



Lost Down the Pipeline

In these difficult economic times, is the Alberta government doing enough to keep value-added oil-sands jobs in Canada?

Alberta Federation of Labour

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Executive Summary

As a result of the global economic downturn, Alberta's oil-sands boom is clearly over. ¶ Investment in the oil sands has collapsed and employment in oil-sands-related construction is in the process of doing the same.

The short- and medium-term costs of the bust to working Albertans and their families are serious enough but the cancellation or indefinite postponement of virtually all upgrader projects has other, even more ominous, implications for the province.

In particular, we believe the evidence clearly suggests that recently announced upgrader postponements are likely to become permanent cancellations. Without aggressive government intervention, Alberta's dream of "moving up the value ladder" will almost certainly die.

What's at stake are literally tens of thousands of short- and long-term jobs which, without upgraders in Alberta, will be shipped down pipelines to refining facilities in the American Mid-West and Gulf Coast.

And these aren't just any jobs: they're good jobs. They're the kinds of jobs that sustain families and communities. They're also the kind of jobs which, in the current economic climate, Alberta cannot afford to lose.

Government and industry leaders have tried to reassure Albertans by downplaying the scale and scope of the oil-sands investment collapse.

Some have even argued that the "slow down" is actually a good thing because it will allow industry to "catch its breath" and plan for the next, inevitable, phase of oil-sands expansion.

Provincial government officials, in particular, have expressed confidence that Alberta and the oil sands will return to "business as usual" as soon as the global economy turns around (which they

say will happen much sooner than most experts predict).

But a return to business as usual after the global recession assumes that the general economic and marketplace conditions in the North American energy sector will be similar, in broad outlines, to what they were before the crisis.

This is where the government's rosy predictions break down. The evidence clearly suggests that once the recession ends, conditions in the North American energy sector will be significantly different – and much less conducive to investment in Alberta-based upgrading and refining – than they were before the crisis.

That's because, even as Alberta's oil sands grind to a halt, development of both U.S.- based bitumen refining capacity and American-bound bitumen pipelines is continuing at an aggressive pace.

As a result, when the smoke clears from the recession, Albertans are likely to discover that major energy companies have built all the bitumen-refining capacity they need in the U.S. and there will be little interest in proceeding with shelved value-added projects here in Alberta.

In this report, the Alberta Federation of Labour shows that, despite the global recession, energy companies are proceeding with plans to build or expand at least 10 refineries in the U.S. with the combined capacity to upgrade and refine 2.8 million barrels per day of raw bitumen from the Alberta oil sands.

At the same time, two major bitumen pipelines, TransCanada's Keystone Pipeline and Enbridge's Alberta Clipper, are already approved and under construction. Once completed, they will have the combined capacity to export 1.4 million barrels per day of raw bitumen from Alberta to refineries in the U.S.

In addition, six other major pipelines are still being planned that together would have the capacity to export 2.3 million barrels of raw bitumen across the border.

The size and number of these U.S. refineries and American-bound pipelines is significant because it means that U.S. oil refiners will have the capacity to absorb ALL expected increases in Alberta's oil-sands production over the next 10 years – and likely beyond.

In other words, left to themselves, energy companies may decide they don't need ANY new Alberta-based upgraders, even after the global economy recovers and international prices for oil rebound.

Without additional Alberta-based upgraders, Alberta will lose thousands of potential jobs. It's also important to note that upgraders are the foundation upon which a more diversified energy industry could be built. Without new Alberta-based upgrading capacity, we will be unable to "move up the value ladder" to produce more high-value products like gasoline, diesel and petrochemicals.

Unfortunately, so far, the Stelmach government has provided little more than lip service to concerns about the loss of value-added jobs and economic opportunities.

Perhaps most disturbingly, the premier and his ministers seem to have bought into the argument, advanced aggressively by oil extraction companies and industry associations, that the best way forward for Alberta is actually to export more raw bitumen. The logic here is that by making more bitumen available to American-based refineries, Alberta will be creating a bigger market which, in turn, will narrow the price differential that has traditionally existed between conventional oil and bitumen.

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As Alberta's oil-sands grind to a halt, development of both U.S.- based bitumen refining capacity and American-bound bitumen pipelines is continuing at an aggressive pace. ”

Proro David Dodge, The Pembina Institute



THE PROBLEM WITH THIS ARGUMENT IS NOT THAT IT'S WRONG BUT RATHER THAT IT'S MISGUIDED.

Increased volumes of raw bitumen being shipped to the U.S. have indeed helped narrow the price differential between bitumen and conventional oil.

This is good news for the upstream energy companies that dominate Calgary's downtown energy scene. But it is bad news for downstream companies and all those Albertans who would like to see more upgrading and refining done in Alberta.

That's because lower bitumen prices are actually a good thing for Alberta-based upgraders and refiners – in fact, those lower prices could (and should) be the cornerstone of our competitive advantage over U.S.-based refiners.

By accepting the industry logic and welcoming the export of increasing volumes of raw bitumen, the Stelmach government is actually undermining one of the key competitive advantages that could lead to increased investment in value-added petroleum facilities in Alberta.

SO WHAT'S THE SOLUTION? The answer, we argue, lies in rejecting the free-market fundamentalism that has characterized the Klein and Stelmach approaches to the oil sands and re-learning lessons from the Lougheed era.

In particular, we believe the current Alberta government should use a mix of regulation and public ownership to jump-start the creation of a multi-billion dollar upgrading, refining and petrochemical complex in the Industrial Heartland area, in much the same way that the Lougheed government intervened aggressively to create a value-added petrochemical industry that had not previously existed in the province.

Now that most of the multinational oil companies have abandoned the field, the Alberta govern-

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ment should step in to fill the void – by creating a publicly owned energy corporation to spearhead construction. The blueprint for an ambitious value-added complex has already been drawn up by prominent engineer and energy consultant David Netzer who was commissioned by the provincial energy department in 2006 to come up with a plan, only to have it promptly buried by the Klein cabinet).

The Netzer plan is particularly compelling today because it would move Alberta past mere upgrading to the much higher value-added production of products like gasoline, diesel and petrochemicals. In keeping with the environmental concerns raised by both ordinary citizens and the Obama administration in the U.S., the Netzer plan would also have a much smaller environmental footprint than the list of upgrader projects put forward (and currently shelved) by major oil companies.

Moving now on a state-of-the-art, publicly initiated refining complex makes sense for a long list of other reasons, including the following: the Alberta government's top-notch credit rating

means it would be in a better position to raise capital than most private investors; a large labour force of skilled workers, who are in the process of being let go by private-sector developers, will be available; and, as a result of the global recession, vital building materials such as steel and concrete are selling for deep discounts – facts that could dramatically reduce the cost of construction.

Are Albertans ready to join other oil-producing jurisdictions around the world in taking a more hands-on approach to the resources they own collectively? We think they are.

A recent poll, conducted by Environics Research for the Alberta Federation of Labour, indicates that Albertans would be supportive of a more aggressive role for the government in the oil sands.

The poll showed that 77 per cent of Albertans feel that it's very important to keep oil-sands processing and refining jobs in Alberta. At the same time, only 22 per cent said development decisions should be left to energy companies, with 72 per cent saying that the public, through government, should set the priorities.

Perhaps surprisingly, 42 per cent strongly agreed and 36 per cent somewhat agreed that the Alberta government should cancel leases to energy companies and take oil-sands lands back if those companies don't do enough to create and maintain jobs in the province.

Clearly, the public is open to the idea of the government stepping in and pursuing public interest goals in the oil sands.

Creating a crown energy corporation to take the lead on a made-in-Alberta strategy for the oil sands would address three problems at once: it would address public concerns about keeping value-added jobs in Alberta; it would make it easier for the government to address important environmental concerns; and it would keep thousands of skilled workers employed at a time when the economy is leaving them high and dry.

THE REAL QUESTION NOW IS: will we learn the lessons of Lougheed and embrace a more aggressive role for government in the oil sands, or will we stand idly by while the “market” decides to send our jobs and opportunities down the pipeline?



From Boom to Bust – Again

It has now become apparent that Alberta will not be spared from the brutal economic downturn that has gripped the rest of Canada and indeed the rest of the world.

As a result of the global financial crisis, the freeze in international credit markets and the precipitous drop in oil prices, the engine of our provincial economy – the oil sands – is in the process of grinding to an abrupt halt.

Depending on which estimates you look at, over the past three months alone, a truly mind-boggling amount of oil-sands investment, between \$97 and \$241 billion, has been pulled off the table.¹

Even the Canadian Energy Research Institute (CERI), a normally optimistic industry-financed energy think tank, recently acknowledged that, over the next few years, “oil-sands production growth will be almost at a stand still and new investment will collapse to levels not seen since the turn of the century.”²

In other words, the oil-sands boom is officially over.

Good Jobs Evaporate

Without anticipated investment in the oil sands, thousands of construction jobs, including jobs in the skilled trades, engineering and management, have already started to disappear.

Construction unions, which only a few short months ago were scrambling to find enough skilled tradesmen to meet demand, are now reporting more than 12,000 members on their out-of-work lists.

BUT THIS IS ONLY THE BEGINNING.

Before the global economic downturn, more than 40,000 construction workers were busy on dozens of major oil-sands projects in northern Alberta, representing about 65 per cent of all construction activity in the province.³

Given that most of these projects received their financing before the global recession, many of them will continue to keep thousands of people employed for the next six to twelve months.

But the next generation of oil-sand projects, the ones that were expected to keep people working and the economy humming after the current projects reached completion, has essentially evaporated.

Barring a miraculously quick turnaround in the world economy, which almost no prominent economists expect, this means that Alberta is facing an unprecedented collapse in oil-sands construction employment.

