score of 33 percent.

However, if all of these companies were required use the best available technologies used by their competitors, the improvements would be impressive.

For example, if all oil-sands mines had the same GHG emissions intensity proposed by Canadian Natural's Horizon project, Alberta could avoid 6.3 million tonnes of CO_2 each year.

Alberta should introduce regulations that require all oil sands projects to use the best available technologies and operational practices to ensure significant pollution and GHG reductions.

A study by the Pembina Institute recently demonstrated that some oil sands operators have been able to significantly reduce emissions and pollution by using the latest environmental technologies (see fact box above). The provincial government should make the use of these industry "best practices" mandatory, as opposed to simply waiting for oil sands developers to adopt the changes on their own.

Alberta should insist on bitumen upgrading in Alberta and set the highest possible standards for those "home-grown" upgraders.

Enhancing the bitumen upgrading sector in Alberta provides an opportunity for both economic and environmental leadership. The Alberta government should demand that upgraders be build here and also demand that those upgraders meet the highest possible standards in terms of GHC emissions, pollution and water use. By setting the bar high, Alberta will be able to protect our environment and help Canada reach its national GHG reduction targets.

Mandating the development of "greener" home-grown upgraders will also help Alberta refute arguments about "dirty oil sands" and help guarantee on-going access to international markets with more stringent global warming rules. Instead of seeing the world's growing attention to GHG restrictions as an obstacle, we should see it as an opportunity and a challenge to start producing and selling a higher, greener standard of oil sands products.

As energy producers, we have the expertise to give us an advantage when it comes to developing new and innovative energy technologies, both in conventional and alternative energy fields. The Alberta government should make sure we capitalize on this competitive advantage.

Alberta should require more detailed reporting from oil sands developers and improve public information access.

One of the best ways to ensure industry is observing the highest possible environmental standards is to make their records open to broad scrutiny by academics, the media and the general public. With this in mind, the Alberta government should improve its communication with the public regarding the activities of the energy industry.

An industry standard for corporate reporting should be enforced to ensure that the information provided is consistent and disclosed in a way that allows for meaningful comparisons between projects and companies. This information should be passed on to the public and investors by the government through regular publication of corporate environmental submissions.

Alberta should establish an Oil Sands Secretariat with the mandate to monitor the cumulative effects of oil sands projects and advise the government on the appropriate pace for development in the sector.

The environmental, social and economic impacts of oil sands projects cannot be properly understood in isolation – we need to look at cumulative impacts. As it stands right now, oil sands projects are considered and approved on an individual, case-by-case basis. Regional and stakeholder input must be seriously solicited, responded to, and given weight during decision-making. What's need is a well-financed and well-staffed Oil Sands Secretariat that has the capacity and the mandate to look at the "big picture" and make binding decisions in defence of the broader public interest.

VALUE ADDED JOBS FOR ALBERTA

GOAL: *To guarantee that all of the raw bitumen that is extracted here in Alberta is upgraded here as well. Also, to encourage and promote the development of a more robust downstream petroleum industry in the province that would move our economy "up the value chain" by producing more petrochemicals and refined petroleum products like gasoline, diesel and jet fuel.*

CURRENT ISSUES:

» The majority of Albertans agree that in order to reap the biggest possible benefits from the development of the oil sands, more upgrading and refining of bitumen should be done here in the province as opposed to shipping it "down the pipeline" to refineries in the United States.

» Premier Stelmach has acknowledged that allowing energy companies to export bitumen from the oil sands without upgrading or refining it in the province was like a farmer "selling off his top soil."

» However, to date the Alberta government has not intervened when energy companies have indicated their intentions to ship massive quantities of raw bitumen out of the province without upgrading or refining it first. One recent example involved Husky Energy's decision to abandon a planned expansion of its Lloydminster upgrader in favour of a new plan to ship output from its Sunrise project to refineries in Ohio. Encana and Conoco Phillips have let similar plans be known.

» The Alberta government failed to send an observer or raise objections at National Energy Board (NEB) hearings into applications from pipeline companies proposing two massive new pipelines – TransCanada's Keystone pipeline and Enbridge's Alberta Clipper. These pipelines will act as "bitumen super-highways" taking high-paying upgrader and refinery jobs out of Alberta along with our oil.

» The Keystone pipeline received approval from the NEB in September 2007. Both the Alberta Clipper and another Enbridge pipeline called the Southern Lights were given the green light by the Board in February 2008.

