CHINA'S GAS TANK

Three Steps Toward Selling Out Canadian Energy Security

Alberta Federation of Labour

cope

December 2012

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Three Steps Toward Selling Out Canadian Energy Security

December 17, 2012

1. The Nexen Sale to CNOOC
2. Canada-China Foreign Investment Protection Agreement
3. The Northern Gateway Pipeline

Chinese-Canadian business relations are being redefined, as we cede decision-making power about our natural resources to state-owned foreign businesses. These businesses are not bound by market pressures and will not act in the best interests of Canadians.

The economic relationship between Canada and China is being redefined.

Over the past year, three major events have dominated the headlines on Canadian business pages. These stories are each part of a larger picture in which Canada's national interests are being subverted, and the country's strategic energy assets are being taken over. From exploration and production to transportation and marketing, control of the oil sands is being ceded to state-owned foreign companies.

The China National Offshore Oil Corporation (CNOOC) takeover of Nexen gives a Chinese state-owned oil company marketing control over several hundred thousand barrels per day of oil sands bitumen. Marketing control gives CNOOC power over the price – which means we are handing over control of Alberta's most important source of royalty revenue to a state-owned enterprise.

At the behest of funding partners that are backed by Chinese state-owned oil companies, the Northern Gateway Pipeline locks in a future where Alberta's resources leave the country in their rawest form possible. This will ship good paying jobs to China.

The Canada-China Foreign Investment Protection Agreement (FIPA) is the lynchpin of this redefinition. The Canada-China FIPA locks in our current oil sands policies. If we make any changes, we could be sued for new policies that might accomplish the following:

- Good jobs in the oil sands
- Building a value-added industry around our energy resources
- Fostering connections between Alberta's resources and refineries in the rest of Canada
- Canadian energy security
- Environmental responsibility
- The ability to pace development or charge appropriate royalties
- The national interest

All of this is at stake.

In order to protect our national interest and our energy security, Canada should have rejected the CNOOC takeover. But now that it has been approved, it makes it all the more important that we re-negotiate the Canada-China Foreign Investment Protection Agreement, and consign the Northern Gateway pipeline to the dustbin of history's bad ideas.

> Canada is at a crucial crossroads. We can continue with the Harper Conservative plan for the oil sands, which involves losing all control over our resources in favour of the highest bidder, or we can craft an energy policy of our own – one that puts Canadian interests first.

This report outlines China's challenge to Alberta's oil sands sector. It considers ownership, investment, marketing, and jobs.

The conclusion of our report moves from opposition to proposition, charting an energy secure, environmentally sustainable course for Canada.

About the Alberta Federation of Labour and Alberta's Oil Sands: The AFL Lost Down the Pipeline Campaign

The Alberta Federation of Labour is a full intervener in the Northern Gateway Pipeline project, currently before the Joint Review Panel of the National Energy Board.

The AFL represents 25,000 workers in the oil sands and energy-related construction sectors and 150,000 total workers in all areas of the Alberta economy. On behalf of those workers – and all Albertans – the AFL has appeared before the National Energy Board against the Alberta Clipper, Keystone XL, and Northern Gateway pipeline projects.

We oppose bitumen export pipelines on the grounds that they ship good-paying, family-sustaining jobs down the pipeline to other countries. We are not opposed to all pipelines, but we do not support shipping raw bitumen out of Canada, when the product could be upgraded within our borders, keeping jobs and revenue from slipping through our fingers. Upgrading and refining Alberta's oil sands are of central importance to the future of our economy. Upgrading and refining means good jobs, spinoff industries, building a manufacturing base, and better royalty returns to the province. Taken together, an energy strategy that captures maximum value from our oil sands allows us to achieve the goals we all share: strong revenues to government for public services like health care and education; a diversified economy with good-paying jobs; and enough revenue to make sure we make a responsible transition to a greener economy.

But good jobs, sustainability, and a strong economy do not happen by accident. They require leadership, and a government that puts priority on the public interest, energy security, and environmental sustainability. The AFL's ***Lost Down the Pipeline*** campaign calls on governments at all levels to carefully consider the full range of their options on energy, and to enact public solutions that benefit us all.

China National Offshore Oil Corporation (CNOOC) takeover of Nexen

The $15-billion Nexen takeover by China's state-owned CNOOC makes strange bedfellows of Canada's right and left. The deal, approved by Harper's Conservatives prompted skeptical, critical reaction by everyone from Preston Manning to the Communications, Energy, and Paperworkers Union. China's human rights record, CNOOC's checkered labour and environmental record around the world, and the spectre of state ownership by China's communist regime have all been raised as reasons Industry Canada ought to have rejected the CNOOC bid.

Observers have missed one crucial element of Nexen's business interests – the marketing of oil sands and conventional oil. Nexen markets 300,000 barrels per day.[1] Half of those barrels come from their own production; the rest is pooled from other customers.

When you market products, you seek buyers. You can hold back product or flood the market. Through simple laws of supply and demand, marketing gives a degree of control over price.

> With the CNOOC takeover of Nexen, Canada is handing the Chinese government the ability to bid the price of bitumen up or down according to their interests, not ours.

Nexen's Marketing Arm In Their Own Words

Excerpt from Nexen's 40-F Filing with the United States Securities and Exchange Commission

"We also engage in market optimization activities including the purchase and sale of third-party production which provides us with additional **market intelligence** and opportunities in order to obtain competitive pricing for our proprietary volumes. Our team leverages regional knowledge and **holds capacity on key North American infrastructure**. In addition to physical marketing, we take advantage of quality, time and location spreads to generate returns. We also use financial contracts, including futures, forwards, swaps and options to manage our business."[2]

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[1] Northern Gateway Joint Review Panel Hearing Transcript, September 24, 2012. Line 29400-29401. "MS. DEANNA ZUMWALT: Yes, Nexen is both a producer and a marketer so we market roughly 300,000 barrels a day. Roughly 50 per cent of that in North America would be our own equity production and the remainder would be barrels that we aggregate from other producers and move to market for them."

[2] Form 40-F, 2011 Annual Disclosure to United States Securities Exchange Commission *Emphasis added by the AFL* http://www.nexeninc.com/en/investors/annualreports.aspx

Chinese State Owned Enterprises

CNOOC is majority-owned by the Chinese government. However, there are two other state-owned Chinese oil companies, PetroChina and Sinopec, who also have major investments in Alberta's oil sands.

These companies are not necessarily playing by transparent market rules. CNOOC's own filings with the United States regulators show the three companies work together.

It is not just Sinopec, PetroChina, and CNOOC, either. China has a number of sovereign wealth funds who have also made investments in the Canadian oil sands sector. Taken together, there is a growing block of Chinese interests at play that may not be aligned with the Canadian national interest. Canadian jobs, tax and royalty revenues, Canadian environmental standards, and Canadian energy security are all at risk.