Tradesmen and other front-line construction workers will be the most obvious casualties but thousands of engineers, managers and administrative staff involved in planning and managing oil-sands construction projects will also lose their jobs.

No Sector is Immune

Unfortunately, the pain is unlikely to be contained to one sector. That's because, over the past four or five years, Alberta's provincial economy has been

transformed into what is essentially an oil-sands economy.

While unprecedented oil-sands spending has lifted Alberta's industrial construction sector to new heights, it has also driven robust growth in manufacturing, transportation, home construction, retail, hotels, restaurants and many other sectors of the economy.

But now that the air is quickly escaping from the oil-sands bubble, the sector that has been lifting the provincial economy may soon start dragging it down. And there is little hope that other major sectors of the Alberta economy will pick up the slack.

Like the oil sands, the conventional oil and gas sector and the petrochemicals sector are being flattened by low prices and falling demand, especially in their major market, the deeply troubled American economy. Even less help can be expected from the agriculture and forestry sectors which were struggling even before the world economy began to nosedive.

Of course, many groups and individuals, including the Alberta Federation of Labour and former

ALBERTA JOINS THE GLOBAL RECESSION

After years of oil-sands-fuelled prosperity, recession has returned to Alberta

- Between December and February, more than 36,000 full-time jobs disappeared.
- By some insider estimates, up to 75 per cent of industrial construction projects planned for 2009 have been cancelled or postponed.
- Construction unions report more than 12,000 members on "out-of-work" lists.
- Housing starts drop by more than 60 per cent in both Edmonton and Calgary.
- Personal bankruptcies in Alberta increase by more than 100 per cent compared to last year.
- Value of crude oil exported from Canada drops by more than 25 per cent in the month of December alone.

Source: Statistics Canada



Photo David Dodge, The Pembina Institute

premier Peter Lougheed, have been saying for at least two years that the pre-crisis pace of oil-sands growth was unsustainable and should be replaced by a more thoughtful and orderly approach to development.

But what's happening in the oil sands today is not the kind of orderly slow down that we and others had advocated. Instead, the economic contraction that has already begun is shaping up to be every bit as chaotic and potentially damaging for Albertans and the provincial economy as the expansion was.

In human terms, what we're looking at is a staggering collapse in energy-related investment that could lead to a jobs bust even more brutal than the one Albertans endured in the 1980s.

Ground Zero for the Collapse: Value-Added Oil Sands

Perhaps the most disturbing aspect of the collapse in oil-sands investment has been the near total abandonment of the massive upgrader projects planned for both the Fort McMurray area and the so-called Industrial Heartland area northeast of Edmonton.

Taken together, these projects could have generated literally tens of billions of dollars in investment.

Even more importantly, they were supposed to provide the foundation for a fundamental transformation in Alberta's energy economy – moving the province “up the value ladder” from mere extractor of resources to an increasingly diversified economy based on a much more robust downstream energy industry.

This “new economy” would have been built around dramatic increases in the production of upgraded “synthetic crude,” refined petroleum products like gasoline and diesel and a wide range of petrochemical products. In the process, thousands of good jobs were supposed to have been created,

many of them permanent, family and community-sustaining jobs.

As recently as this past summer, eight major upgrader projects were planned for the Industrial Heartland area and several major upgrader expansions or new projects were also planned in the Fort McMurray area by Suncor, Syncrude, Canadian Natural Resources Ltd. (CNRL) and Opti-Nexen.

The Industrial Heartland Association (an association of local business and government leaders formed to promote upgrading and other downstream industries in the Fort Saskatchewan area) has estimated that the eight upgraders planned for its jurisdiction would have created more than 22,000 construction jobs and 12,000 direct permanent jobs, not counting all the spin-offs.⁴



ALBERTA'S INDUSTRIAL HEARTLAND

Land Trust Society

FOR SALE

40 Acres

INDUSTRIAL PROPERTY

Ken @ 998-7654

But today, all but one of the upgrader projects in the Industrial Heartland area have either been cancelled or postponed indefinitely. The one hold out – Shell’s oil-sands-related expansion at its existing Scotford refinery in Fort Saskatchewan – was started before the global recession and will be completed over the next 18 months.

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In Fort McMurray, Opti-Nexen and CNRL have both recently completed construction on upgraders but their second and third phases of upgrader expansion have been put on hold. At the same time, Suncor has also put its ambitious Voyageur upgrader project on hold.

To be clear, some work is continuing in the oil sands, particularly on pure extraction projects. For example, many steam-assisted in situ projects (which energy companies view as viable at lower international oil prices) have so far eluded the axe that has fallen elsewhere in the sector.

But the big value-added upgrader projects, which had been key to hopes that Alberta might one day leave behind its status as a “hewer of wood and extractor of oil,” have started to fade as real possibilities. This is deeply troubling for three reasons.

FIRST, it’s troubling because oil-sands projects that include upgraders generate far more jobs, both short term and long term, than pure extraction projects aimed at the export of raw bitumen.

SECOND, it’s troubling because upgraders are the basic infrastructure needed for the expansion of Alberta’s downstream oil industry – without them we can’t refine bitumen into gas and diesel or transform it into petrochemicals.

THIRD, and most importantly, the demise of so many value-added projects is deeply troubling because, without upgraders, we won’t be able to stop the increasingly flow of raw bitumen across the border to upgraders and refineries in the United States.

The important point here is that it won’t be only bitumen flowing down those pipelines. Along with the bitumen we’ll also be exporting thousands of good jobs – jobs which, in the current economic climate, Albertans can’t afford to lose.

Return to Business as Usual? Don't Count On It

Despite the massive collapse in oil-sands investment and the serious implications this has for jobs and our province's aspirations to "move up the value ladder," the response of Alberta's political and business elite has been surprisingly muted.

For the most part, they have tried to reassure Albertans by downplaying the scale and scope of the collapse in oil-sands investment. Some have even argued that the "slow down" is actually a good thing because it will allow industry to "catch its breath" and plan for the next inevitable phase of oil-sands expansion.

Provincial government officials, in particular, have expressed confidence that Alberta and the oil sands will return to "business as usual" as soon as the global economy turns around (which they say will happen much sooner than most experts predict).

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what they were before the crisis.

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will be little interest in proceeding with shelved value-added projects here in Alberta.

Americans Proceed with Plans to Expand Bitumen Refining Capacity

HOW SERIOUS IS THE THREAT TO ALBERTA'S VALUE-ADDED AMBITIONS?

Based on research conducted over the past three months, the Alberta Federation of Labour has been able to determine that, despite the global recession, energy companies are proceeding with plans to build or expand at least 10 refineries in the U.S. for the specific purpose of upgrading and refining raw bitumen from the Alberta oil sands. Taken together, these refineries will have the combined capacity to upgrade and refine about 2.8 million barrels per day of raw bitumen from Alberta.⁵

Perhaps surprisingly (given new U.S. president Barack Obama's well-publicized goal of building a greener economy), this move towards developing significantly more American-based bitumen upgrading capacity is being actively promoted by the U.S. federal government. The stimulus package adopted by the U.S. Congress in the dying days of the Bush administration includes \$894 million U.S. (\$1.13 billion Cdn.) in subsidies for U.S. refiners that agree to increase their capacity to process "tar sands bitumen."⁶

At the same time, two major bitumen pipelines, TransCanada's Keystone Pipeline and Enbridge's Alberta Clipper, are already approved and under construction. Once completed, these pipelines will have the combined capacity to export 1.4 million barrels per day of raw bitumen from Alberta to refineries in the U.S. Mid-West.

In addition, six other major pipelines are still being planned to take raw bitumen from Alberta directly

THE FACTS

Billion-dollar subsidy for American refineries to handle bitumen

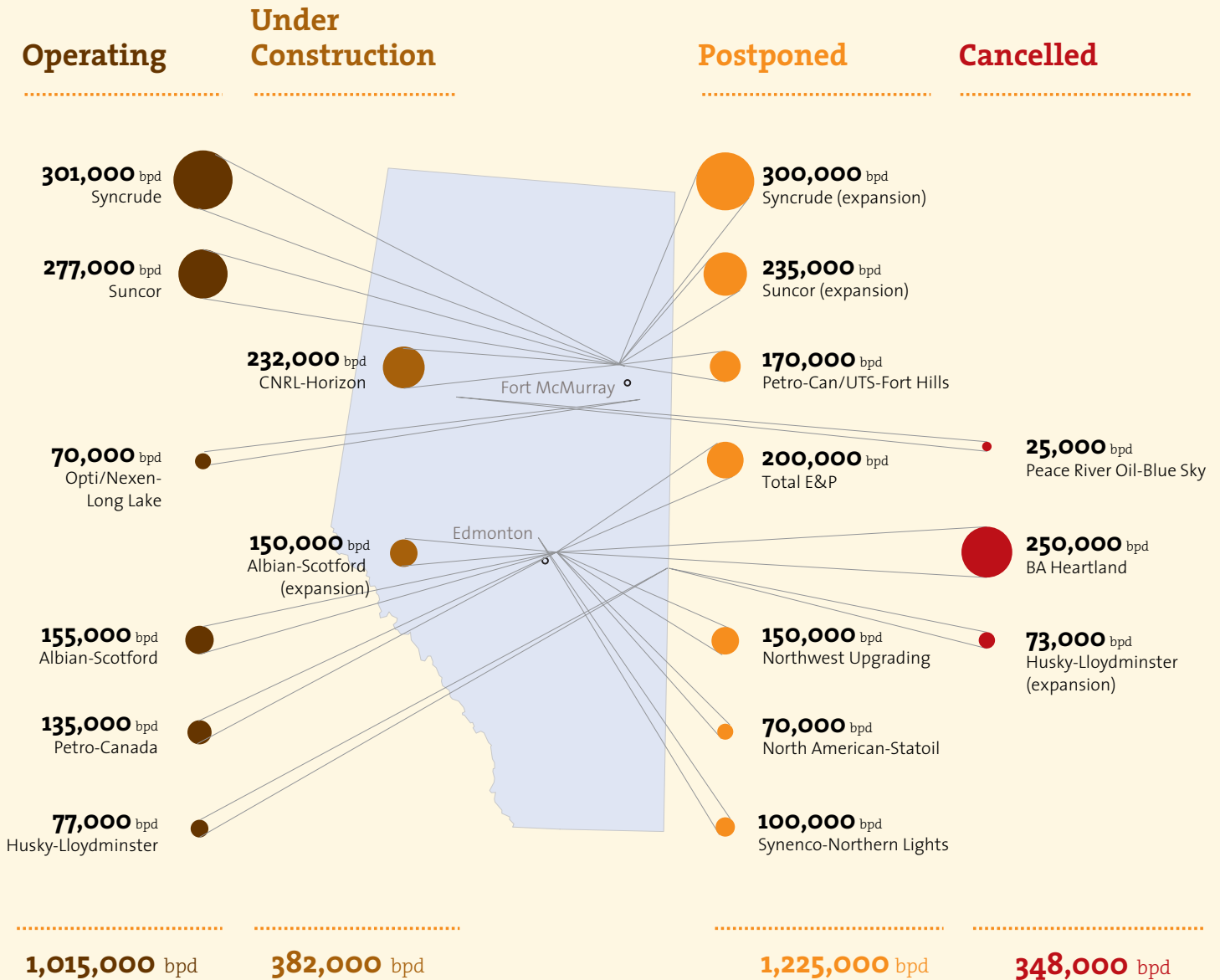
A recent American tax measure has ominous implications for Alberta. A tax break hidden within the Bush administration's overall economic bail-out package – called *The Emergency Economic Stabilization Act of 2008* and passed on October 1, 2008 – is aimed at directly encouraging the movement of raw bitumen from the Alberta oil sands to U.S. refineries.