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» The Southern Lights pipeline will bring lubricant (called diluent) up to Alberta from Chicago. This lubricant is needed to dilute the bitumen enough so it can flow down the pipelines. When completed, these three pipelines will provide the "plumbing" necessary to make the Alberta oil sands a permanent part of a new American-focused continental energy network.

» In this new continental energy system, Alberta will be assigned the role of low-value extractor of resources and American-based energy companies will reserve for themselves the role of high- value refiners.

» The new pipelines will have the capacity to ship upgraded or refined petroleum products – but almost all of their markets will be made up of US refineries and almost all of the material carried in them will be unrefined bitumen from the Alberta oil sands.

Pipelines by the numbers

Current oil sands production:

1.4 million barrels per day

Projected oil sands production in 2015:

2.9 million barrels per day

Projected increase (2007-15):

1.5 million barrels per day

Combined shipping capacity of Alberta Clipper and Keystone pipelines:

1.4 million barrels per day.

Almost all of the projected increase in Alberta's oil sands production could be taken away to refineries in the US by the Keystone and Alberta Clipper pipelines.(Source: CAPP, NEB)

Alberta jobs by the numbers

	1996	2006
Construction jobs	61,000	140,000
Oil and gas extraction jobs	29,000	45,000
Upgrader, petrochemical and refinery jobs	21,000	16,000

Value-added employment in Alberta's energy sector is actually declining. (Source: Statistics Canada)

» A continental energy network with Alberta on the lower rungs of the value ladder will be solidified over the next few years as American refineries make the multi-billion dollar investments needed to upgrade and re-tool their facilities to accept heavy crude from the Alberta oil sands. Once these investments have been made, the die will be cast and Alberta will have missed its opportunity to transform itself into a world-class value-added refining hub. That role will continue to fall to refineries in the American mid-west and Gulf coast.

» The current jobs boom in Alberta is really a construction boom, not an energy boom. Once the construction phase of oil sands development is complete (which at the current breakneck pace of development is expected to happen in the next five to seven years) what will be left for Albertans? If the answer is only pipelines and a handful of upgraders, the current jobs boom may quickly turn to a jobs bust.

» All of this is happening right now. If the government doesn't intervene, the opportunity to create high-paying, long-term, value-added jobs for Albertans will vanish. The window of opportunity will soon close.

THE SOLUTIONS:

Alberta should require that all bitumen extracted from the oil sands be at least upgraded to synthetic oil before being shipped out of the province.

The Alberta government should have a simple policy for companies that want to do business in the oil sands: if they want to dig up or pump out our resources, they have to upgrade those resources in Alberta. How much of our bitumen should be upgraded in Alberta? We say – all of it. These requirements should be written into conditional lease agreements for all oil sands projects. The agreements would require oil sands developers to either build upgraders in Alberta themselves or contract with other companies to do the upgrading for them within the province.

The Alberta government should develop a plan to move our province beyond upgrading synthetic crude, further up the value ladder to refining gasoline, diesel and jet fuel as well as producing more petrochemicals.

From our perspective, the real goal should be to move Alberta even further up the value ladder not just beyond extraction, but also past the simple production of upgraded synthetic crude. However, without clear government direction, regulation and even public involvement this is unlikely to happen. The opportunity to transform Alberta into North America's newest refining and petrochemical super-hub is there but it's not going to happen unless Alberta's government demands more from the energy industry.

Conservative Newfoundland Premier Danny Williams has shown that dreaming big and standing firm pays off. The key to achieving this vision is to take the advice of former Alberta Premier Peter Lougheed who said we have start thinking and behaving like owners.

As the representative of the owners – the Alberta public – Lougheed wasn't afraid to stand up to the energy industry in the 1970s. During that period, Lougheed raised royalty rates; used regulation to create a petrochemical industry in Alberta that didn't exist before; and spent public money to start the ball rolling on the oil sands. That's the kind of vision and leadership our current government must also exemplify. Otherwise, Alberta will see only a minor supporting role in a continental energy network.

"It's really important in terms of jobs that you require an upgrader. In other words, (say to oil companies) you can have a project to extract bitumen, but you also need an upgrader to turn it into synthetic oil. That's where important jobs are."