CNOOC in their own words: Filings with US Securities Exchange Commission

> "We sell a significant proportion of our production to CNOOC-affiliated companies Sinopec and PetroChina."[3]

TransMountain Pipeline and Nexen

Nexen is a funding partner in the expansion of the TransMountain pipeline, though they will not say publicly the number of barrels per day they intend to ship on the expanded pipeline**.** [4]

Nexen currently ships 18,000 barrels per day on the Transmountain Pipeline. The Pipeline ends in Burnaby, BC. Recently, the Burnaby refinery had to cut production by 20,000 bpd because it had a lack of oil sands bitumen feedstock. The refinery had to downsize and cut jobs because Chinese customers outbid the refinery for the bitumen.[5]

> When CNOOC takes over Nexen, and if the TransMountain expansion is approved, a Chinese state-owned oil company and refiner will be given control over where tens of thousands ***more*** barrels per day of oil sands bitumen end up. And they very well could end up in China, at the expense of Canadian refineries.

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[3] CNOOC Ltd, 20-F, Annual Report to United States Securities Exchange Commission, April 20, 2012. http://www.cnoocltd.com/encnoocltd/tzzgx/dqbd/f20f/images/2012427958.pdfForm

[4] Northern Gateway Joint Review Panel Transcript Hearing. September 22, 2012. MS. DEANNA ZUMWALT: Yes, we have submitted, along with some others, participated in the Open Season for Trans Mountain. 29419. I can't divulge how much capacity we've subscribed for that is confidential still but we would be a participant in that project.

[5] **February 8, 2012. "**Expert says oil supply could be exported." http://www.burnabynow.com/Expert+says+supply+could+exported/6118832/story.html

Commodity Marketing, Foreign Investment Treaties with China, and Australia's Sober Second Thought

In the heady days of Australian Prime Minister John Howard's right-wing conservative government, Australia signed wide-ranging foreign investment treaties with China.

As a commodity exporter, Australia also gave away – just as Canada is about to do – control over marketing of their commodities.

Things didn't turn out so well when Australia handed over commodities marketing to China.

The new Labour government of Australia is renegotiating some aspects of their Foreign Investment Review processes after negative experiences with Chinese takeovers, commodities marketing, and market distortions.

> "Some of Australia's trading partners have expressed concern that a market-based dynamic is not preserved in Australia's export industries after a large Chinese state owned acquisition is completed. To mitigate this potentiality, a recommendation was made to include in the Australian foreign investment policy "protections to preserve the integrity of the market for the company's product, such as commitments for arms-length marketing of product and the establishment of board sub-committees and information barriers to deal with 'conflict of interest' concerns."[6]

Canadian Oil Sands Are Nexen's Primary Business

Some advocates of the CNOCC takeover have dismissed concerns about the deal by arguing that much of the company's activity happens outside Canada.

The truth is the Canadian oil sands are the biggest player in Nexen's portfolio.

According to Nexen's most recent filings with the United States Securities Exchange Commission, the company has 1,008 mmboe (millions barrels of oil equivalent) gross total proven reserves. Of that, 729 mmboe is in Canada. Three-quarters of Nexen's proven assets lie in Northern Alberta.[7]

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[6] Chinese State Investments in Canada. http://www.asiapacific.ca/sites/default/files/filefield/chinese_state_investments_in_Canada_v4.pdf

[7] Nexen Annual Report, 2011.

The same is true for the company's estimated proven and probable reserves. Though we must take a company's projections of probable reserves with a grain of salt, these figures also show Canada's central importance to Nexen: the gross total proven plus probable reserves for the company's entire international operations are 2,302 mmboe. Of that, 1,800 mmboe are in Canada.

Business-friendly commentators have argued Nexen is an international oil company, with diverse interests around the world.

They make this argument to try to reassure Canadians that the deal is not just about giving a Chinese state-owned oil company access to the Canadian oil sands.

Certainly, Nexen does have operations in the Gulf of Mexico, Nigeria, Yemen, the United States, and the United Kingdom. But it's clear where the future of the company lies – in the oil sands of Northern Alberta.

The CNOOC takeover of Nexen and the Question of Syncrude

Nexen is a 7% participant in the Syncrude joint venture.

Now that the CNOOC takeover is approved, Sinopec owns 9% of Syncrude and CNOOC 7% - a total 16% Chinese state ownership in Syncrude, between companies that admit they cooperate with one another.

Syncrude, whose productive capacity is equivalent to 15% of all of Canada's energy requirements,[8] could soon be majority Chinese-owned. Rumours continue to swirl that Canadian Oil Sands Ltd, which owns 36% of Syncrude, is next in line for a Chinese takeover.

Syncrude expects annual production in 2012 of between 105 million and 108 million barrels.[9]

> "Consider the implications of a takeover for Canadian Oil Sands Ltd., one of the companies seen as next in line for a Chinese bid."[10]
>
> "Industry analysts have said it's likely the Chinese could pursue Canadian Oil Sands as another takeover target."[11]

[8] Canadian Oil Sands, Operations. http://www.cdnoilsands.com/operations/default.aspx
[9] CTV News, November 30, 2012. http://www.ctvnews.ca/business/canadian-oil-sands-ltd-sees-continued-volatility-in-light-oil-pricing-1.1060556#ixzz2ECQSsVw5
[10] Claudia Cattaneo, Financial Post. July 27, 2012. http://business.financialpost.com/2012/07/27/where-are-the-gains-for-canada-in-cnooc-nexen-deal/
[11] CBC News. September 21, 2012. http://www.cbc.ca/news/canada/story/2012/09/21/nexen-canada-china-criticisms.html

Exporting Bitumen to Jurisdictions with Lower Carbon Standards?

When the Canadian Foreign Investment Review Agency was considering the Sinopec takeover of ConocoPhillips' stake in Syncrude, final approval hinged "at least in part on compliance with government policy direction not to export raw bitumen to countries with laxer carbon standards than North America's."[12] That policy commitment by the Harper Conservatives – part of the election platform in 2006 – appears to have completely fallen by the wayside. No one in the Canadian business press appears to remember the promise; or, if they do, feel particularly compelled to ask the federal government to keep it.

Blocking Investment in Oil Sands Upgrading Jobs: CNOOC and Sinopec Will Form a Powerful Block at Syncrude

A major concern at the time of the Sinopec investment in Syncrude was Sinopec's ability to veto investment in new upgrading capacity at Syncrude—a concern that has become a reality.

The same discussion appears absent from the public debate around the CNOOC acquisition of Nexen.

Chinese companies have expressed a desire to upgrade and refine Alberta's oil sands in China, rather than allowing good-paying jobs to stay in Canada.

Sinopec bought a large chunk of Syncrude – 9% of it – for $4.5 billion. At that time, most analysts indicated the company paid significantly more than market value for the Syncrude prize. Observers noted this was because China was thinking of "more than commercial considerations."[13]

What could possibly be more important than commercial considerations?

Here's at least a partial answer: energy security's role in national and military security, and future jobs and growth for China's petrochemical and manufacturing sectors.