Under the heading *Energy, Extenders, AMT and Disaster Tax Provisions: Part III Transportation & Domestic Fuel Security*, the Act contains a section that specifically allows American refiners to expense the cost of refitting their refineries operations to handle oil from "tar sands".

The American government estimates that this subsidy will result in tax benefits to American refiners totalling U.S. \$894 million (C\$1.13 billion) over ten years.

OIL SANDS BITUMEN UPGRADING

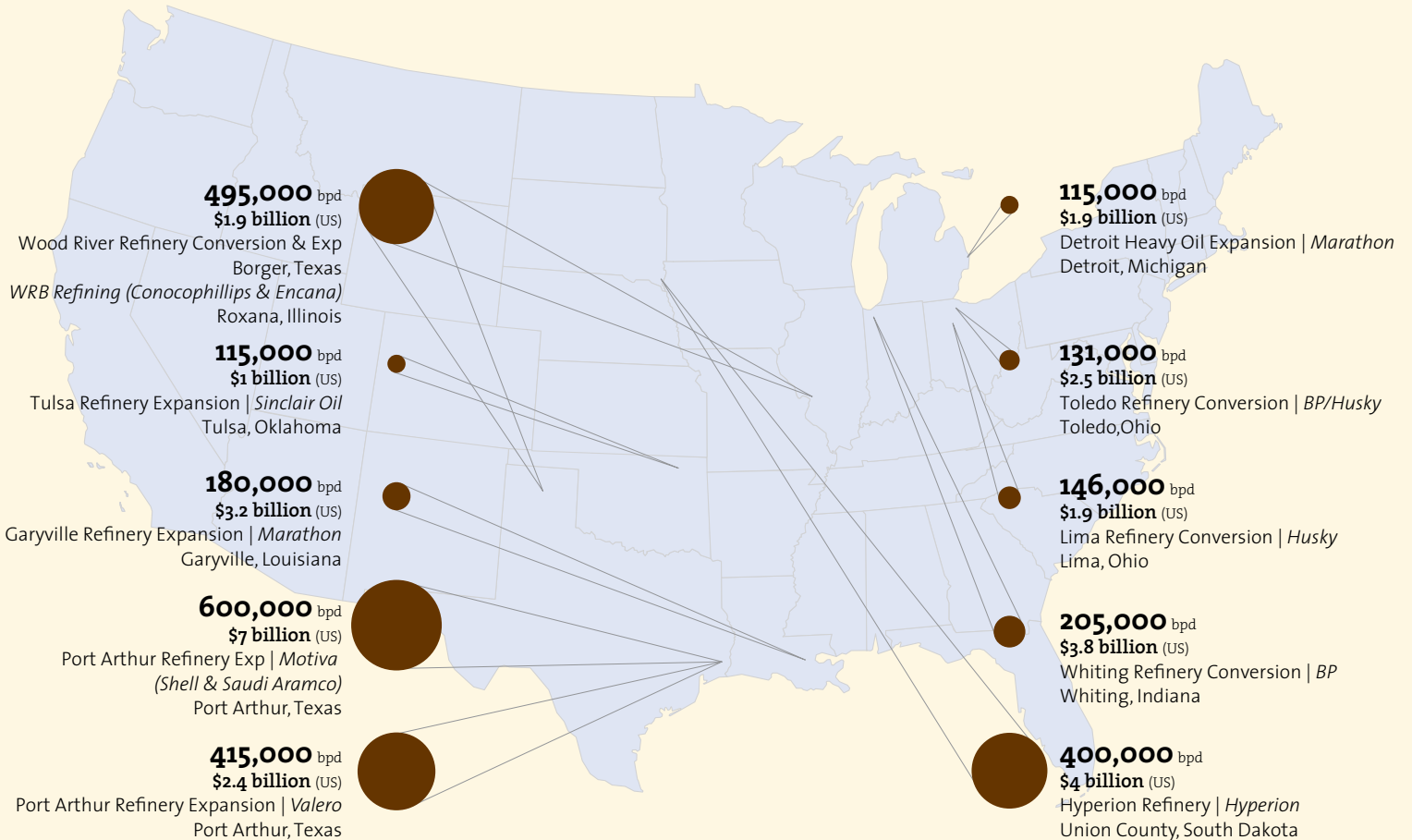
Alberta



Source: CAPP, company reports, media reports

United States

Refinery Expansions and Conversions to Handle Alberta Bitumen



2,802,000 bpd

\$31.7 billion

Total processing capacity

Estimated investment

Source: Environmental Integrity Project, corporate annual reports, corporate websites, various business press clippings

to the U.S. Gulf Coast, one of the biggest refining hubs in the world (which has, up this point, relied on crude and heavy oil from Saudi Arabia, Mexico and Venezuela). Together, these Gulf Coast pipelines will have the capacity to transport about 2.3 million barrels of raw bitumen across the border each day.⁷

To put these numbers in perspective, total output from the oil sands today is about 1.3 million barrels per day, with about two-thirds of that total being upgraded in the province (mostly by one of the three biggest industry players: Suncor, Syncrude or Shell).

Before the global recession set in, total production from the Alberta oil sands was expected to double

to about 2.7 million barrels per day by 2015 and increase to more than 3.5 million barrels per day by 2020. More recently, the Canadian Association of Petroleum Producers (CAPP) slightly lowered estimates of expected oil-sands production volume to 2 million barrels per day in 2013 and 3.3 million barrels per day in 2020.⁸

In this context, the size and number of U.S. refineries and American-bound pipelines is significant because it means that U.S. oil refiners will have the capacity to absorb ALL expected increases in Alberta's oil-sands production over the next decade and likely beyond.

In other words, left to themselves, energy companies may decide they don't need ANY new Alberta-

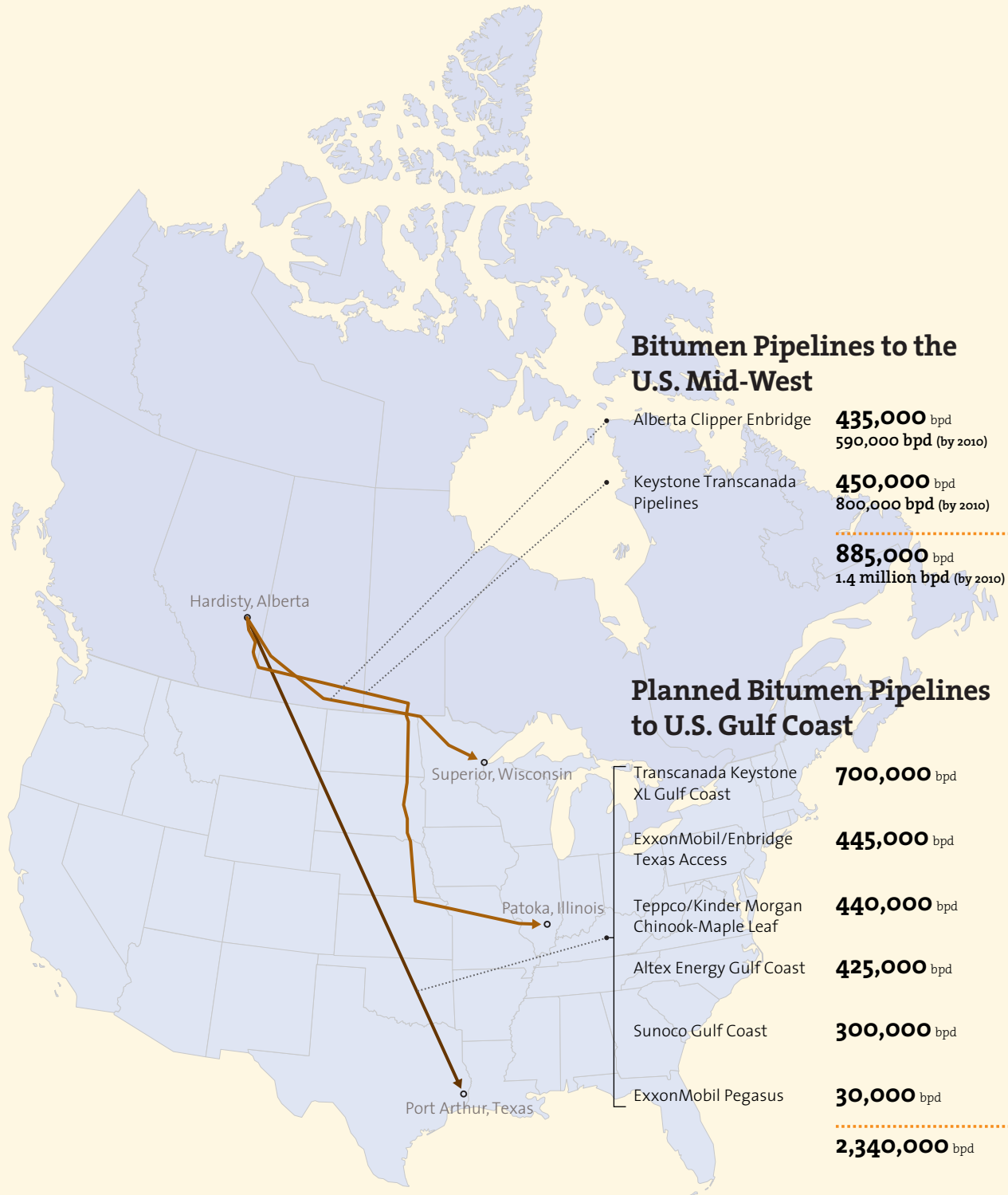
NO NEED FOR ALBERTA UPGRADERS?