Peter Lougheed, former Alberta Premier, CBC Radio, January 31, 2008

If U.S. energy companies make it difficult to sell refined products from Alberta in American markets, the Alberta government should consider public options to help deliver Alberta products to customers in the U.S.

One of the big challenges facing Albertans wishing to export value-added petroleum products to the United States is that almost all of Alberta's existing pipelines connect to American refineries, not American consumers with empty gas tanks. The American refiners don't want refined products from Alberta - they want to do that job, and reap the profits themselves. With this in mind, if the Alberta government is serious about moving up the value chain, they may have to consider building their own mechanisms for delivery either independently or in cooperation with willing private sector partners. This might involve building dedicated refined products pipelines. It might even involve looking for retail options in the U.S.. The pre-Chavez government of Venezuela (which almost everyone agrees was a conservative, business-friendly one) did exactly this when they successfully established the Citgo chain of gas stations in the U.S.. It was the only way they could get around the anti-competitive oligopoly of the big American refiners who had no compunction about using their market power to restrict access to American consumers.

In order to avoid being locked into the bottom rungs of an American-dominated continental energy network, the Alberta government should actively seek and promote options for marketing synthetic crude and refined products from Alberta to other international markets, including the burgeoning markets in China and India.

Sellers of any commodity always benefit if they have more than one party interested in buying their product. This is as true for petroleum products as any other product. With this in mind, the Alberta government should actively seek out and develop options for marketing products from the Alberta oil sands to a wide range of international markets as opposed to "putting all of our eggs in the American basket." This kind of diversification would have the added value of reducing risk for Alberta producers. For example, while the current slow down in the American economy may dampen demand from that market, projections for growth and demand in Asian markets like China and India remain strong. Obviously, our American cousins who harbour visions of a continental energy network may not like this kind of market diversification, but as canny businesspeople, they would be the first to do it themselves if they were in our position.

The Alberta government should consider creating a publicly owned corporation with the mandate to develop Alberta-based value-added enterprises, either independently or in cooperation with willing private-sector partners.

The first job of a newly created public energy corporation would be to promote Alberta-based value-added enterprises, but this corporation would have two other mandates. First, it would have a mandate to seek out creative ways to find Canadian, continental, and international markets for value-added products from Alberta like gasoline, diesel and petrochemicals. Second, it would be mandated to seek new and creative ways to use Alberta's considerable conventional energy expertise to develop the "next wave" of alternative energy technologies, again either independently or in partnership with private business. The Alberta government could also consider making this publicly-owned corporation a joint initiative with other petroleum-producing provinces, especially Newfoundland and Saskatchewan.

PACE OF OIL-SANDS DEVELOPMENT

Goal: *To set a pace for development in the oil sands that is specifically designed to avoid outstripping or overwhelming the "carrying capacity" of our communities, our labour force and our environment*

CURRENT ISSUES:

» While the Alberta government has recently adjusted the royalty system, invested in a number of long-overdue infrastructure projects and encouraged municipalities to work together on planning issues related to oil sands growth, there is not yet a compelling overall vision – or a detailed plan – for the direction and desired outcome of the development of our province's oil sands.

» Albertans have not yet seen government leadership with respect to policies aimed at directing oil sands development so that it doesn't overburden Alberta's communities or environment. More and more major projects are being applied for, and energy companies don't appear to be making any attempts to regulate themselves in order to find a more appropriate pace for development.

» The skyrocketing use of temporary foreign workers in an attempt to deal with rising costs has not solved anything (leaving aside the problems these workers are now facing in Alberta). In fact, it has allowed, even encouraged, energy and construction companies to take on new projects they don't really have the manpower for based on assurances from the government that temporary foreign workers will be available.

» Some elements of the energy and construction industries are increasingly relying on the use of temporary foreign workers and want to water-down construction-site apprenticeship training ratios which would result in less trained workers. These measures are clearly against the greater public interest of Albertans.

» According to the provincial government's latest figures, there are currently 53 major oil sands projects either on the drawing board or under construction. The combined value of these projects totals nearly $150 billion. Neither Alberta nor Canada has ever seen development on this scale before.

» Former Alberta Premier Peter Lougheed has become so concerned about the pace of development in the oil sands that he has started publicly urging Alberta's government to adopt a "more orderly" approach to development. He says the government should allow only one major oil sands project to proceed at a time and he says Alberta should ignore pressure from American CEOs and the U.S. government to accelerate the pace of development. As Lougheed points out, a significant number of the problems currently facing Alberta can be traced back to the unrestrained pace of development in the oil sands.