China is playing the long game. With a powerful veto on Syncrude's investment in upgraders, they are ensuring one of Canada's most significant energy fields is only a source of raw materials for Chinese energy security.

No matter what the cash on the table is, giving away energy security, jobs, and our national interest is not a fair trade. China has every right to look for energy security and long-term benefits for themselves. But Canadians have every right to ask their governments for the same.

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[12] Jeff Rubin, Globe and Mail. May 19, 2010. http://www.theglobeandmail.com/report-on-business/rob-commentary/china-not-us-will-be-tar-sands-market/article4319999/

[13] The Globe and Mail. August 23, 2012. "Oil sands deal gives China crucial veto on exports." Shawn McCarthy and Gordon Pitts. Globe and Mail. http://m.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/oil-sands-deal-gives-china-crucial-veto-on-exports/article1373871/?service=mobile

Develop the Resource Quickly, or Risk Losing it All: China's Ultimatum to Canada

> "It's the same situation as the leftover single women…It will be the same for the oil sands, they will be outdated just like unmarried single women," Chen Weidong, the chief energy researcher at the CNOOC Energy Economics Institute, told the annual Canada-China Forum on Energy and the Environment in Beijing. [14]

What does China Want?

The Canadian business press casts the CNOOC takeover as "an important source of capital for the development of Canada's energy resources, which benefit not just Alberta, but the rest of the country."[15]

The Chinese takeover of Nexen is not a simple benevolent gift of cash. It is irresponsible not to have an honest conversation with Canadians about what kind of strings might be attached.

Let's talk about what China actually wants.

Cheap feedstock for massive refineries designed for oil sands bitumen

China's state-owned oil companies have been quite profitable in recent years, but not as profitable as they could be. In particular, PetroChina and Sinopec, who file annual reports with the US Securities Exchange Commission, have sung the blues in public about their refining margins. ***The reason?*** The high cost of crude oil going into their refineries. Most of China's crude currently comes from Saudi Arabia and the Saudis have taken advantage of the fact that they have the Chinese "over a barrel."

Sinopec and PetroChina' operations are integrated, from exploration and production down to refining. CNOOC is increasingly investing in refining capacity in northeast China as well.

The Chinese government regulates the price of gasoline and diesel for consumers, so if the price of crude oil (in future, various bitumen blends coming from Canada) goes up, PetroChina, CNOOC and Sinopec lose money.

China's integrated oil companies are looking for cheaper feedstock. They have no interest in paying top dollar – they are looking to secure cheap supply.

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[14] The Globe and Mail. November 6, 2012. "In China, growing frustration over Canada's 'outdated' oil sands." Carolynne Wheeler. http://www.theglobeandmail.com/report-on-business/international-business/asian-pacific-business/in-china-growing-frustration-over-canadas-outdated-oil-sands/article5011031/

[15] Calgary Herald. November 24, 2012. " Nexen deal wish-list not realistic." http://www.calgaryherald.com/business/Yedlin+Nexen+deal+wish+list+realistic/7605164/story.html#ixzz2DkeR64p4

Right now, as we've noted, Chinese state-owned oil companies have to pay the going rate from Saudi Arabia – the so-called "Asia Premium" for crude oil.

With continued investments in Canadian oil sands, and the Northern Gateway pipeline to take the crude to Kitimat, where it will be loaded onto tankers and shipped to massive refinery complexes in Northeast China, and China will be ensuring a constant cheap supply of energy. Canada is giving Chinese state-owned oil companies will be able to access a product where they'll have growing influence over exploration, production, supply, and marketing. So the goal of the Chinese government is not to invest and make profits in the oil sands—their real goal is to keep prices low. Clearly this is a goal that runs entirely counter to the interests of Albertans who own the resources.

The Canadian Association of Petroleum Producers understand that China wants cheap feedstock, not upgraded or refined products

CAPP is a front-group for multinational oil companies operating in Canada – charged with putting a good public relations face on the industry. Here's what they're saying about China's need for cheap crude for their refineries:

"[CAPP] met with Rongsheng officials…"It was essentially: 'We are looking for feedstock that is important for our business over there. And that's why we're here looking for opportunities to get that," Mr. Stringham said. [16]

[16] November 28, 2012. "Private Chinese firms join hunt in Alberta's oil patch." The Globe and Mail. http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/private-chinese-firms-join-hunt-in-albertas-oil-patch/article5748143/

Pressure on Chinese State-Owned Companies to Source Cheaper Feedstock Via the Northern Gateway Pipeline

The Problem of Profitability and Feedstock

Sinopec's most recent quarterly report
August 26, 2012, Wall Street Journal:[17]

"China Petroleum & Chemical Corp. (SNP), or Sinopec, posted a 41% decline in first-half earnings, underperforming its biggest rival, PetroChina Co. (601857.SH, 0857.HK, PTR), whose profit for the period fell 6%.

High crude costs have squeezed the refining margins of China's refiners as the domestic fuel-pricing system prevents them from fully passing on the higher costs to consumers. Sinopec is more exposed to government-mandated price controls because of its large downstream refining and petrochemicals operations than PetroChina, China's largest listed oil company by capacity."

Sinopec in Their Own Words

Excerpt from Sinopec's Filings with United States Securities Regulators

"Some of our major products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices.

We consume large amounts of crude oil to manufacture our products **of which approximately 90% is imported.**

We attempt to mitigate the effect of increased costs **due to rising crude oil prices**.

However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations."

[17] http://online.wsj.com/article/BT-CO-20120826-700644.html

2011 Annual Report to SEC, by Sinopec Shanghai Petrochemical

Some of our major products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices.

We consume large amounts of crude oil to manufacture our products of which approximately 90% is imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2009, 2010 and 2011, approximately 47.70%, 34.41% and 36.70% of our net sales were from such products subject to price controls. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, *e.g.*, the high inflation rate in China, which **resulted in the decline of RMB1, 593.6 million of the operating profit of our refining business over the previous year.**

Although the Chinese government has adopted a new pricing mechanism for domestically refined oil products that indirectly links the prices of these products to international crude oil prices (see Item 4. Information on the Company – B. Business Overview – Product Pricing), such pricing mechanism is still not completely transparent and subject to inadequate or untimely adjustment. Moreover, the Chinese government controls the distribution of many fuel products in China. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp).

Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices we may not be able to fully cover increases in crude oil prices by increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

The Northern Gateway Pipeline

The Northern Gateway pipeline rewrites the rules for the Canadian energy economy.

Behind the industry-funded propaganda about “access to new markets” lies the stark reality: the NGP has secret funding partners Enbridge doesn’t want to tell Canadians about. At the same time, the partners that have been named publicly are tied to Chinese state-owned oil companies. And the pipeline is designed ***exclusively*** to take bitumen to refineries in China.

The Northern Gateway pipeline is not about accessing an array of new markets, as Enbridge claims – it is about ***one*** market, and that is China.