U.S. will have capacity to handle all expected increases in oil sands output

Combined bitumen processing capacity of currently planned U.S. refinery expansions	2.8 MILLION BPD
Bitumen shipping capacity of new bitumen pipeline to U.S. (<i>under construction and planned</i>)	3.7 MILLION BPD
Current production of bitumen from Alberta oil sands	1.3 MILLION BPD (<i>with 1 million upgraded in province</i>)
Expected increase in bitumen output from Alberta oil sands from today to 2013	700,000 BPD, <i>bringing total Alberta production up to 2 MILLION BPD</i>
Expected increase in bitumen output from Alberta oil sands from today to 2020	2 MILLION BPD, <i>bringing total Alberta production up to 3.3 MILLION BPD</i>

Conclusion: As a result of new bitumen pipelines, American refiners could easily handle ALL of the expected increase in Alberta's bitumen production between now and 2020, leaving no new value-added opportunities (or jobs) for Alberta.

SENDING IT SOUTH



Source: National Energy Board (NEB), CAPP

based upgraders – even after the global economy recovers and international prices for oil rebound.

Despite repeated government promises that at least two-thirds of Alberta bitumen will continue to be upgraded or refined in the province, as a result of the stagnation of growth in Alberta-based upgrading capacity, we face the very real prospect of the reverse happening – that is, two-thirds of Alberta bitumen being exported and only one-third being upgraded or refined in the province.

Even industry insiders are quietly starting to admit that this is a real possibility. In a recent presentation to the Canadian Oil Sands Summit in Calgary (January 2009), Strategy West president Bob Dunbar, one of the industry's most respected analysts, predicted that if the global economic downturn persists and little new upgrading capacity is built in Alberta, the volume of raw bitumen exported from Alberta would exceed the volume of bitumen upgraded to synthetic crude locally by 2018.⁹

If nothing is done to reverse current trends, we think Alberta may cross that troubling threshold even sooner.

What's at Stake?

Jobs, Public Revenue and Dreams of Diversification, That's What!

Without more Alberta-based upgraders, it's clear that Alberta will lose thousands of potential jobs, both short and long term. How many jobs? As we've already seen, the Industrial Heartland Association has estimated that the eight upgraders planned for its jurisdiction would have created more than 22,000 construction jobs and 12,000 direct, permanent jobs, not counting all the spin-offs.

Another way to approach the question is by looking at employment figures from existing oil sands operations. In Fort McMurray, for example, facilities operated by Suncor and Syncrude – both of which include upgraders – employ more than 4,000 permanent, full-time employees each.

When it comes to large-scale upgrader operations, significant short- and medium-term employment opportunities are also created during periodic maintenance shut downs. The Oil Sands Developers Groups, an association comprised of many of Alberta's largest oil-sands players, estimates that up to 3,500 skilled trades people can be on site during



maintenance shut downs at large operations such as Syncrude and Suncor.¹⁰

These numbers are consistent with estimates produced by the economic forecasting firm Infometrica.

In 2007, the Communications, Energy and Paperworkers of Canada union (CEP) commissioned Infometrica to conduct a GDP analysis of the jobs impact of the Keystone pipeline, then being considered for approval by the National Energy Board (NEB). Infometrica concluded that if the 435,000 barrels per day of raw bitumen that could be sent to the U.S. through the pipeline's first phase were instead upgraded and refined in Canada, it would create 18,000 permanent, direct and indirect jobs across the country.¹¹

If these estimates are accurate and if American refiners do manage to claim all or most of the 2 million barrels per day of increased oil-sands capacity expected to come on-stream by 2020, then Alberta and Canada could lose more than 80,000 direct and indirect jobs down the pipeline.

During the recent boom, it was difficult to convince politicians they should pay attention to the concerns being raised by individuals and groups, like the Alberta Federation of Labour, that warned about the loss of upgrading and refining jobs to facilities in the U.S. People in government and business seemed to ask: *"we have a labour shortage, why should we worry about losing a few jobs here and there?"*

But given that Alberta is starting to shed jobs at an alarming rate (more than 21,000 full-time jobs disappeared from the province in December and January alone), it's clear that the loss of 80,000 jobs (many of them high paying) can no longer be shrugged off or taken lightly.

CASE STUDY

Jobs Impact of Total E & P Canada's Proposed Upgrader

- Production target: 295,000 BPD to be built in two phases
- Capital investment: \$8 BILLION (Cdn.)
- Estimated direct construction employment on phase one: 4,000
- Estimated jobs created on site and off site in phase one as a direct result of activities such as construction, fabricating and purchasing: 7,500
- Estimated direct jobs created on site during regular operation of the plant: 400 after phase one: 135,000 bpd
- Estimated jobs created on site and off site as result of regular plant operation: 3,800
- Estimated jobs impact on broader economy during construction phase: 10,600
- Estimated jobs impact on broader economy during regular plant operation: 5,400

Source:

Total Canada, Government of Alberta employment multipliers

Diversification

We're Ignoring Lougheed's Lessons

Closely related to the loss of jobs is the loss of opportunity. In particular, without additional upgrading capacity, which is the necessary foundation for higher value refining, Alberta will lose out on the opportunity to diversify its energy sector and “move up the value ladder.”

It is in this context that the emerging trend toward U.S.-based upgrading is particularly frustrating. It's frustrating because, for decades now, politicians, business people and academics have dreamed of diversifying Alberta's economy away from oil and gas extraction. But when presented with a chance to actually do something about it, little is done to seize the moment.

It's also frustrating because, when it comes to finding ways to add value to our resources, we've actually been here before. We have a home-grown history that, if we were so inclined, we could learn important lessons from.

The value-added program initiated by the Lougheed government in the 70s and 80s is particularly instructive. Upon assuming office in 1971, Premier Peter Lougheed turned his attention to the natural gas sector which, at the time, was exporting the lion's share of its production to refineries and petrochemical plants in the U.S. and eastern Canada.

Lougheed didn't think that made sense – he wanted Alberta to sell higher-value petrochemical products derived from natural gas instead of only exporting the commodity in its rawest and cheapest form. He also wanted to create more good jobs so Albertans could share in the sale of their resources not only through the collection of royalties, but also through employment.

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In order to achieve his vision, Lougheed used a mix of regulation and direct public ownership. For example, his government introduced new rules that required natural gas producers to “strip” valuable natural gas liquids such as ethane from their gas before being allowed to export what remained. These liquids were then made available to Alberta-based petrochemical companies that turned them into value-added petrochemical products such as styrene, ethylene and propylene.

Significantly, the Lougheed government used public money and carefully directed joint partnerships with private firms to help build the so-called “straddle plants” that stripped the natural gas liquids. Lougheed also created a publicly owned energy company, the Alberta Energy Corporation or AEC (later sold off at fire-sale prices by the Klein government).

Through AEC, the provincial government took part as an active investor in the construction of many plants and facilities that now form the backbone of Alberta's petrochemical industry, an industry that generated sales of more than \$13 billion in 2008. By making a decision to “move up the value ladder” and by being unafraid to use regulation and public ownership to get there, Lougheed

essentially created one of Alberta's biggest value-added industry from scratch.

If all this sounds familiar, it should – it has clear parallels to Alberta's current situation with bitumen.