» The pace of development in the oil sands has led to an "affordability crisis" for many working Albertans. The average price for homes in Edmonton and Calgary has increased by 200 per cent in the past decade. Average single-detached homes now cost nearly ten times the average annual wage earned by individual Albertans – versus about only four times the average income just five or six years ago. Plunging vacancy rates have also led to rapidly rising costs for rental accommodation. Rent increases of $500 to $1,000 a month have not been uncommon.

> "The markets alone will not provide the optimum solution. If we relied on markets alone to determine our economic destiny, this country would not exist."
>
> Jim Gillies, Dean Emeritus, Schulich School of Business, Toronto's York University, Report on Business magazine, January 2008

“They should never have allowed so many of these (oil sands) projects to go ahead at the same time… it’s caused some really serious negatives.”

Peter Lougheed, former Alberta Premier, CBC Radio, January 31, 2008

Priced out of their own homes

81 per cent of Albertans who own their own homes say they would be unable to afford their homes if they had to buy them today in the current housing market.

Angus Reid Poll, February 19, 2008

» The rapid pace of development has created a very tight labour market especially in construction, the low-paid service and retail sectors and in certain key public sector areas like health care and long-term care. This tight labour market is what has been behind the current waiting-list crisis in many health regions – without adequate staff, hospitals can’t operate enough beds. The tight labour market has also contributed to massive cost overruns on major oil sands projects and public infrastructure projects. Public and private sector developers are now paying between 30 to 50 per cent more for projects than they would have if those projects had been built four or five years ago.

» Fuelled by the uncontrolled boom, huge increases in construction costs have had the effect of making it much less attractive for energy companies to build value-added oil sands upgrading facilities in Alberta. In an important sense, the lack of “orderly development” (as Lougheed puts is) is pricing Alberta out of the market for home-grown upgraders and refineries. If the Alberta government doesn’t soon take the lead by setting a more reasonable pace for development (instead of allowing energy companies to set the pace), the long-term interests of Albertans will suffer, and the door will close on an important opportunity to diversify Alberta’s economy.

» Finally, the rapid pace of development is putting unparalleled pressure on communities and municipal infrastructure. It is, of course, also raising serious concerns about the environment – especially when it comes to the cumulative impacts a vastly expanded oil sands sector will have on water quality and quantity as well as greenhouse gas emissions in Alberta.

THE SOLUTIONS

The Alberta government should acknowledge that the current pace of development in the oil sands is too fast and they should take responsibility for setting a more reasonable, orderly pace.

An out-of-control pace of development is not in the public interest in either the near or long-term. Setting a more reasonable and orderly pace for development in the oil sands is a social, environmental and economic imperative for the province.

The Alberta government should clearly state that the job of setting the pace for development in the oil sands is a job that should be handled by government (as guardians of the public interest), not by the “market” (which is driven by the narrower interests of corporations, not the broader interests of the public).

Asserting public control over the pace of development will undoubtedly ignite waves of protest from the energy industry. Cries of “bureaucratic control” and warnings about unwarranted “government meddling” will almost certainly be raised. But the evidence right in front of us shows clearly that energy companies have, not surprisingly, utterly failed to regulate themselves.

Besides, as former Premier Lougheed points out: just because a buyer wants to buy something you own doesn’t mean you have to sell. Is it “socialist central planning” if a homeowner decides not to sell his house when a real estate agent comes banging at his door? Of course not. Owners get to decide when, how and for how much to sell what they own. As owner of the oil sands, it should be Albertans, through their government, who decide when and how to develop the oil sands.

Asserting our rights as owners and enforcing a pace of development that we feel more comfortable with will not drive away investment. With oil prices high and international reserves dwindling, coupled with the fact that international energy corporations have few other places in the world to invest, they have no option but to stay and comply.

Some companies may, indeed, threaten to withdraw investment if the Alberta Government took steps to regulate the pace of development. But, as Newfoundland Premier Danny Williams demonstrated, most of the corporations will eventually come back. And even in the unlikely case that a few of them don't come back, we'll always have the option of working with more willing companies or simply developing it ourselves (through the creation of a public enterprise or through equity partnerships with more cooperative private firms). Alternately, we could simply leave the resource in the ground. As Lougheed said, given the growing long-term demand for oil, the resources locked in Alberta's oil sands are not going to get any less valuable if we leave them in the ground for a few more years.