TABLE A-12

DISPOSITION OF CANADIAN HEAVY

NORTHERN GATEWAY CASE

(Thousands of Barrels per Day, Unless Noted)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Conventional Heavy																		
Western Canada	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Ontario/Quebec	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.4	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Rockies	4.2	3.5	17.5	9.5	9.5	16.9	17.2	17.5	17.5	17.5	17.5	17.5	17.5	23.7	17.5	17.5	16.6	16.6
Upper Midwest	151.9	150.6	148.4	127.7	180.3	133.0	128.8	128.5	106.0	98.4	97.4	87.7	79.0	66.8	66.8	58.4	54.3	48.8
Lower Midwest													1.0					
Mid-Continent	4.3	4.3	-	12.4	12.4	8.7	8.7	5.0	8.7	8.7	3.7	-	-	-	-	-	-	-
Puget Sound	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
California	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
U.C. Gulf Coast	114.2	61.6	-	5.7	6.0	10.1	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Japan																		
Korea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taiwan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Northeast Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**246.4**	**232.7**	**210.7**	**207.1**	**195.0**	**101.4**	**167.5**	**155.0**	**145.5**	**135.9**	**127.0**	**110.6**	**110.0**	**103.5**	**96.6**	**90.2**	**04.3**	**70.7**
Western Canadian Select																		
Western Canada	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ontario/Quebec	1.1	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rockies	-	-	-	14.0	20.0	20.0	20.0	20.0	20.0	20.0	31.7	31.7	31.7	35.4	35.4	35.4	35.4	31.0
Upper Midwest	67.7	74.8	12.0	17.0	15.8	15.8	20.1	30.3	44.8	60.0	67.9	70.3	79.4	92.0	87.3	94.7	86.1	72.4
Lower Midwest	347.9	347.9	188.9	218.5	327.4	381.0	261.7	256.0	253.3	251.7	430.6	432.2	384.4	733.9	5.8	5.8	5.8	11.0
Mid-Continent	24.8	33.3	3.7	-	-	-	-	3.8	-	-	8.7	8.7	8.7	8.7	8.7	8.7	7.9	-
Puget Sound	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
California	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
U.C. Gulf Coast	303.5	290.1	370.4	393.5	419.0	421.4	420.3	400.0	396.9	302.0	343.1	341.1	335.0	334.2	357.0	350.4	379.9	391.6
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Korea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taiwan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Northeast Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**	**495.0**
Cold Lake Blend																		
Western Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ontario/Quebec	65.2	66.2	65.2	50.5	50.5	65.2	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5	50.5
Rockies	44.6	36.9	41.5	09.4	110.1	112.8	112.7	112.9	113.0	114.1	115.1	116.0	119.5	115.2	120.4	120.0	122.1	128.9
Upper Midwest	99.4	114.8	90.1	98.5	108.4	118.9	119.4	91.0	84.8	84.9	94.1	94.4	94.5	94.8	96.2	96.5	98.0	98.8
Lower Midwest	-	-	-	-	-	9.4	9.4	18.5	18.0	17.6	-	-	-	18.7	18.7	18.7	18.7	18.7
Mid-Continent			24.7	44.3	44.3	48.0	48.0	48.0	48.0	21.4	17.7	21.4	21.4	26.8	26.8	26.8	26.7	37.0
Puget Sound	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
California	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
U.C. Gulf Coast	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan																		
Korea																		
Taiwan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Northeast Asia	209.2	293.1	300.9	229.3	260.7	187.3	102.0	201.1	200.8	230.1	244.6	239.7	236.0	212.8	207.3	206.6	202.3	109.7
Total	**502.1**	**593.7**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**	**605.8**

100% of Northern Gateway exports destined for China

MUSE STANCIL

ENBRIDGE

What the Northern Gateway Pipeline will ship, to whom, and at whose expense

> The Northern Gateway pipeline is not about shipping an array of Canadian oil products to China. It is designed to ship one product – Cold Lake Blend, which is bitumen.

All of the NGP's engineering analysis of the pipeline's structure, integrity, corrosion, and materials sourcing have been modeled on the assumption the pipeline will carry Cold Lake Blend.[18]

The tables contained in the Market Prospects Analysis before the National Energy Board show Cold Lake Blend as the only export to China via the Northern Gateway pipeline. After 2023, some Athabasca SynBit ***may*** be transported via the pipeline.[19]

Enbridge's evidence also shows a stagnation of refinery activity in Western Canada.

Western Canadian refiners are forecast by Enbridge to process as much bitumen in 2018 as they do today.

> In the context of a growing economy, Canadian jobs in upgrading and refining are not set to increase. Those jobs will go to China instead.

Enbridge admits the project will cost Canadian refiners more than $12 billion. It is simply not credible – as Enbridge experts have claimed - that a sector as capital and labour intensive as refining and upgrading can take a $12 billion loss without any impact on jobs or the wider economy.

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[18] October 29, 2012. Northern Gateway Joint Review Panel Hearing Transcripts. Line 18466. "Dr. Stephenson referenced our tariff which governs characteristics of the products that are shipped through the pipeline. All products must meet those characteristics. We've shipped Cold Lake product for decades, very familiar with the product, and **we build our response plans around those products."**

[19] Enbridge Northern Gateway, "Market Prospects and Benefits Analysis For the Northern Gateway Project," July 2012. Attachment 1 to Northern Gateway Reply Evidence. Prepared by Muse, Stancil & Co for Enbridge. Table A-9: Disposition of Canadian Synthetic and Light/Medium Conventional, Northern Gateway Case; Table A-10: Disposition of Canadian Synthetic and Light/Medium Conventional Base Case (No Northern Gateway); Table A-12: Disposition of Canadian Heavy Northern Gateway Case, All Heavy Grades.

Heavy Crude Refining Predicted to Fall in Western Canada with the Northern Gateway

According to Enbridge's evidence before the National Energy Board, Western Canadian "heavy crude" – bitumen coming from the oil sands - will be increasingly refined in China, where state-owned companies are building massive refining complexes capable of handling bitumen.

Western Canada Refinery Throughput[20]	2011 Refinery Throughput – Reported to CAPP[21]	2018 Forecast By Enbridge – With The Northern Gateway Pipeline
Conventional Light-Medium	173,000	110,100
Synthetic Sweet	205,000	245,900
Heavy Crude, All Grades	199,000	152,400
Sour Synthetic	N/A	67,500
Total Throughput – Western Canada	577,000	575,900

Alberta as a Bitumen Producer, Not an Oil Producer

The Northern Gateway forecasts show Alberta's exports being almost entirely bitumen, not upgraded synthetic crude oil (SCO), or even better, refined petroleum products such as gasoline, jet fuel, or diesel.

In fact, the Government of Alberta's evidence before the Northern Gateway Joint Review Panel shows Alberta will upgrade just 26% of the bitumen we produce.[22] Recall the Government of Alberta has set itself a goal of 66% upgrading; as every year goes by, government fails even more spectacularly at meeting the goal. Alberta currently upgrades just about 57% of the bitumen we produce.