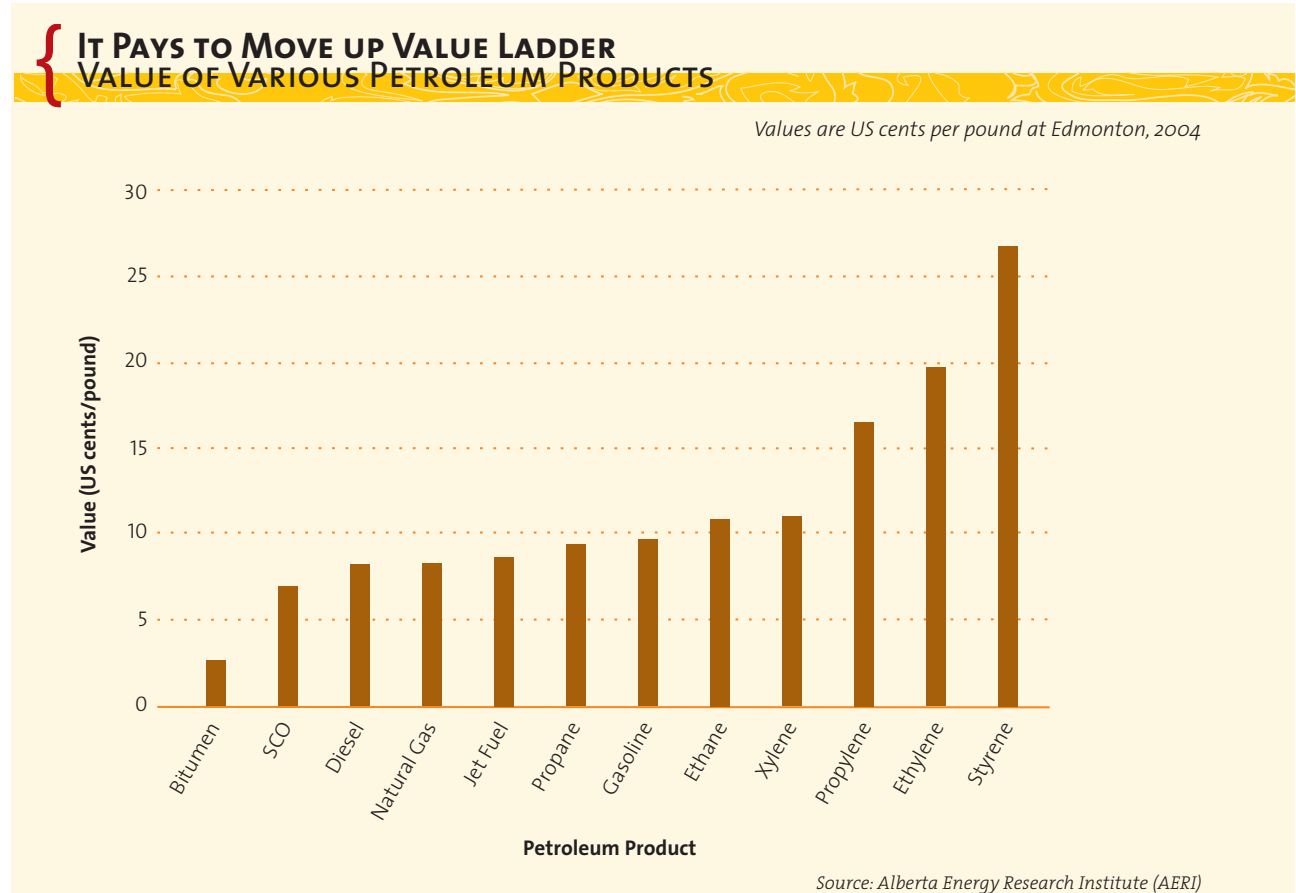
In the same way that raw natural gas was being exported in the 70s so that others could reap bigger rewards, the same thing is happening today with raw bitumen. And, in the same way that straddle plants were the key to building an Alberta-based petrochemical industry in the 70s and 80s, upgraders are the key today to building a bigger Alberta-based refining industry that could sell the world high-value products like gasoline, diesel and petrochemical instead of lower value commodities like raw bitumen.

What's missing is any real sense by our leaders about what's being lost and any real determination

to get a better deal for Albertans.

This is frustrating because the provincial government's own analysts have told them how many more jobs would be created by "moving up the value ladder." They've also pointed out how much more money could be earned by Alberta businesses by selling value-added products instead of raw bitumen. And they've been told how much more public revenue could be generated by taxes and fees on the more valuable end products, not an insignificant issue as the province faces the return of budget deficits.

But so far, the current provincial government has remained on the sidelines, watching events unfold, but taking little action. Albertans of the current generation are still waiting for their Lougheed.



Madly Off in the Wrong Direction

Despite the growing number of storm clouds that have been dimming Alberta's upgrading and refining hopes, Premier Ed Stelmach's government has so far provided little more than lip service to concerns about the loss of value-added jobs and economic opportunities.

Even before the global recession and despite delivering a now-famous speech in which he compared exporting raw bitumen to a farmer selling off his topsoil, Premier Stelmach did nothing to stop EnCana and Conoco-Phillips from concluding a major agreement to upgrade raw bitumen in the U.S.

His government also failed to do anything in December 2007 when Husky Energy shelved plans for a multi-billion-dollar expansion at its Lloydminster upgrader in favour of a plan to ship raw bitumen to refiners in Ohio.

More recently, in the face of widespread project cancellations and postponements, the Stelmach government released a 20-year blueprint for the oil sands entitled "Responsible Actions,"

that actually downgraded the development of Alberta-based upgraders from a promise to an "aspirational goal."¹²

To be fair, the government's plan did include two concrete measures aimed at convincing companies to build upgraders in Alberta: a previously announced promise to collect bitumen in lieu of some royalties (the idea being that the bitumen collected by the government could then be made available to Alberta upgraders); and a promise to increase pipeline tolls on bitumen shipped south of the border.

However, given the considerable extra costs and logistic and administrative hassle that companies would have to assume if they gave the government bitumen in lieu of royalties, we believe that

TELLING LIKE IT IS

CEOs ready to send jobs down the pipeline

"In line with several other players in the Canadian oilsands industry, StatoilHydro has decided to discontinue the upgrader project at this time, but will continue to monitor the cost and price environment and reassess downstream options going forward. This decision does not impact the upstream part of the company's oilsands venture. The production from the project will be marketed as unprocessed bitumen."

Geir Jossang . President . StatoilHydro Canada
Calgary Herald | December 5, 2008

"(Petro-Canada) announced last week it would delay approval for the mining portion of the \$21-billion Fort Hills project near Fort McMurray until construction costs drop. A decision on the upgrader near Fork Saskatchewan was also shelved. If the mine gets the go-ahead, (CEO Ron) Brenneman said his firm would invest in U.S. refining capacity to handle the added bitumen."

Edmonton Journal | November 27, 2008

"Using an existing upgrader/refinery that can already handle bitumen or can be modified to handle it is certainly more economic than building a full brand new one."

Greg Stringham . Vice-President of Markets and Fiscal Policy . Canadian Association of Petroleum Producers (CAPP)
Calgary Herald | November 18, 2008

REMAINING CALM, OR DELUDING HIMSELF?

"I don't look at any of these things as cancelled ... We can compete. This situation, in my opinion, will rectify itself."

Mel Knight . Alberta Energy Minister
Calgary Herald | November 30, 2008

THE PRICE OF INACTION: JOBS AND PUBLIC REVENUE

"If the pipelines are built, and it's getting shipped south, it's gone; there's no chance to build an upgrader. Once it's gone, it's gone. Many of these could be gone forever."

Cathy Olsen . Mayor of Strathcona County
Calgary Herald | November 30, 2008

"Should Canada export 1.5 million barrels per day of heavy oil, the take in royalties and taxes would be between \$3 billion and \$4 billion a year. If the same amount is upgraded domestically, the take jumps to between \$10 billion and \$11 billion a year."

Don Rigney . Mayor of Sturgeon County
Calgary Herald | November 30, 2008



PHOTO David Dodge, The Pembina Institute

most will simply opt to pay all their royalties in cash, even if it means paying more. Even if the government requires companies to pay some of their royalties in the form of raw bitumen, for reasons that will be discussed, there are no guarantees that other companies will actually come forward to upgrade it.

In a similar way, higher pipeline tolls might add to costs of shipping raw bitumen but likely not enough to convince energy companies to spend billions on upgraders here when they've already spent billions on developing or expanding their U.S.-based bitumen refining capacity.

Undermining the real Alberta advantage (cheap feedstock)

Perhaps most disturbingly, Premier Stelmach and his ministers seem to have bought into the argument advanced aggressively by oil-extraction

companies and industry associations like the Canadian Association of Petroleum Producers (CAPP) that the best way forward for Alberta is actually to export more raw bitumen.

In a recent trip to Houston, Texas, for example, Stelmach seemed to be reading directly from a CAPP script when he told an audience of American oil executives that he was pleased to see that “a number of Houston-area refineries are re-tooling to process bitumen from Alberta’s oil sands.”¹³

The logic behind this argument is that by making more bitumen available to American-based refineries, Alberta will be creating a bigger market which, in turn, will narrow the price differential that has traditionally existed between conventional oil and bitumen.

WHAT COULD POSSIBLY BE WRONG WITH GETTING A HIGHER PRICE FOR BITUMEN? PLENTY, AS IT TURNS OUT.

The problem with the CAPP argument about increased exports leading to higher bitumen prices is not that it's wrong but rather that it's misguided.

Increased volumes of raw bitumen being shipped to the U.S. have indeed helped narrow the price differential between bitumen and conventional oil.

This is good news for the upstream energy companies that dominate Calgary's downtown energy scene. But it is bad news for downstream companies and all those Albertans who would like to see more upgrading and refining done in Alberta.

That's because lower bitumen prices are actually a good thing for Alberta-based upgraders and refiners – in fact, those lower prices could (and should) be the cornerstone of their competitive advantage over U.S.-based refiners.

Continued lower bitumen prices would mean that local upgraders could obtain their feedstock at lower prices – increasing the profit margins they can earn on the sale of finished products (like gasoline, diesel and petrochemicals). In other words, they could buy their feedstock low and sell their finished products high, a desirable outcome for any business endeavor.

So by accepting the CAPP logic and welcoming the export of increasing volumes of raw bitumen, the Stelmach government is actually undermining one of the key competitive advantages that could lead to increased investment in value-added petroleum facilities in Alberta.