The Alberta government should pass legislation giving Cabinet the tools it needs to manage the pace of development.

In order to give themselves the tools they need to set a more reasonable and orderly pace for development in the oil sands, Alberta's government should introduce something like the amendment to the Mines and Minerals Act proposed in December 2007 by the NDP.

This type of amendment would give the provincial cabinet and the Minister of Energy the discretion to stagger oil sands development (to proceed at a pace that was more in keeping with the public interest) and it would also give the government power to mandate the development of upgraders on all projects (to avoid the problem of shipping value-added jobs "down the pipeline").

Alberta should establish an Oil sands Secretariat with the mandate to monitor the cumulative effects of oil sands projects and advise the government on the appropriate pace for development in the sector.

The environmental, social and economic impacts of oil sands projects cannot be properly understood in isolation – we need to look at cumulative impacts. As it stands right now, oil sands projects are considered and approved on an individual, case-by-case basis. Regional and stakeholder input must be seriously solicited, responded to, and given weight during decision-making. What's needed is a well-financed and well-staffed Oil Sands Secretariat that has the capacity and the mandate to look at the "big picture" and make binding decisions in defence of the broader public interest.

Industry can't be relied on to set an orderly pace because each company's primary responsibility is to make profit as fast as possible. Only the government has the mandate to look after the broader public interest. That's why any plan to set a more reasonable pace in the oil sands has to be designed and implemented by Alberta's government.

The notion that the public should set the pace for development in the oil sands or directly participate in the industry through publicly owned or controlled enterprises will obviously be met with strong opposition from Alberta's energy industry.

But many of the arguments that will be raised against a more activist approach to the oil sands can be easily refuted. Here are some of the arguments we would expect to hear and our arguments in response.

The "Let the Market Decide" Argument

This is the argument that says that governments should never "be in the business of business" and that politicians "shouldn't pick winners and losers." There's no doubt about one aspect of this argument: the market will decide. But these decisions may not be in the broader public interests of Albertans. In other words, what's good for Exxon (i.e., a reasonable market outcome for the corporation and its shareholders) isn't necessarily good for Albertans. Also, this argument ignores the fact that the Albertans are not spectators in this economic game. As owners of the oil sands, they are key participants in the sector and shouldn't be afraid to get involved in the game if it suits their interests to do so.

The Inflation or "Too Much Growth" Argument

This is the argument that says we shouldn't be trying to "force growth" in any sector or on any major project when the Alberta economy is already overheated. People who make this argument point out that in a "constrained" economy (one that is working at or close to full capacity) any new projects will just displace growth, not add to it. As a result, efforts to promote investment in a preferred business or sector (e.g., value-added oil sands production) would be redundant and inflationary.

This argument is correct as far as it goes, but it misses the bigger picture. We shouldn't be talking about value-added developments in addition to existing or proposed projects – we should be talking about them instead of existing or proposed projects. In other words, we need to make the distinction between good growth and bad growth and be unafraid to promote the former and discourage or prohibit the latter.

With that in mind, Alberta's government needs to step in and regulate the pace of development. We'll only get "good growth" (i.e., value-added, more environmentally sustainable development) by using government clout to slow the pace and set the rules. The truth that needs to be told is that, in the current overheated economy, the only way that we'll actually get more desirable market outcomes (e.g. more high-value refineries and cutting edge environmental technology instead of yet another extraction-and-pipeline project) is to make room for those outcomes. And the only way we're going to make room for these kinds of outcomes is by demanding a more reasonable pace for development in the oil sands.

The "Bitumen Price" Argument

Basically the "bitumen price" argument says we actually need to export more raw bitumen to upgraders and refineries in the US in order to "set a higher market price."

The problem that people making this argument want to address is a real one. It's true that most of the transactions involving the sale of bitumen are actually made between different branches of the same firms. This has meant that bitumen prices have not risen nearly as fast or high as conventional oil prices. Hence, an argument can be made that bitumen is undervalued.

Clearly, this is an important consideration and clearly we need to encourage more "arm's length" transactions to address it. But there's no reason why these new arm's length transactions have to take place in Illinois or Texas. We can accomplish the same thing right here in Alberta, with so-called merchant upgraders or refiners or, with a large, publicly owned oil sands player.