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[20] All 2018 Forecast figures for Western Canada and Ontario are taken from Enbridge Northern Gateway, "Market Prospects and Benefits Analysis For the Northern Gateway Project," July 2012. Attachment 1 to Northern Gateway Reply Evidence. Prepared by Muse, Stancil & Co for Enbridge. *Table A-9: Disposition of Canadian Synthetic and Light/Medium Conventional, Northern Gateway Case; Table A-10: Disposition of Canadian Synthetic and Light/Medium Conventional Base Case (No Northern Gateway); Table A-12: Disposition of Canadian Heavy Northern Gateway Case, All Heavy Grades.*

[21] CAPP Tables, Statistics Library, 2011 Refinery Throughput Tables. http://www.capp.ca/library/statistics/handbook/pages/statisticalTables.aspx?sectionNo=7

[22] A Netback-Impact Analysis of West Coast Export Capacity, Original and Addendum Report for Alberta Department of Energy by Wood Mackenzie Inc. Also contained in: Appendix A, The Government of Alberta Responses to Information Request No 1, to Gitga'at First Nation. Projected upgrading figures are referenced on pages 32-34, Appendix 2, of the original Wood Mackenzie analysis, filed with the National Energy Board in late 2011.

The Price of Bitumen and the Price of Oil in Asia

According to experts, the North Asian price of oil is not regulated in the same manner as WTI or Brent, which are underpinned to significant degree of regulation by the U.S. and U.K. governments, respectively. Instead, the North Asian price is a mixture of Dubai and Malaysian prices. It is subject to many factors that are not transparent and are not the result of normal market forces, such as: Russian exports and pipeline activity, the Chinese domestic market, and the interests of the Chinese government and their national oil companies.[23]

Bitumen, Volatility, and Alberta's Revenues

Governments have identified risks associated with exporting bitumen rather than upgraded or refined products. The Government of Alberta's 2007 Royalty Review reported: "First, bitumen prices, when compared to light crude oil prices, are typified by large dramatic price drops and recoveries. In fact, over the period shown, bitumen prices were 63% more volatile than WTI prices."[24]

Volatility and low prices have a massive influence on Alberta's bottom line. In 2011, 60% of our royalty revenue came from bitumen.

The Northern Gateway's Funding Structure

The Northern Gateway Partnership is a 50-50 venture between Enbridge and ten other funding partners.

Just six of those partners are public. There are four secret funding partners. When challenged by the Alberta Federation of Labour, Coastal First Nations, Ecojustice, and others, the National Energy Board has repeatedly ruled the secret funding partners are allowed to stay in the shadows.

The NGP funding partners are oil companies that have put up several million dollars each to fund the Northern Gateway environmental and National Energy Board reviews.

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[23] "Most importantly, for any benchmark to emerge, market participants should have confidence that the benchmark is not subject to manipulation, **which is yet to be proven**. One must consider the legal, tax, and regulatory regime operating around any particular benchmark. WTI has the US government overseeing it and a robust legal regimen. Brent also has stable governmental oversight. Distrust of the Russian government is strong in many companies and hence the reluctance so far to support an ESPO benchmark. Nevertheless, if discontent with existing benchmarks intensifies, then ESPO could be one of the few options available for the industry to fall back on." Bassam Fatouh, "An Anatomy of the Crude Oil Pricing System," The Oxford Institute for Energy Studies, January 2011.

[24] Government of Alberta, Oil Sands Economics Series, Appendix "A:" Technical Report OS#1, Markets and Pricing for Alberta Bitumen Production. P. 15. http://www.andrewnikiforuk.com/Dirty_Oil_PDFs/BitumenPriceReview07.pdf

The Northern Gateway Public Funding Parners

- **Sinopec –** Chinese state-owned oil company

- **Nexen –** Takeover by CNOOC approved by Prime Minister Stephen Harper on December 7, 2012.

- **MEG –** 15% owned by CNOOC.

    - 10.9% of MEG shares held by Canadian shareholders
    - 89% held by non-Canadian shareholders
    - 6% owned by US shareholders[25]

- **Total E&P Canada –** In joint oil sands venture with Sinopec

- **Suncor –** In joint oil sands venture with Teck Resources, 17% owned by China Investment Corporation

    - 43% of Suncor shares held by Canadian shareholders
    - 56% held by non-Canadian shareholders
    - 49% held by US shareholders

- **Cenovus –** In joint venture with ConocoPhillips. ConocoPhillips is widely rumoured to be selling its share of its oil sands joint venture with Cenovus to India's state-owned oil company, ONGC.

    - 45% of Cenovus shares held by Canadian shareholders
    - 54% held by non-Canadian shareholders
    - 48% held by US shareholders

[25] All shareholder data taken from Forest Ethics, Bloomberg Data, obtained January 29, 2012. Shareholder numbers may have fluctuated slightly since the publication of the report. "Who Benefits?" Released May 10, 2012. http://forestethics.org/news/data-bloomberg-reveals-71-tar-sands-production-owned-foreign-interests

Sinopec and CNOOC's involvement in the pipeline: Excerpt from the Northern Gateway Hearings

AFL Lawyer: And what about Sinopec?

Enbridge Expert Witness: They're a funding participant.

AFL Lawyer: Are you able to tell us the share of their funding?

-A short pause –

Enbridge Expert Witness: No.

AFL Lawyer: Is that information Northern Gateway wants to keep confidential, or is it something that you don't know, just so I know which it is?

Enbridge Expert Witness: It's something that we'd prefer to keep confidential.

AFL Lawyer: What about CNOOC – are they a funding participant?

Enbridge Expert Witness: I'm not at liberty to identify them. I'll just leave it at that.[26]

Sinopec

Sinopec is one of China's three state-owned oil companies.

Sinopec owns 9% of Syncrude. Syncrude is home to 15% of Canada's productive energy capacity.

Sinopec has used its ownership stake to veto new Canadian based upgrading capacity at Syncrude.

Sinopec is in 50-50 partnership with Total E&P Canada on the Northern Lights project.

Sinopec bought Calgary's Daylight Energy in 2011 for $2.2 billion.

[26] September 5, 2012. Northern Gateway Joint Review Panel Transcripts. Lines 16938-16947.

Enbridge's Expert Witness on China

> ***"I would say that China, by necessity, is a fairly free – freely operating oil market."***
> -Roland Priddle, Enbridge Expert Witness, Northern Gateway

At the Northern Gateway hearings in September 2012, Enbridge's expert witness on China told the Panel that Sinopec and PetroChina are surprisingly transparent by virtue of the fact the companies file information with the US Securities Exchange Commission.

The expert also repeatedly referred to PetroChina and Sinopec as "partly state-owned."

Enbridge experts were trying to lead Canadians to believe that Chinese state-owned oil companies behave as any other free-market corporation might, and that they are the picture of corporate transparency.