This point has been made repeatedly by the government's own analysts in internal documents.

For example, a study produced for the provincial energy department in 2006 concluded that *“lower cost bitumen-derived feedstocks would help sustain Alberta's world-class petrochemical industry.”*¹⁴

More recently, the international consulting firm, Kline Group, was commissioned jointly by the Alberta government, the City of Edmonton and the Industrial Heartland Association to study successful refining and petrochemical hubs around the world and identify lessons that could be applied in Alberta. The study concluded that most major petrochemical hubs didn't just “happen” – instead, they were “purpose built” with the government and, in most cases, national energy companies, taking the lead.

The report also found that there are basically three kinds of successful petrochemical clusters:

- those built near major markets (like existing clusters in Germany and China)
- those built near major global or regional transportation hubs (like existing clusters in Antwerp, Rotterdam and Singapore)
- and those built near the sources of economical feedstock (like existing clusters in the Middle East and Trinidad).

The study authors concluded that Alberta could easily fall into the third category as long as the price for feedstock (i.e., bitumen) remained low.¹⁵

It is in this context that the Stelmach government's drive to reduce the price differential between bitumen and conventional oil is so alarming – it is actually putting the very economic viability of value-added projects at risk. The irony is strong: while the Alberta government spends millions on public relations campaign promoting the so-called Alberta Advantage of low taxes and light regulation, they are – at the same time –

undermining one of the real Alberta Advantages: cheap feedstock for refining and petrochemicals.

Sam Spanglet, the retired head of oil-sands operations for Shell Canada, has come to similar conclusions and, in an interview with the Calgary Herald in November 2008, expressed frustration with the government's drive to reduce price differentials by shipping more raw bitumen to the U.S. He said:

"We're going to see a lot of people stop building upgraders, and they're going to move the heavy oil to the U.S.,"

*"We're going to be hostage to bitumen priced to one market. To me, this, 20 years from now, will be seen as a disaster."*¹⁶

Blind Faith in the "Magic" of Markets

One of the main problems with the Stelmach government's approach to the oil sands in general and value-added developments in particular is that it has been driven (and constrained) by ideology.

While the rest of the world is starting to develop a healthy skepticism of free-market purists, here in Alberta the old orthodoxy and the old aversion to government regulation and intervention persist.

Nowhere are the limitations imposed by the government's ideological straightjacket more apparent than in the instructions and mandate it has given to its own Hydrocarbon Upgrading Taskforce (HUFT), created in 2004 to spearhead efforts to move Alberta's energy sector up the value ladder.

Instead of allowing the taskforce to consider all options – like the public approaches employed by most other oil-producing jurisdictions around the world or the mixed public-private approaches employed here in Alberta during the Lougheed years, HUFT was told to limit itself to building a

"market-based case for upgrading hydrocarbon resources in Alberta."¹⁷

THE MESSAGE FROM THE KLEIN AND STELMACH CABINETS WAS CLEAR: GOVERNMENT WOULD ACT AS CHEERLEADER AND FACILITATOR, NOT AS LEADER, REGULATOR OR (HEAVEN FORBID) INVESTOR.

Despite these constraints, the bureaucrats and others involved with HUFT have made sincere efforts to bring more value-added investment to Alberta, only to be hamstrung by bad decisions, inertia and inattention from government.

For example, HUFT produced numerous development scenarios based on the assumption that upgraders would be built here to take advantage of low-cost bitumen – only to see those efforts undermined when the government decided to pursue policies aimed at driving up the price of bitumen.

Not to be put off, HUFT then turned its attention to the possibility of building a bigger petrochemical industry based on the use extremely low-cost by-products that could be collected from "upgrader bottoms," only to face the prospect of having no new upgraders (and hence no "bot-toms") to use as upgrading capacity migrates south of the border.¹⁸

Now HUFT and the provincial energy department have been left with little more to do than make hollow, public relations appeals to refining companies about the "business-friendly" climate in Alberta. In essence, they're taking the same approach to the issue of adding value to the oil sands and creating more value-added jobs that they've taken to concerns about the environmental impact of the oil sands. Namely, the government seems to think that both issues can be addressed with a communications strategy that more effectively "sells Alberta to the world."

“
Alberta stands as one of only two of the world’s top 15 oil-producing jurisdictions without a publicly owned and publicly mandated corporate energy champion.”

As we’ve seen, during the Lougheed era the government took a very different approach. Instead of going cap in hand to industry, they simply re-wrote the rules and required extraction companies to make cheap feedstock available for local upgrading into value-added products. They also didn’t hesitate to use public money, through direct investment or partnerships with industry, to achieve economic goals.

Unlike HUFT, Lougheed didn’t try to make his government’s business case match the existing market – he intervened in the market to make the market match his business case.

The contrast between the Lougheed era and the Klein/Stelmach era is stark. Back then, we had a plan, we had a government willing to create institutions and mechanisms that could be used as vehicles for achieving public interest goals, and we had a government unwilling to leave the future



prospects of economy in the fickle hands of market players who had no real, long-term attachment to the province.

Today, Alberta stands as one of only two of the world's top 15 oil-producing jurisdictions without a publicly owned and publicly mandated corporate energy champion. And Canada is the only major oil-producing national without some kind of national energy strategy that puts the long-term interests of its citizens and its local economy ahead of the short-term interests of private energy companies.¹⁹

The dangers of having no plan and no publicly controlled corporate champion are particularly acute in a place like Alberta where the energy sector is so clearly dominated by U.S.-based energy companies that are either integrated (that is, they do both extraction and refining) or focus exclusively on extraction.

PHOTO David Dodge, The Pembina Institute



The companies that focus on extraction have little interest in building Alberta-based refining capacity. In fact, it is in their interest to simply ship as much raw bitumen from the province as possible. For these companies, the “one-price” argument works (in fact, they’re the ones who sold the idea to the Stelmach government).

In a similar way, many of the integrated companies don’t have a compelling interest in expanding Alberta’s upgrading capacity because they either own or have access to refineries in the U.S. that can be expanded or re-tooled to handle bitumen more cheaply and easily than building new facilities in Alberta.

If the Stelmach government is looking for a downstream company (focused on refining) to act as a champion for Alberta based upgrading, there just isn’t one. In Alberta’s energy universe, the upstream (extraction) and integrated players are the giants and the downstream (refining) players are the small fries.

That’s why the Lougheed government set up its own energy company to act as a counter-weight to the dominant industry players that had more incentive to “ship it out now” than add value.

It’s also why, Lougheed loaded up his energy department with high-powered experts of his own so he wouldn’t have to rely exclusively on industry for advice on how to run develop Alberta’s publicly owned natural resources.

Sadly, one of Ralph Klein’s first acts as Premier was to gut the government’s energy department. He preferred to set his direction for energy policy based on instructions and advice from the industry itself. In other words, the foxes were invited to run the henhouse. We’re just now learning what a big price we’re paying for that mistake.²⁰

Turning Crisis into Opportunity

So what's the solution? The answer, we argue, lies in rejecting the free-market fundamentalism that has characterized the Klein and Stelmach approaches to the oil sands and re-learning lessons from the Lougheed era.

In particular, we believe the current Alberta government should use a mix of regulation and public ownership to jump-start the creation of a multi-billion-dollar upgrading, refining and petrochemical complex in the Industrial Heartland area, in much the same way that the Lougheed government intervened aggressively to create a value-added petrochemical industry that had not previously existed in the province.

Now that most of the multinational oil companies have either abandoned the upgrader field altogether or put their projects on hold indefinitely, the Alberta government should step in to fill the void by creating a publicly owned energy corporation to spearhead construction. The new crown corporation could act on its own or, as was the case during the Lougheed era, in co-operation

with private sector partners. Companies that don't already have extensive U.S.-based refining capacity would probably be the ideal partners (like Petro-Can, Norway's Statoil or France's Total).

We realize, of course, that over the last 20 years, public ownership has fallen out of political favour. But as a result of the obvious failure of lightly regulated free-market models around the world, more and more people are starting to embrace a more active role for government in the economy. And if the government is going to intervene with public money, we feel strongly that they shouldn't be just "giving it away" in the form of subsidies. If the public is paying, they should demand equity stakes (whether it's in a failing bank or a new petrochemical complex) so that they can share in the upside after economic conditions improve.



**PRIVATE
PROPERTY
NO TRESPASSING
DOW CHEMICAL CANADA INC.**

So, what would our proposed petrochemical mega-hub look like? The good news is that a blueprint for an ambitious value-added complex has already been drawn up by prominent engineer and energy consultant David Netzer (who was commissioned by HUFT and the provincial Energy department in 2006 to come up with a plan, only to have it promptly buried by the Klein cabinet).

The Netzer plan is particularly compelling today because it would move Alberta past mere upgrading to the much higher value-added production of products like gasoline, diesel and petrochemicals. In keeping with the environmental concerns raised by both ordinary citizens and the Obama administration in the U.S., the Netzer plan would also have a much smaller environmental footprint than the list of upgrader projects put forward (and currently shelved) by major oil companies.

Moving now on a state-of-the-art, publicly initiated refining complex makes sense for a long list of other reasons, including the following:

- the Alberta government's top-notch credit rating means it would be in a better position to raise capital than most private investors
- a large labour force of skilled workers, who are in the process of being let go by private-sector developers, will be available and,
- as a result of the global recession, vital building materials such as steel and concrete are selling for deep discounts – facts that could dramatically reduce the cost of construction.

In addition, by focusing on one mega-project instead of trying to build eight, ten or twelve smaller projects at the same time, we could avoid the inflationary pressures and the pressures on Alberta's municipal and social infrastructure that characterized the recent boom. We could also

avoid the need to supplement our local construction labour force with thousands of workers brought into the country under the federal government's controversial (and exploitative) Temporary Foreign Worker program.