Where the "bitumen price" argument really falls off the rails is where it says that the only way we can get a better price for Alberta bitumen is to facilitate the creation of a bigger market and a bigger demand for bitumen. The argument goes that we actually need to encourage more and more refineries in the U.S. to retool so they can use bitumen as a feedstock (as opposed to more traditional blends of crude). What this really means is building more pipelines to feed those American refineries – and giving Albertans' jobs away along with our bitumen.

The major weakness of this aspect of the "bitumen price" argument is that it focuses on the wrong market. While it's true that there is a relatively small and undeveloped market for bitumen, there IS a very large and well-developed market for gas, diesel and jet fuel. What the Americans and other international consumers really want is energy. So instead of bending over backwards to help create an American market for bitumen (and in the process giving away Alberta jobs and opportunities), we should take advantage of the demand that's already there (and which is clearly growing) for refined products.

To summarize, if the world wants energy, let's give them energy. And if giving them energy means giving them gas, diesel and jet fuel, let's do exactly that. Albertans shouldn't be content to remain on the bottom rung of the value ladder when we could, instead, climb to the top.

The "Expensive Oil Sands" Argument

This is the argument that says our government can't possible demand more from oil sands developers or put any restrictions on development because the oil sands are such a costly resource to extract that even the smallest false move will make the whole enterprise uneconomic. Setting aside the fact that one of the biggest drivers of recent cost increases has been the unregulated pace of development itself, the argument that the oil sands are so costly as to be barely profitable simply doesn't pass muster.

It's true that oil sands projects are, on the surface of things, much more capital intensive than conventional oil projects. But oil sands projects are no longer marginal, unproven initiatives – the technology has matured and operating costs have come down. Even more importantly, as costs for oil sands operations have moderated, real costs for conventional oil have sky-rocketed, largely because of the increasing problems major energy companies are having replenishing their reserves. The oil "majors" have been spending more than ever on international exploration and coming up with less. All this unsuccessful exploration has driven up costs and made the oil sands (where explorations costs are low or non-existent) look even more financially attractive.

The proof of the huge profitability of the oil sands (despite tweaks to the royalty system and talk of more stringent federal environment rules) is, as they say, in the pudding. If the oil sands were really such a precarious business, energy companies wouldn't still be pouring billions into the sector. And those companies wouldn't be tallying up another year of eye-popping profits, as they currently are.

Calgary oil expert Bob Dunbar recently concluded that oil sands projects become profitable when oil is at $60 a barrel – and they become very profitable at $70 a barrel. Given that oil is currently trading at $100 a barrel and is expected to go higher, concerns about the precarious economics of the oil sands are clearly misplaced.

The "Market Proximity" Argument

This is the argument that says that refineries are always built in close proximity to their major markets, period. By this logic, as a province on the geographic fringe of North America, Alberta is simply not a good candidate for major downstream developments (e.g., upgraders or refineries).

As owners of the oil sands, Albertans are key participants in the sector and shouldn't be afraid to get involved in the game if it suits their interests to do so.

On the surface, this may sound like a persuasive argument but it actually flies in the face of reality. Some of North America's major refining hubs are, indeed, close to major cities (like the refineries near Chicago). But many others are not. Why are there major refining hubs in Oklahoma and Texas? Because that's where the oil fields are. What American history shows is that Americans built most of their refineries close to the source of their oil, not their markets. The developers of those fields probably would never have considered shipping their raw product (and their profits) off to someone else. Albertans should follow suit and refuse to give away potential profits by letting someone else add value to our oil.

The bottom line is that if we can ship our diluted bitumen and synthetic crude by pipeline, to major markets in the U.S., then we can do the same with refined products like gasoline, diesel and jet fuel. Again, if it's energy they want, let's give them the best energy we've got (with the highest possible returns for Albertans).

The "Wrong Pipes" Argument

This argument is an extension of the market proximity argument. It basically says that, not only are most of North America's refineries in the U.S., essentially ALL of the existing and proposed pipelines go to those refineries. And these refineries don't want refined products (refining is, after all what they do). What they want is the raw stuff: crude, synthetic crude and diluted bitumen. So as long as all the pipelines lead to U.S. refiners (as opposed to U.S. consumers who actually want to fill up their tanks) Alberta will be "over a barrel."