"In 1997-98 PetroChina and Sinopec were listed on the SEC…It's striking how much information you can find about the companies."[27]

Sinopec Shanghai Petrochemicals, in fact, is a majority-owned subsidiary of Sinopec Corp, which is majority-owned by the Chinese government. PetroChina is 86% owned by China National Petroleum Company, which is in turn 100% owned by the People's Republic of China.

Sinopec in their own words

Here's what Sinopec admitted to its US stock-holder in a mandatory filing with the US Security Exchange Commission (SEC).

"We are controlled by Sinopec Corp, whose interests may not be aligned with yours…

As of March 31, 2012, **Sinopec Corp owned 55.56% of our shares**. **Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders."**

"Political and economic policies in China could affect our business in unpredictable ways.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Co-operation and Development in a number of respects, including:

- Structure;
- Level of government involvement;
- Level of development;
- Level of capital reinvestment;
- Control of foreign exchange; and
- Allocation of resources.**"** [28]

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[27] Form 20-F, Sinopec Shanghai Petrochemical Company Limited (Translation of Registrant's name into English), Annual Report 2011. http://english.sinopec.com/investor_center/reports/

Sinopec & Sunshine Oil Sands: 1.15 million acres of oil sands leases not yet developed

Along with China Investment Corp, Sinopec Corp put up half money for the Sunshine Oil Sands IPO in February 2012. The other half was raised from Bank of China, China Life Insurance, and other Hong Kong private equity firms.[29]

Sunshine Oil Sands is a "Calgary-based" oil sands company. It holds 7% of the total oil sands leases in the Athabasca region, or 1.15 million acres of oil sands leases.[30] They plan to produce about 200,000 bpd by 2020, though are only producing about 1,600-1,800 bpd by the end of 2012.

Sunshine Oil Sands is a $6.7 billion joint venture.

Total E&P Canada

Total E&P Canada has invested in a number of partnerships in the Canadian oil sands.

Joint Venture with Sinopec

Total E&P Canada is a 50-50 partner with Sinopec on the Northern Lights Project.

Estimates of resources at Northern Lights are 1.08 million barrels of bitumen.[31]

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[28] Sinopec Annual Report Form 20-F, 2011. http://english.sinopec.com/investor_center/reports/
[29] http://ca.reuters.com/article/businessNews/idCATRE8160Y420120207?pageNumber=2&virtualBrandChannel=0
[30] http://www.sunshineoilsands.com/
[31] Total E&P Canada, October 2012. http://www.total-ep-canada.com/news/media_kit/Total-Media-Kit.pdf

Partnership with Teck and Suncor on Fort Hills

Total E& P Canada is in partnership in Fort Hills mine, with Suncor and Teck Resources.

China Investment Corporation has a 17% equity stake in Teck Resources, which they bought for $1.7 billion.[32]

The Fort Hills Partnership was originally supposed to contain an upgrader. The Fort Hills upgrader has been indefinitely postponed.

Suncor, Total E&P Canada, and Teck Resources originally got their approval from the Alberta regulatory body (ERCB) for the Fort Hills mine based on the requirement they would build an upgrader. Failure to build the upgrader would result, in the terms of the agreement, in Fort Hills having to pay the Alberta taxpayer $500 million.

When Fort Hills postponed investment in an upgrader, the company then insisted the bitumen coming out of the Fort Hills mine would be upgraded at the Voyageur upgrader. Now that upgrader has been postponed, too—a decision will be forthcoming by March 30.

If neither upgrader goes forward, it is yet another indication of Alberta's weak commitment to upgrading, the toothless conditions placed on ERCB approvals, and the fact that the Northern Gateway Pipeline is designed for unprocessed bitumen, relieving companies of their commitments to upgrade oil sands products before shipping them out of the country.

[32] Why Teck Resources is a Compelling Buy." August 23, 2012. The Globe and Mail. http://m.theglobeandmail.com/globe-investor/why-teck-resources-is-a-compelling-buy/article4263559/?service=mobile

Cenovus

Cenovus, formerly Encana's oil sands and conventional oil arm, currently produces about 130,000 barrels of oil. Cenovus has as a 10-year plan to increase its oil production in Western Canada to about 500,000 barrels a day.[33]

About 50,000 bdp of Cenovus production are conventional and the rest are oil sands.[34]

Cenovus is also the marketer for the FCCL Partnership, the 50-50 partnership with ConocoPhillips at Foster Creek and Christina Lake.

The ConocoPhillips investments at Foster Creek, Christina Lake, and Surmont are widely rumoured to be the subject of takeover by India's National Oil Company, Oil and Natural Gas Corporation, though the deal is likely awaiting the resolution of the CNOOC-Nexen deal.[35]

ConocoPhillips has been shedding overseas assets, recently selling $5 billion in Kazakh oil and gas interests to India's state-owned oil company, ONGC.[36]
Like China, India is also building massive refinery complexes. Here's Enbridge Expert Neil Earnest, in testimony at the Northern Gateway Joint Review Panel, talking about how India's national oil companies benefit from the massive subsidy that India's poverty and shockingly low wages give to oil companies.

> " …And just to give you a sense of their capital costs advantage, the recently-completed Jamnagar Phase 2 refinery, which added another 600,000 barrels a day of heavy sour coking capacity to the Reliance facility on the West Coast of India.
>
> "…Peak manpower loading in a construction phase for that facility had 80,000 people. That is a number that is inconceivable in a North American context. Yet a big construction project in North America might peak at 8,000 people, and the Indians can mobilize 80,000 to pursue the construction of their project. **They have advantages in terms of labour costs that we simply can't match in North America or Europe."**[37]

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[33] Northern Gateway Joint Review Panel Hearing Transcripts. September 24, 2012. 29637-29645.
[34] Ibid. "MR. RICHARD DEMBICKI: About 50,000 barrels per day of that volume is conventional with the rest being oil sands."
[35] Reuters, October 15, 2012. ONGC eyes stake in Canada's Athabasca oil sands – source http://in.reuters.com/article/2012/10/15/india-ongc-marathon-idINDEE89E03520121015
[36] Reuters, November 27, 2012. ONGC-ConocoPhillips strike $5 billion oilfield deal http://in.reuters.com/article/2012/11/26/conocophillips-assetsale-idINDEE8AP0CB20121126
[37] Northern Gateway Joint Review Panel Hearing Transcripts. September 6, 2012. Line 17295-17297. Testimony of Neil Earnest, of Muse Stancil Co.

MEG

MEG, a Calgary-based company, is approximately 15% owned by CNOOC.[38]

MEG is the only player that has expressed an outright ownership interest in the Northern Gateway Pipeline. This means they would outright own their share of the shipping rights on the pipeline.

MEG is also 50-50 owner of the Access Pipeline, which brings bitumen from northern Alberta to the Edmonton area. The other 50% partner in the pipeline is Devon Energy. Sinopec recently bought a one-third share of Devon Energy's shale gas plays in a $2.5 billion deal.[39]

MEG's Oil Sand Production

MEG current production: 30,000 bpd

Projected Production by 2020: 260,000 bpd. [40]

[38] 29084. MR. DONALD MOE: I think the number is actually closer to 14.8 per cent is their -- is CNOOC's ownership of MEG. And they just own it as a common shareholder.