Recommendations

There was a time that Alberta could realistically dream of becoming one of the world's newest refining and petrochemical super-hubs. The key was to take advantage of our easy access to vast quantities of relatively low-priced feedstock from the oil sands.

Unfortunately, our provincial government's decision to facilitate the export of raw bitumen is undermining our competitive advantage. At the same time, both our provincial and federal governments have turned a blind eye as energy companies make huge investments in U.S. refineries and U.S.-bound bitumen pipelines. As a result, bitumen upgrading capacity – key to moving up the value ladder – is migrating south of the border.

All of this means that Alberta's window of opportunity is closing. If aggressive action isn't taken soon by the provincial government to reverse bad decisions and re-establish Alberta's natural competitive advantage, we fear the dream of moving up the value ladder will die.

Here are the steps we think need to be taken into

order to rescue the dream and create a real surge of value-added investment and employment at a time when our province desperately needs it:

Reject the Pure Market Approach

The Stelmach government needs to come to the same conclusion that governments around the world are reaching as a result of the financial crisis; namely that, by itself, the market doesn't always deliver results that support the broader public interest. More specifically, they need to re-learn the central lesson of the Lougheed era that, in a market dominated by big U.S.-based energy giants, we need a strong mix of regulation and government direct investment to ensure Albertans are getting the most from their resources. As Jim

“
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 of York University's School of Business

Gillies, Dean Emeritus of York University's School of Business told Report on Business Magazine last year:

“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.”

Defend a Differential Price for Bitumen

The Stelmach government needs to explicitly reject the “market price” argument advanced by extraction companies and industry associations like the Canadian Association of Petroleum Producers (CAPP). By facilitating the export of raw bitumen in an effort to transform it into a more “tradeable” commodity with one price, the government is inadvertently undermining Alberta's only real competitive advantage when it comes to upgrading and refining. As we've seen, that advantage is easy access to relatively low-priced feedstock. Without bitumen that trades at lower prices than conventional oil, the viability of any value-added project in Alberta is thrown into question. To be clear, stopping the export of raw bitumen doesn't mean that we're turning our backs on trade – all it means is that we are choosing to sell high-value products to our trading partners instead of low-value commodities. At the end of the day, what the Americans (our biggest trading partner) want is energy, not bitumen. So let's give them energy – on the best possible terms for Albertans. And that means refined products, not raw bitumen.

Stop the Bitumen Pipelines

In its new oil-sands plan, “Responsible Actions,” the Stelmach government commits itself to supporting the construction of new U.S.-bound pipelines. Given that the majority of these pipelines will be little more than “bitumen superhighways,” this decision may prove to be one of the Alberta



government's biggest policy blunders in decades. In the short term, we think the Stelmach government should either introduce restrictions prohibiting the export of raw bitumen or they should impose pipeline tolls that are so high (much higher than what the government is currently considering) that exporting raw bitumen becomes cost prohibitive. The new pipelines could then be used to export what we really want to export: upgraded or refined products. In the longer term, the Alberta government needs to work with the federal government and the National Energy Board (NEB) to broaden and deepen the public-interest scrutiny of all new pipeline applications. If a proposed pipeline would undermine policy goals related to creating Canadian value-added jobs, then it should be rejected.

Create a Publicly Owned Energy Company

Canada is only one of two major oil-producing jurisdictions without its own energy company. This is a problem, especially in Alberta, where the goals and interests of private energy companies are starting to diverge from the goals and interests of Albertans. Many of the biggest industry players have an interest in "ripping it and shipping it," either because that's all they do or because they already have upgrading capacity in the U.S. The Alberta public, on the other hand, clearly wants to create and keep value-added jobs in the province. In this kind of contest, one of the only ways to ensure that the public's preference wins out is through the creation of a publicly owned industry





champion that is mandated to pursue the public interest. Without an industry champion that is accountable to the public, private interest will trump public interest. The Stelmach government's approach of cheerleading from the sidelines is insufficient – we actually have to get in the game. The bottom line for us is that if we want a valued-added oil-sands industry in the province, the government (through a publicly owned energy company) will have to lead the way.

Develop a Canadian Energy Strategy

As we've seen, value-added petroleum developments don't just "happen" – they're built when governments decide they need to be built. These decisions, in turn, can't be made in isolation: they need to be made in the context of a comprehensive energy strategy designed to promote the public interest over the long term. Unfortunately, Canada is the only major oil-producing country

without a national energy strategy. For years now, conservative politicians and industry leaders have used the ghost of Trudeau's NEP to shut down serious debate on anything related to identifying and defending public goals in the energy sector. This has to stop. The lack of a formal public vision contributed to the barely regulated oil-sands development frenzy that caused so much concern among Canadians over the past three or four years. The lack of a formal plan is also what's behind many of the troubling trends we're seeing today – like the movement of raw bitumen and potential refining jobs to the U.S. In order to stop these trends and move towards a model for developing the oil sands and other energy resources that more closely conforms to the hopes and aspirations of Canadians, we believe the Stelmach government needs to sit down with the federal government and the governments of other energy-producing provinces to work out a national plan. For obvious reasons, we shouldn't call it the NEP – but we still need a plan.

Build a Refining and Petrochemical Super Complex

The first priority of a new public energy corporation should be to spearhead the construction of an upgrading, refining and petrochemical complex in the Industrial Heartland area based on the plan drafted for HUFT in 2006 by the consultant David Netzer. The multi-billion-dollar project would provide employment for the thousands of skilled Alberta tradesmen who have been losing their jobs over the past few months while creating thousands of additional long-term jobs. It would also represent an improvement over the numerous non-integrated upgrader projects recently shelved by private companies for three reasons.

FIRST, it would be a more desirable option because the built-in synergies between components of the plant would reduce capital costs;

SECOND, because it would leave a smaller environmental footprint than the numerous non-integrated upgraders; and

THIRD, because it would move beyond upgrading to the production of higher value products like gasoline, diesel and petrochemicals.

Introduce Conditional Leases for Oil-Sands Developers

In order to guarantee that bitumen stays in the province and is available for upgraders and refiners, the Alberta government should take a new approach to existing and future oil-sands lease agreements with private developers. As it stands right now, once an energy company pays for an oil-sands lease, that company has no real obligations to the Alberta public. It can develop its lease area as it sees fit, subject to appropriate regulatory standards and approvals. Companies have no formal job creation requirements and no real time

limits for developing their properties. We think all of this needs to change. In particular, we think the provincial government needs to change the terms of new leases (and use its legislative authority to revise the terms of existing agreements) to guarantee Alberta-based, value-added development and job creation. Specifically, developers should be required to either build their own upgrader or have arrangements in place to sell their raw bitumen to other upgraders and/or refiners in the province (like the Heartland petrochemical complex mentioned previously). If companies with existing lease agreements can't live with these amendments, the government (or the new crown energy company) should buy out their lease at current market value.

Develop Deeper In-House Energy Expertise

One of the reasons that former premier Lougheed was able to toe to toe with big energy companies and come out smiling was because he built a top-notch stable of energy experts who were on the public payroll and, as a result, were accountable to the citizens of Alberta, not to Big Oil. Today, it's difficult – nearly impossible, in fact – to find an energy consultant who doesn't rely on energy companies for the bulk of his or her income. The result of this erosion of in-house capacity is clear: without top-notch thinkers (and cabinet members willing to listen to them and back them) industry has been able to lead the government around by the nose. This may be exactly as industry (and people like former premier Ralph Klein) like it. But it's not good for the public interest.

Call for NAFTA Re-Negotiation

The energy section of the North American Free Trade Agreement (NAFTA) has the potential to tie the hands of Canadian policy makers if they move to introduce policies aimed at keeping upgrading

and refining jobs in the country. With this challenge in mind, the Alberta government should call on the federal government to take U.S. president Barack Obama up on his suggestion to renegotiate NAFTA. In particular, Canada should demand the same kind of blanket exemption for its energy sector that Mexico has always had for its energy sector. This would give Canadian governments the legal flexibility they need to defend the public interest and create a more vibrant value-added petroleum industry in Canada.

Green the Oil Sands

The final, but certainly not least important, thing that the Stelmach government has to do is get serious about “greening the oil sands.” Polls show that, in general, Canadians support development in the oil sands but they want it done in the most environmentally sustainable way possible. Canadians are also clear that they want real change, not spin – they don’t agree with the Stelmach government when it characterizes the environmental challenges posed by the oil sands as a communications problem.

But getting serious about the environment isn’t just a political imperative – it’s also an economic imperative. Despite the reassuring words he used on his recent visit to Canada, it’s clear that new U.S. president Barack Obama is serious about cleaning up the environment and greening the U.S. energy sector. In particular, he has made it clear that his government will introduce some kind of emission trading system with hard caps on greenhouse gas emissions. He’s also made it clear that he support states like California in their plans to introduce “tailpipe emission standards” that could penalize and even shut out oil that comes from unconventional sources like the oil sands.

With all of this in mind, we think Stelmach govern-

ment has to accept hard caps and agree to participate in whatever kind of continental emissions trading system that emerges. The government should also give its new public energy company a mandate to invest in alternative renewable sources of energy. In fact, both the government and its new public energy company should begin to explicitly view the oil sands as a transitional resource, one that needs to be developed, but with the understanding that a significant portion of the wealth generated should be used to help Alberta make the transition to a cleaner, greener economy.

Albertans Support Public Role in Oil Sands

Are Albertans ready to join other oil-producing jurisdictions around the world in taking a more hands-on approach to the resources they own collectively? We think they are.

A recent poll, conducted by Environics Research for the Alberta Federation of Labour, indicates that Albertans would be supportive of a more aggressive role for the government in the oil sands.