The people who make this argument usually throw it down as the trump card to dash the hopes of those who dream of moving Alberta "up the value ladder." And it certainly is a big problem. But there are ways around it; for example, we could build our own pipelines, or spurs off existing pipelines, to make deliveries to retailers rather than refineries.

We could even go one step further and follow the lead of the (pre-Chavez) Venezuelans and start our own chain of gas stations to retail our product (their chain is called Citgo and it was the only way the Venezuelans could get their refined products around the big U.S. energy companies who were happy to take Venezuelan crude but wanted to maintain their hammerlock on refining and marketing

The "Let Someone Else Take the Risk" Argument

Energy industry titans may say that refining is an incredibly expensive and volatile business with very small and uncertain margins. Given its "rough and tumble" nature and the huge potential downside of investment in the downstream side of petroleum, they say it would be better for Albertans to take the easy profits and let the Americans worry about riskier endeavours. As well, they argue, if Albertans ship their bitumen to Texas for refining, the Americans will have to deal with all the environmental impacts of upgrading while we just sit back and make the easy money

The biggest problem with this argument is that it's simply not true. Fifteen years ago, profit margins in refining may have been smaller than they are today. Now, the truth is that while refining is a very capital intensive industry, the margins are huge and getting bigger as world oil prices and demand soar.

If this argument falls apart so easily, why is it still propagated? Consider the source. The proponents of this argument are, in the main, employees of U.S.-based companies - companies that pump here and then ship to refineries to our South.

We at the AFL don't think there's any good reason why Albertans should be content to remain on the bottom rung of the value ladder when we could, instead, climb to the top.

The "Enough for Everyone" Argument

This is the argument that asks "when it's so abundant, where's the harm in upgrading some of our bitumen here and sending some of it south of the border?" This argument appeals to Canadians' natural desire to avoid confrontation. It appeals to our preference for fairness, balance and moderation. But it's also ill conceived.

The reality is that, if we build the infrastructure to transport huge amounts of raw bitumen to the U.S. (and the proposed Keystone and Alberta Clipper pipelines could, by themselves, ship about 1.4 million barrels PER DAY), then energy companies will save money by retooling existing plants south of the border rather than investing in new plants here in Alberta. And once those multi-billion investments are made in the U.S., they won't be "unmade." In other words, the window of opportunity for "moving up the value ladder" is small.

The choice is ours – do Albertans want to remain just diggers and extractors, or do we want to move up the value-added chain?

The "Free Trade Agreement" Argument

The Free Trade Agreement (FTA) and NAFTA have been held up as reasons not to intervene in the plans of energy companies to ship our bitumen to the U.S.. However, Peter Lougheed, who was Alberta premier when the FTA was signed and who played a key role in negotiating the deal – recently told the CBC that free trade agreement most certainly does NOT tie the hands of the provincial government. In particular, he explicitly said that international agreements would not stop the Alberta government from requiring that all bitumen be upgraded in the province. Lougheed also happens to be a top-flight corporate lawyer.

In reality, these international laws do not prevent Alberta's government from choosing to keep bitumen upgrading in the province. This argument is simply a red herring.

THE LAST WORD

We think Albertans want and would benefit from more value-added oil-sands production... and a more orderly pace of development in the oil sands.

What Alberta needs right now is a government that is ready to start moving towards clearly defined public goals for our publicly owned oil sands.

This kind of leadership and policy direction is not unprecedented in Alberta history. Peter Lougheed, for example, stood up to the energy industry by dramatically raising royalty rates and mandating the creation of an Alberta-based petrochemical industry. Although Lougheed faced resistance, he stood by his decisions because he knew they were in the best interests of Albertans. We think that's the kind of leadership and bold public policy direction that's needed today.

We think Albertans want and would benefit from more value-added oil sands production. We think Albertans want and would benefit from a more orderly pace of development in the oil sands. And we think Albertans want and would benefit from a greater commitment to environmentally responsible investment in the oil sands and elsewhere.

By embracing the ideas and suggestions contained in this policy framework, we sincerely believe that Alberta can move from being merely good to being truly great. Alberta can be prosperous and economically vibrant without sacrificing our environment or our quality of life. In fact, we think we can have an even more prosperous and secure future by being creative and assertive than by taking the path of least resistance.

But the window of opportunity for action is small – and it's closing quickly. We hope Albertans and the members of our provincial government don't let the opportunity that's in front of us slip away.

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