[39] Sinopec's 0386.HK +0.87% $2.5 billion deal to acquire an interest in Devon Energy's DVN -0.98% shale fields, http://online.wsj.com/article/SB10001424052970203513604577140081621898026.html

[40] Transcripts, Northern Gateway Hearings 29459. MR. DONALD MOE: Yes, it's the -- it's the correct projection to 260,000 barrels a day by 2020. We're currently producing slightly over 30,000 barrels a day.

Suncor

Suncor is perhaps the least-Chinese influenced funding partner, as most of the shores are American-owned.[41]

However, Suncor is looking for capital and other investment from China – equipment, procurement, and construction.

It is Suncor's marketing arm that is actually the funding partner in the Northern Gateway Partnership, signaling the extent to which marketing to Chinese customers is a priority for the oil sands sector.

Suncor recently announced the postponement of the Fort Hills upgrader (the joint venture with Total and Teck Resources, part-owned by the China Investment Corporation). [42]

They have further put into doubt the future of the Voyageur upgrader, and are slated to make a decision on the matter by March 30, 2012.

Nexen

Nexen is the majority owner of Long Lake, which produces about 70,00 bpd of oil sands bitumen. While Long Lake is notorious for underperforming, it is also an operation where new technologies are being used, and China's interest in new oil sands recovery methods and intellectual property for unconventional energy sources is widely known.

Long Lake was a 65-35 joint venture between Nexen and Opti Canada. Opti is 100% owned by CNOOC. CNOOC therefore owns 100% of Long Lake if the deal is approved by Industry Canada.

Proposed/Future Oil Sands Projects for Nexen

Nexen is also in partnership with Japan-Canada Oil Sands on Hangingstone properties – including a $1.2 billion expansion before Alberta's Energy Resources Conservation Board.

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[41] Forest Ethics

[42] 29599. MS. CHAHLEY: So, Mr. Van Heyst, SEMI said it currently produces -- markets --markets 350,000 barrels per day of oil sands production and that Suncor Energy Inc. is projecting -- forecasting to produce in excess of 700,000 barrels per day by 2020. Are those numbers still correct? MR. JOHN VAN HEYST: Yes, they are. MS. CHAHLEY: So, the 350,000 barrels per day, is that all from Suncor Energy Inc. or is that coming from some other producers together – others added to some of the Suncor Energy Inc. production to be the current amount that's marketed?. MR. JOHN VAN HEYST: This number is all from the oil sands, I believe. It does include the Syncrude, our share of the Syncrude, which we market.

PetroChina

PetroChina was originally a funding partner of the Northern Gateway Partnership, but they made a decision to pull out of the venture several years ago.

PetroChina has, according to Enbridge's CEO, indicated they would "love" to ***build*** the Northern Gateway pipeline.[43]

PetroChina has significant investments in the Canadian oil sands. They were the first to outright buy a Canadian oil sands operation.

PetroChina owns MacKay River, a $1.3 billion project.

In partnership with Sinopec and China Investment Corporation, PetroChina is part owner of Sunshine Oil Sands.

PetroChina, in their own words to US Regulators

"Our operations, like those of other PRC oil and gas companies, are subject to extensive regulations and control by the PRC government. These regulations and control affect many material aspects of our operations, such as exploration and production licensing, industry-specific and product-specific taxes and fees and environmental and safety standards."[44]

[43] Financial Post, March 28, 2012 "PetroChina bids to help build $5.5-billion Northern Gateway pipeline." http://business.financialpost.com/2012/03/28/petrochina-bids-to-help-build-5-5-billion-northern-gateway-pipeline/

[44] PetroChina, Annual Report, Form 20-F, 2011.

The China-Canada FIPA

Once the China-Canada Foreign Investment Protection Agreement passes through Parliament, it will serve to cement the current rules and regulations governing the oil sands.

The China-Canada FIPA gives Chinese oil companies an expansive Bill of Rights in Alberta's oil sands. Change their rights, and Canadian governments run the risk of being sued. That is the whole point of an investment treaty – to insulate investors against changes to public policy, and to assign the risk of any changes to governments, not to the companies. Instead of putting the burden on companies, investment treaties put taxpayers on the hook. It's a convenient way to narrow the options for democracies. In other words, these treaties are designed to tie the hands of democratically elected governments and make it more difficult to make decisions in the public interest.

Canadian investors in China want investment treaties because the communist regime will often act to protect its self-interest. Notably, this particular treaty doesn't allow Canadian investors the same level of protection that Chinese investors get in Canada. There are two sets of rules in this treaty – a velvet glove to protect Canadian investors, and an iron fist for China's state-owned oil companies.

In Canada, Chinese investors want iron-clad investor protections to insulate them from democracy: if Canadians demand that governments to take the environment, or jobs, or climate change seriously, treaties like this one tie our hands. Investment treaties, in other words, are a hedge against the public's right to make democratic decisions in the public interest, especially as this concerns the oil and gas that is owned by Albertans.

It is important to realize that we are cementing far more than just our environmental laws in the oil sands.

Alberta's economic policies surrounding the oil sands heavily favour foreign investors, at the expense of Albertans' jobs and value-added industries. What we have now is an "invisible hand on steroids" approach to oil sands development. Unlike other oil-producing jurisdictions, Alberta exercises no public-interest leadership in how we develop the resource, market it, or regulate it. We are leaving oil sands decisions to US, Chinese, and European-owned multinational oil companies, and they act in their own self-interest. This is why Alberta collects pennies in royalties, ships thousands of good-paying upgrading and refining jobs out of the country, and why we have lax environmental laws that cast our resources in negative light on the international stage.

Policies Albertans could no longer change could include, but are not limited to (once FIPA is approved):

- New royalty frameworks
- Requirements or even incentives to upgrade bitumen in Alberta
- New CO2 emissions guidelines
- New rules around water quality, air quality, or soil contamination – or any other changes to environmental legislation
- New rules around how much companies must invest in reclamation of land mined for oil sands
- New rules around how many projects Alberta approves at a time
- Changes to the pipeline tolls companies pay, or the royalty write-offs they get as a gift for shipping raw bitumen out of the country
- Changes to allowable production or any kind of supply management aimed at keeping the price of bitumen high
- New rules around marketing of oil sands barrels and the influence marketers have on the price.

If Alberta, using its jurisdiction over natural resources, wants to change any of the above policies, they run the very real risk of being sued by a Chinese state-owned oil company. It's a David and Goliath scenario, except in this instance there is no redemption for the little guy. Up against the economic might of the world's emerging super-power, it is a fight Alberta would surely lose.

The Way Forward

Canada is at a crucial crossroads. We are letting control over our resources slip through our fingers.

What to do?