The poll showed, for example, that 77 per cent of Albertans feel that it's very important to keep oil-sands processing and refining jobs in Alberta. At the same time, only 22 per cent said development decisions should be left to energy companies – with 72 per cent saying that the public, through government, should set the priorities.

In keeping with these findings, the poll showed that 86 per cent of Albertans either strongly agreed or somewhat agreed with the suggestion that job creation requirements should be written into the oil-sands lease agreement that the province signs with energy companies.

Perhaps surprisingly, 42 per cent strongly agreed and 36 per cent somewhat agreed that the Alberta government should cancel leases to energy companies and take oil-sands lands back if those companies don't do enough to create and maintain jobs in the province.

Finally, the survey suggested that Albertans are ready to look at the oil sands in a different light when it comes to the environment. A near unanimous 94 per cent of Albertans either strongly agreed (66 per cent) or somewhat agreed (28 per cent) that the provincial government should have a strategy to use revenue from the oil sands to help the province make the transition to a greener economy with sustainable industries that do less damage to the environment.²¹

CLEARLY, THE ALBERTA PUBLIC IS OPEN THE IDEA OF THE GOVERNMENT STEPPING IN AND PURSUING PUBLIC INTEREST GOALS IN THE OIL SANDS.

SURVEY

Albertans support a bigger role for government in oil sands

*Results of Alberta Federation of Labour survey of 500 Albertans.
Conducted by Environics Research, January 21-25, 2009*

Q1 How important do you think it is that oil-sands processing and refining jobs be kept in Alberta?

Very important	77%
Somewhat important	19%
Not very important	3%
Not at all important	1%

Q2 Which one of the following policies do you think the Alberta government should pursue with regard to keeping more oil-processing and refining jobs in the province? Should they...

Make it legally mandatory that energy companies do more of their processing and refining in Alberta. **42%**

Set voluntary targets for more processing and refining in Alberta that the energy industry would be encouraged to meet. **43%**

Let the energy companies decide for themselves where upgrading and refining should be done. **12%**

Q3 Which ONE of the following statements best summarizes your view on how the Alberta oil sands should be developed?

Energy companies are the ones who know the industry best. Decisions about when and how to develop the oil sands should be left with them. **22%**

The oil sands are a publicly owned resource. The Alberta government should strictly regulate the pace of oil-sand development, environmental standards and job creation. **72%**

Q4 Please tell me if you strongly agree, somewhat agree, somewhat disagree or strongly disagree that the Alberta government should implement each of the following policies with regards to the oil sands .

a. Conduct a comprehensive analysis of the environmental, social and economic impacts of any new oil sands projects before they are approved.

Strongly agree	63%
Somewhat agree	26%
Somewhat disagree	5%
Strongly disagree	3%

b. Have a strategy to use the revenue from the oil sands to help the province transition to a greener economy with sustainable industries and jobs that do less damage to the environment.

Strongly agree	66%
Somewhat agree	28%
Somewhat disagree	3%
Strongly disagree	3%

c. Include job creation requirements in the lease agreements it signs with energy companies wanting to develop the oil sands.

Strongly agree	44%
Somewhat agree	42%
Somewhat disagree	7%
Strongly disagree	4%

Q5 Danny Williams, the Progressive Conservative Premier of Newfoundland, recently tore up the lease that his province had given to a large multi-national pulp and paper corporation when that corporation failed to make good on its promise to create and maintain jobs in Newfoundland.

Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree that the Alberta government should follow a similar policy and cancel leases to energy companies and take the oil-sands lands back if they fail to live up to their commitments to create and maintain jobs in the province?

Strongly agree	42%
Somewhat agree	36%
Somewhat disagree	12%
Strongly disagree	7%

Conclusion

Despite the fact that millions of people around the world are now souring on notions of free-market fundamentalism, here in Alberta it's still not uncommon to hear individuals fervently repeating the old mantra: let the market decide!

Well, when it comes to value-added oil-sands development in Alberta, the market is in the process of deciding. And, for the most part, it's deciding to pass Alberta by.

For the past four or five years, a window of opportunity has been opening for Alberta to move up the value ladder. But, as a result of bad policy choices (in particular, the choice to actively narrow the price differential between bitumen and conventional oil) that window of opportunity is closing and closing fast.

Major energy companies are now in the process of dramatically expanding their capacity to handle bitumen from the Alberta oil sands at refineries in the U.S. Mid-West and Gulf Coast. Once these plants, along with the huge bitumen pipelines that supply them, are built, the damage will be done

and our moment of promise will have passed.

Essentially, what we're witnessing is the creation of a continental energy super-structure in which Albertans (with the acquiescence of our governments, both provincial and federal) are being assigned the role of low-value extractor, while the Americans are reserving for themselves the role of high-value upgrader and refiner.

That's why the major conclusion of this report is that the time has come for Alberta to re-learn the lessons of the Lougheed era and embrace a more aggressive role for government in the oil sands.

The Stelmach government's approach of simply pitching energy and refining companies on the virtues of investing in "business friendly" Alberta won't work because the current business case

(which has been shaped largely by the government's own decisions to allow the construction of huge bitumen pipelines) doesn't make sense.

Why would large, integrated energy companies build upgraders or refineries in Alberta when it's cheaper and easier to simply link the oil sands by pipeline to their existing facilities south of the border? Why would they invest billions in Alberta-based upgrading and refining, when they've already invested billions in building American capacity for the same purpose?

For those Albertans who believe in a value-added future, the only real solution is for the government to use its power to re-write the rules so that business conditions are more conducive to value-added investment and job creation in the province.

Today, south of the border, millions of Americans are regretting not acting more quickly to recognize the dangers posed by blind faith in the magic of market. If nothing is done to intervene in the oil-sands market, Albertans may soon be nursing similar regrets.

THE REAL QUESTION NOW IS THIS: WILL WE LEARN THE LESSONS OF LOUGHEED AND EMBRACE A MORE AGGRESSIVE ROLE FOR GOVERNMENT IN THE OIL SANDS, OR WILL WE STAND IDLY BY WHILE THE "MARKET" DECIDES TO SEND OUR JOBS AND OPPORTUNITIES DOWN THE PIPELINE?





Appendix 1: Endnotes

From Boom to Bust – Again

1 “The Eye of the Beholder: Oil Sands Calamity or Golden Opportunity?” McColl, David, Canadian Energy Research Institute (CERI), February 2009, p.9

2 *ibid.* p. 7

3 “Inventory of Major Alberta Construction Projects,” Alberta Employment, Immigration and Industry, December 2008

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4 “Alberta’s Industrial Heartland Oil Sands 101 Update,” Presentation to Real Estate Investment Network, Alberta’s Industrial Heartland Association, Edmonton, June 23, 2007, pp. 15-18.

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5 “Tar Sands: Feeding U.S. Refinery Expansions with Dirty Fuel,” Environmental Integrity Project, Washington, D.C., June 2008

6 *Emergency Economic Stabilization Act of 2008: Energy, Extenders, AMT and Disaster Tax Provisions: Part III Transportation & Domestic Fuel Security*, Congress of the United States of America, October 1, 2008

7 “Crude Oil Forecast: Markets and Pipeline Expansions,” Canadian Association of Petroleum Producers (CAPP), June 2008, p. 35.

8 Production forecasts, various documents, Canadian Association of Petroleum Producers (CAPP), website, February 2009

9 “Will Canada’s Oil Sands Industry Survive the Market Turmoil?” Presentation to 6th Annual Canadian Oil Sands Summit, January 13-14, 2009, Calgary, Bob Dunbar, Strategy West Inc., p. 10.

10 Based on e-mail correspondence with Oil Sands Developers Group.

11 “Written evidence of the Alberta Federation of Labour: Application for Construction and Operation of Keystone Pipeline (TransCanada Keystone Pipeline GP Ltd.)” National Energy Board Hearing Order OH-1-2007, April 2007

Madly Off in the Wrong Direction

12 “Responsible Actions: A Plan for Alberta’s Oil Sands,” Government of Alberta, February 2009, p. 25.

13 “Alberta, Texas find opportunity in adversity: Stelmach,” Audette, Trish, *Financial Post*, February 4, 2009

14 “Alberta Bitumen Processing Integration Study: Final Report,” Netzer, David; David Netzer and Associates Consulting; for the Province of Alberta, Economic Development Department, Investment and Industrial Development Branch, Department of Energy, the Alberta Energy Research Institute and Industry Sponsors, March 2006, p. 1.

15 “From Oil Sands to a World-Class Eco-Industrial Chemical Cluster for Greater Edmonton: Final Presentation, Edmonton Seminar,” Kline Group Consulting, presentation on behalf of: Alberta Government, The City of Edmonton, Edmonton Economic Development Corp., Alberta’s Industrial Heartland Assoc., Government of Canada, May 30, 2008, p. 52

16 “Tories ‘handing’ U.S. oil sands upgrading jobs,” *Calgary Herald*, November 4, 2008

17 “The Hydrocarbon Upgrading Taskforce (HUTF),”

Vision and Mandate Statement, Department of Energy, Government of Alberta, Government of Alberta website, November 2008

18 Kline, p. 47.

19 Information on approach to energy policy and public ownership among 15 top energy producers compiled from various sources including: International Energy Agency and documents from the governments of the world’s top 15 oil-producing nations.

20 “Exile in the Oilpatch: Alberta’s oil and gas royalty mess,” Nikiforuk, Andrew, *Alberta Venture*, September 2008 (vol. 12, issue 9)

Albertans Support Public Role in Oil Sands

21 “Alberta Federation of Labour: January 2009 Omnibus Questions,” Environics Research Group, Field Dates: January 21-25, 2009

Appendix 2: Bibliography

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