First, Canada needs to stop pretending we have no control over our energy resources. We do: the Western Energy Accord, concluded in the 1980s after the National Energy Program ended, did not allow for an unregulated total market free-for-all in the oil and gas sector, as oil industry boosters would have us believe. The Accord allowed for orderly development of a resource in a way that is consistent with policy goals, which are to maximize benefits for Canadians. This is why Parliament, via the NEB Act, required the NEB to approve projects and allowed a broad definition of "public interest" in Section 52 of the Act, and even allowed export restrictions based on national security considerations.

The National Energy Board does not have to approve every pipeline proposal. Under the NEB Act, the Board may reject pipeline proposals if they have concerns about the opportunities for Canadians to invest in the pipelines or if the pipeline does not serve the national interest. On these grounds, it's clear the Northern Gateway pipeline should be rejected.

Industry Canada is empowered to reject foreign takeovers that are not in Canada's interest. They should have rejected the CNOOC takeover of Nexen. Now that they have allowed it, government must ensure new rules around commodities marketing, put in place a rigorous national energy strategy to encourage upgrading and refining in Canada, and undertake policies that guarantee feedstock to Canadian refineries.

The Parliament of Canada may undertake to negotiate the terms of foreign investment treaties with other sovereign countries. We can tighten up several aspects of these treaties, and delete entire provisions of them – specifically the sections allowing private companies to sue governments. Private profit should come with private risk. The Canada-China FIPA, in its current form, should be rejected by Parliament.

But once we reject this triumvirate of terrible ideas, what next?

A National Energy Strategy

To date, the discussion around a National Energy Strategy has focused almost exclusively on one issue (the supposed need to expand raw bitumen exports) and on one solution (the construction of new pipelines to take bitumen to the U.S. Gulf Coast and to China).

From our perspective, a true national energy strategy has to be about much more than building bitumen pipelines. Instead of rushing to embrace and implement specific proposals like the Keystone XL or Gateway pipelines, the Alberta Federation of Labour feels strongly that our energy ministers (indeed, all Canadians) should identify the principles upon which a national energy strategy should be built.

As people working in the heart of Canada's energy province, the AFL has identified the following integral elements of a real National Energy Strategy.

Jobs for Canadians

Canadians have a choice to make. We can either remain "hewers of wood and drawers of water," or we can move up the value chain, where the real money and real jobs are. Just because big energy companies want to send jobs down the pipeline to refineries in the U.S. or overseas to China doesn't mean that we have to let them. Instead of exporting raw bitumen, we feel should be upgrading and refining the oil sands bitumen here in Canada. Instead of producing and exporting raw bitumen from the oil sands, we should be producing and exporting gasoline, diesel, jet fuel and petrochemicals. At the very least, we should be upgrading more bitumen to synthetic crude. Instead, we're watching the reverse happen – we're moving down the value ladder, not up. And the Northern Gateway pipeline accelerates that process. The bottom line is that the world wants our energy: So let's give them energy. But let's keep the jobs, the profits and the extra tax revenue here. It's our oil, so it should be our choice.

Energy Security

Despite our status as a net energy exporter, Ontario, Quebec and the Maritime provinces import roughly 700,000 barrels of crude oil a day from places like Saudi Arabia, Algeria, Nigeria and Venezuela. In fact, Quebec and the Maritime provinces import more than 80 per cent of the oil they use from outside Canada. Why? Because almost all of our pipelines run north-south. Shockingly, we don't have the infrastructure to send western oil to our fellow citizens in the eastern half of the country. If new markets are what we're looking for, doesn't it make more sense to build pipelines connecting west and east within our own country before building pipelines to supply refineries in Texas and China? Building pipelines to supply the Canadian east as opposed to the Far East with bitumen has the benefit of keeping the jobs, profits and tax revenue associated with upgrading and refining within Canada.

Mutual Economic Gain for All Canadians

Thanks to massive investment in the oil sands, Alberta's energy sector has become the driving force behind the Canadian economy. This has been great news for Albertans and the hundreds of thousands of other Canadians who have flocked to our province to participate in the boom. But from a national perspective, by relying too heavily on the energy sector, we run the risk of developing what economists call Dutch Disease. This is an economic condition in which a booming energy sector drives up the currency and oil-related investment but, in the process, drives down investment, profits and jobs in other sectors, particularly manufacturing.

A truly comprehensive national energy strategy would recognize this threat and take steps to deal with it. One possible solution is the one offered by former Alberta premier Peter Lougheed: Set a slower pace for development in the oil sands. By proceeding with five or ten projects at a time (instead of the 60-plus that are currently on the books), we would reduce the likelihood of developing a full-blown case of Dutch Disease. As added benefits, a more reasonable pace for development would also make it easier to address cumulative environmental impacts and it would reduce (perhaps eliminate) the need to bring thousands of temporary foreign workers into the country to supplement the domestic construction labour force. In other words, a slower pace for development would ensure that it would be Canadian workers who would benefit most from the construction of major Canadian resource projects.

Fair Royalties

Royalties are not taxes. They are the price that forestry, mining and energy companies pay to develop resource assets owned by Canadian citizens. The good news is that royalties generate billions of dollars each year, especially in resource-rich provinces like Alberta, Saskatchewan and Newfoundland. This is money that we use to build needed infrastructure and fund vital public services like education and health care. The bad news is that we don't always (or even often) get the best possible price for the sale of our assets. In Alberta, for example, we collect fewer royalties as a share of oil industry revenue in 2012 than we did in the late 1960s. Under the Redford government, Albertans collect about a third of what we collected under Premier Lougheed's royalty policy.

To rectify this problem, and ensure Canadians get the best possible price for the sale of their assets, a national energy strategy could introduce a truly national process for setting and bargaining royalty rates, so that energy companies could no longer play one jurisdiction against the other. The bottom line is this: in an environment characterized by historically high oil prices and rapidly declining options for oil companies in other parts of the world, provinces like Alberta, Saskatchewan and Newfoundland hold all the cards. By cooperating, we can play those cards more aggressively and successfully. Energy companies won't fold or leave the table, because they have nowhere else to go.

Transition to a Greener Economy

A post-carbon economy is years away, but make no mistake, it's coming. It's coming because the science around global warming is real and frightening; because a global political consensus has emerged in support of a greener economy; and because, more practically, the world is running out of oil (at least cheap oil).

This doesn't mean that we should stop developing our oil resources. The oil sands are one of our countries most valuable assets at the moment and it would be foolish not to exploit them. However, what the coming of a post-carbon economy does mean is that we're going to have to start looking at the oil sands in a different way. In particular, we should very consciously start thinking of the oil sands as a transitional resource: A resource that will help provide us with the revenue necessary to build the next, greener economy in Canada. If Alberta finds a way to join other provinces in crafting and supporting a national energy strategy that uses the oil sands as a bridge to a better future for the entire country, then not only will our country's economic prospects be brighter, we may also be able to manage the "politics of envy" that inevitably come from one province having so much more wealth than others.